INTERNATIONAL COMPLIANCE ASSOCIATION

ESG Masterclass

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Welcome

Demystifying ESG – Environmental, Social and Corporate Governance

This session on environmental, social & governance (ESG) examines what small- and medium–sized enterprises (SMEs) can achieve by adopting an ESG approach.

IT considers practical ways to map, measure and report on its success in having a targeted ESG approach and how businesses can explain to key stakeholders ESG's social value and impact. It begins by unpacking the elements that together form ESG, analysing their significance, growth and potential impact.

Throughout the session, we see how ESG processes help a business create a conscious balance, including how firms can achieve their goals whilst also affecting society and the planet positively.

We goee on to look at stakeholder engagement including its key benefits, as well as new trends and risks. It also reveals how a business, placing ESG at the forefront of its decision making, creates a culture of responsibility that delivers beneficial contributions to the business in the long term.

Finally, we examine how businesses disclose their ESG initiatives and commitments in company filings and targeted marketing.

Setting the Scene

We live in a world where convenience is king, and we consume with little thought to the impact of our actions. Yet as more consumers consider their choices and strive to select brands that put purpose above profit, this world is beginning to change. Many consumers today are keen to give back what they take from the planet and are eager to work towards a positive and fairer society for all.

Fortunately, we have a large population of business owners who recognise this consumer demand and who already hold responsible business practices at the heart of what they do. These businesses focus not on short- term fixes, but on activities that create an ethical balance both for themselves and those in their communities.

Many of these businesses, however, have been running such activities under the radar and have rarely formalised an approach to track, measure or report on the impact of their policies.

We will provide a broad overview of why and how a business can bring structure and formal processes into its operations to capture the impact of these approaches and improve them further.

Why Does ESG Exist?

Early Development

2004

The term ESG was coined around 2004 by the financial sector as a way for investors to measure more than just profit. ESG supports investors in understanding the positive impact a business can have on society and the planet.
In tackling these issues, a business shows resilience for the long term, and investors are more likely to recognise these growth aspirations.

Wider Recognition

2015

The term ESG was coined around 2004 by the financial sector as a way for investors to measure more than just profit. ESG supports investors in understanding the positive impact a business can have on society and the planet. In tackling these issues, a business shows resilience for the long term, and investors are more likely to recognise these growth aspirations.

Greater Focus

2020

The spread of coronavirus Pandemic in 2020 highlighted many societal disparities, along with the need for a greater emphasis on kindness, inclusivity, mental health, social justice and environmental protection. ESG is a means by which these topics can be addressed, understood, reviewed and developed as part of a structured framework.

Investor-driven change

2021

ESG funds, or portfolios of equities and/or bonds for which environmental, social and governance factors have been integrated into the investment process, that money investors gave to ESG-driven businesses) broke records in 2021, and this trend is showing no signs of slowing. This demonstrates that investors are increasing their focus, and placing their funds, with businesses that have clear ESG policies that are measured and reported with successful outcomes.

UNSDGs

2030

The UNSDGs target date is 2030. These are 17 interlinked global goals that can be aligned with an ESG framework (demonstrated later in the course). They can also help inform and guide a business and its employees to facilitate local change in pursuit of the goals.

Net-zero target

2050

The term ‘net zero’ refers to the point at which global warming from C02 ultimately stops. The target date for net zero is 2050, set by signatories to the Paris Agreement in 2015 and again at COP26 in 2021. The ‘net’ is vital, because not all businesses can reduce their emissions to zero by this date. The priority is to reduce what we can, so carbon added to the atmosphere is no more than the amount removed.

Benefits of Alignment

By clearly understanding and implementing an ESG approach to business, an organisation makes a conscious decision to future- proof itself before government legislation forces it to do so.

The move to address ever-increasing social disparities and the climate crisis is recognised as a genuine act of social awareness, and an acknowledgement of a business's responsibilities in these areas.

If this business then maps, measures and reports on its ESG impact, it reinforces its accountability, vastly increasing its commercial and operational outcomes.

Commercial benefits

· Builds trust with stakeholders
· Keeps customers loyal
· Wins new business
· Creates a unique selling point (USP)
· Attracts funding and investment
· Secures loans
· Wins accreditations, accolades and awards
· Opens up new markets and opportunities

Operational benefits

· Retains staff
· Improves productivity and efficiencies
· Reduces costs
· Attracts new talent
· Tackles industry issues (skills gap)
· Champions collaboration

ESG - The Bigger Benefits

If every business took ownership and accountability for its ESG responsibilities, the world would become a fairer, cleaner and greener place to reside.

Let's put some of this into context to help illustrate how ESG supports society and the planet, and why taking action now is essential.

Our planet faces an existential crisis due to climate change, and societies the world over experience a lack of fair living and working practices.
The gulf between the rich and poor in some parts of the world is to many incomprehensible.

As a collective, and focused on the broader global goals (UNSDGs), everyone can make a change locally in support of their community and living environment. It also gives individuals and firms the ability to reach and support communities which face obstacles to achieving their own positive outcomes.

Together, we can help improve social mobility through fairer education, housing, work and fair pay for all, regardless of social background.

Here (right) are some statistics that reveal the need for a more considered approach to ESG, to benefit wider society and the planet.

97% of climate scientists around the world agree climate change is happening

The oceans have heated up at a rate not seen in at least 125,000 years

95% of the thickest Arctic ice is gone

Climate change causes 150,000 deaths per year

15 million people live in poverty in the UK

100,000 UK households experience food insecurity

The gap in life expectancy between the richest and the poorest demographic is now 10 years for men and 8.5 for women.

Impact on Profit with purpose

By committing to being a more ethically focused business, you are achieving a profit and a positive outcome for people and the planet.

Every business in operation today is positioned at a specific point in its ESG understanding, activity and journey.

The ESG barometer can help us visualise that position.

You may realise that your firm is further to the right than you thought.

Or you might believe that you are doing more than is true or being shared with your stakeholders.

Definitions

The following useful definitions have been adapted slightly to support those at the start of their ESG journey, to gauge where they believe their current business is positioned.

Best in class - /best in klɑːs/
leading the way, being the frontrunner with new initiatives and campaigns and determining change in the industry for the good of society

Unaware - /ˌʌn.əˈweər/
not aware of the positive outcomes of using ESG in support of sustainability and growth for a business

Integration **-** */ˌɪn.tɪˈɡreɪ.ʃən/*
the business now places ESG at the forefront of its decision making; the workforce is clear and driven to achieve goals, and the company is reaping the benefits of its ongoing continuous improvement

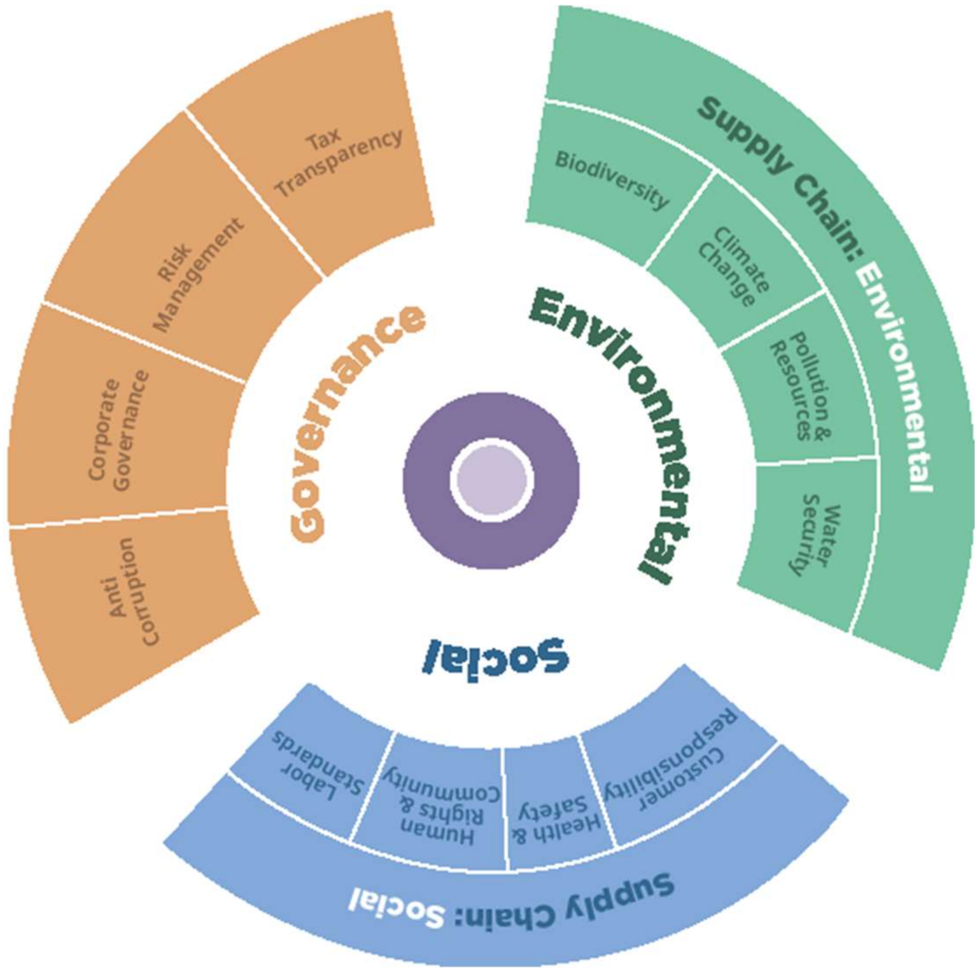
Planning & execution **-** */ˈplæn.ɪŋ & ˌek.sɪˈkjuː.ʃən/*
placing activities into a framework and beginning to promote and engage the workforce to participate and contribute

Consideration - /kənˌsɪd.əˈreɪ.ʃən/
understands that it can support a business and has seen the positive impact of those utilising it

Aware - /əˈweər/
is beginning to understand the basics of the different elements, and can define activities in the business that can be adapted and developed to make a positive contribution
(this training is supporting your awareness)

ESG Framework

ESG ratings are simply the activities that relate to each ESG area. By interpreting ratings, a business can create activities that align with its commitments and goals based on the broad topic of the rating, as well as with the UNSDGs.



Investors then work with a set of ESG weightings related to the ratings, assigning 100% to each of the three areas. Each ESG area is broken down into 3–4 categories, each assigned a percentage.

Weightings help investors understand if there is a balance of activities in an organisation, where its commitments are focused and plans to close any gaps.

But it’s not just about investors and their criteria: many businesses operate without the need for investment or lenders. These can use an ESG framework, including the ratings and weightings, to help define where to place activities to achieve a balance.

A business that chooses to create and manage an ESG framework takes a long-term approach. Such a business is preparing for future legislation or financial expectations like tax, giving them an advantage over those that have not yet considered ESG a priority for their future sustainability.

ESG Agenda: Focus on Crime

- Human Trafficking
- Environmental Crime
- Precious Metals & Gold
- Regulators' expectations
- Intelligence Sharing/ NGOs
- Red Flags and Risk Assessment

https://gfintegrity.org/
https://www.stopthetraffik.org/

GLOBAL COALITION TO FIGHT FINANCIAL CRIME

Greenwashing & Enforcement

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FCA proposes new rules to tackle greenwashing

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In a bid to clamp down on greenwashing, the Financial Conduct Authority (FCA) is proposing a package of new measures including investment product sustainability labels and restrictions on how terms like 'ESG', 'green' or 'sustainable' can be used.

The measures are among several potential new rules which will protect consumers and improve trust in sustainable investment products. The work forms part of the commitment made in the FCA's ESG Strategy and Business Plan to build trust and integrity in ESG-labelled instruments, products and the supporting ecosystem.

There has been growth in the number of investment products marketed as 'green' or making wider sustainability claims. Exaggerated, misleading or unsubstantiated claims about ESG credentials damage confidence in these products. The FCA wants to ensure that consumers and firms can trust that products have the sustainability characteristics they claim to have.

Sacha Sadan, the FCA's Director of Environment Social and Governance, said:

'Greenwashing misleads consumers and erodes trust in all ESG products. Consumers must be confident when products claim to be sustainable that they actually are. Our proposed rules will help consumers and firms build trust in this sector. This supports investment in solutions to some of the world's biggest ESG challenges. This places the UK at the forefront of sustainable investment internationally. We are raising the bar by setting robust regulatory standards to protect consumers in line with our wider FCA strategy.'

The FCA is proposing to introduce:

- Sustainable investment product labels that will give consumers the confidence to choose the right products for them. There will be three categories – including one for products improving their sustainability over time – underpinned by objective criteria.
- Restrictions on how certain sustainability-related terms – such as 'ESG', 'green' or 'sustainable' – can be used in product names and marketing for products which don't qualify for the sustainable investment labels. It is also proposing a more general anti-greenwashing rule covering all regulated firms. This will help avoid misleading marketing of products.
- Consumer-facing disclosures to help consumers understand the key sustainability-related features of an investment product – this includes disclosing investments that a consumer may not expect to be held in the product.
- More detailed disclosures, suitable for institutional investors or retail investors that want to know more.
- Requirements for distributors of products, such as investment platforms, to ensure that the labels and consumer-facing disclosures are accessible and clear to consumers.

The FCA is also stepping up its supervisory engagement on sustainable finance and enhancing its enforcement strategy. This includes checking how firms have responded to the expectations set out in the Dear Chair letter issued to authorised fund managers in July 2021.

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The Risks are Turning Green: SEC Begins "Greenwashing" Enforcement

27 May 2022

Companies have been watching to see where ESG-related risks would materialize. Those risks are starting to materialize off the back of the SEC's aggressive regulatory and enforcement posture on "greenwashing" with enforcement actions regarding misstatements and disclosures. These actions should be a wake-up call to companies in the US and beyond as now is the time, if you're not already, to closely consider the regulatory, enforcement, and litigation risks associated with both the SEC's current posture and the looming formal SEC disclosure proposals.

The US Securities and Exchange Commission ("**SEC**") has taken an aggressive regulatory and enforcement posture on environmental, social, and governance ("**ESG**") issues. Recent SEC actions against US and non-US companies for "greenwashing" (conveying a false impression that a company or product is environmentally friendly or failing to accurately describe the company's ESG practices) sound a warning for companies active in ESG investing or that make ESG-related public statements, and offer a preview of the significant risks awaiting if the agency can finalize its unprecedented new disclosure requirements for **public companies**, **investment managers and funds**.

The SEC Division of Enforcement established a Climate and ESG Task Force in **March 2021**. Among other things, the Task Force reviews disclosure and compliance issues relating to investment advisers' and funds' ESG strategies and identifies material gaps or misstatements in climate risk disclosures by public issuers. Just a year after its creation, the ESG Task Force is credited with bringing two groundbreaking greenwashing actions against a large US investment manager and a non-US public issuer.

The SEC **published a settlement order** with a major US investment manager on May 23, 2022, that required it to pay $1.5 million to resolve charges that it made material misstatements and omissions to investors concerning its ESG practices. While the manager neither confirmed nor denied the SEC's

https://www.cliffordchance.com/insights/resources/blogs/regulatory-investigations-financial-crime-insights/2022/05/the-risks-are-turning-green.html

https://www.fca.org.uk/news/press-releases/fca-proposes-new-rules-tackle-greenwashing

Demystifying the Language

There are many different terminologies used when developing ESG and discussing the positive impact of its activities. You'll find a glossary at the back of this pocketbook – it is designed to support your learning and understanding and put into context the ideas and planning that is required with ESG. You will find that some differ from their standard definitions. They have been especifically adapted for ESG and the beneficial impact and outcomes possible when ESG is managed and executed using a framework.

Environmental Activities

Environmental initiatives and commitments focus on how your business affects the planet, addressing two key areas – carbon reduction and carbon offsetting.

Carbon reduction is how a business reduces the amount of C02 it emits into the atmosphere.

Carbon offsetting is removing the carbon a business cannot reduce, elsewhere.

Carbon debt – when a business offsets its carbon consumption from birth.

Carbon Neutral or Net Zero – when a business balances the C02 it releases into the atmosphere with the amount it absorbs or removes. This is also called net-zero carbon emissions because overall, no carbon is added to the atmosphere. The 'net' is important because not all businesses can reduce their emissions to zero by 2050.

When developing green initiatives and commitments, it is advised that a business focus its efforts on reduction first, using offsetting as the solution for the remaining carbon. When a business leads with offsetting, it can be perceived as '*greenwashing*' or masking its actual carbon footprint and not genuinely tackling the net-zero target.

Examples of greenwashing include:

- rebranding to be perceived as 'green'
- distracting consumers away from the actual data (with offsetting)
- displaying data in a way that is difficult to interpret
- making claims that cannot be proven, and
- making one-off donations to charities that manage environmental change but with no relationship or legacy associated with the donation.

Environmental initiatives can also include educating a business's employees and broader stakeholders, like customers or suppliers, supporting them to understand better what they can do from a personal or operational perspective at home and in the workplace to improve their impact on the planet.

Social Activities

Social initiatives and commitments focus on the relationship businesses have with people and communities. These can be viewed as internal and external activities.

The S in ESG tends to be the area in which most businesses already have some form of activity in place, with a lot of cross-over with HR initiatives to engage and recruit staff.

However, a common pitfall is underestimating how social value creates a culture of responsibility across a business and its significant impact on the successes of E and G. Your ESG goals will be a challenge to achieve without your stakeholders' engagement and support.

A business that might avoid this two-way approach to social value, instead focusing efforts on profit over purpose, could create a 'perception of social engagement' by distracting people with inauthentic and misleading approaches.

Governance Activities

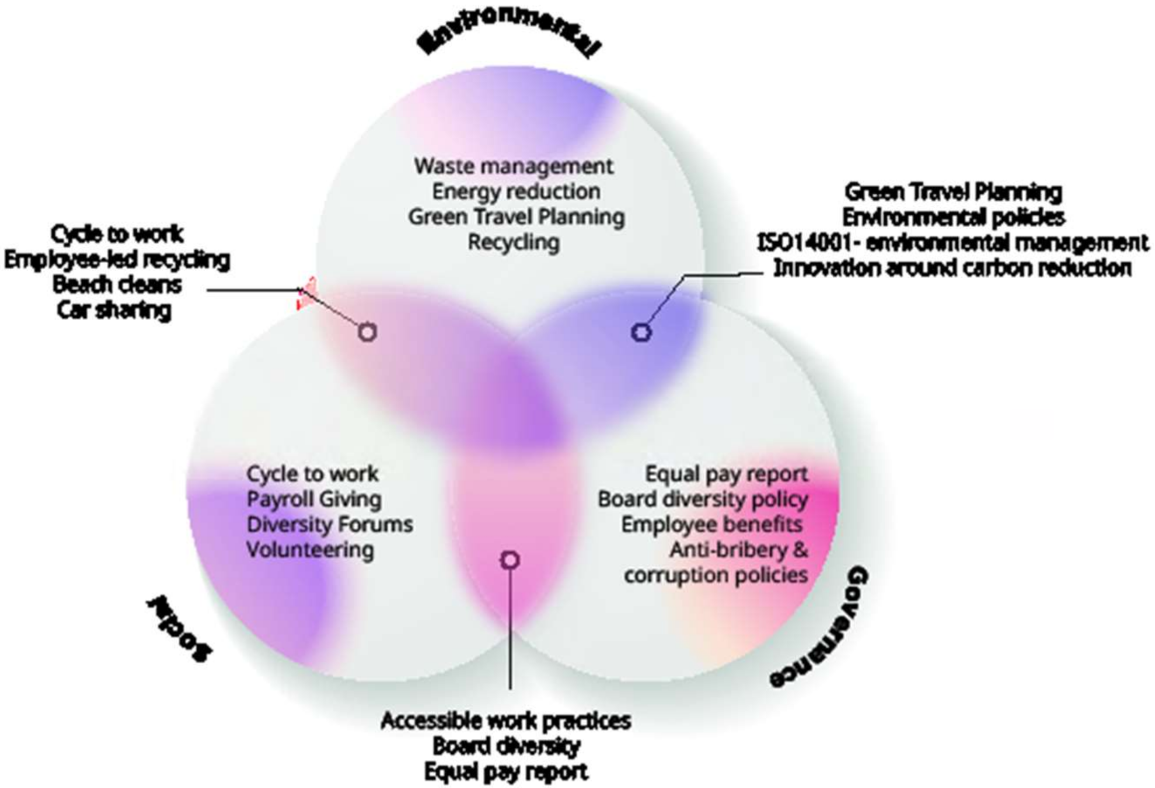
Governance activities are how a business audits, controls and protects itself. It is the policies, procedures and systems that govern what it does.

A lot of governance is driven by legislation, such as employment law, insurance, tax and health and safety. The size, location and industry of a business will determine what is required of them by law.

But it is those businesses that go beyond what is required that demonstrate robust governance; those committed to not only operating with its shareholders' interests in mind but also its people, communities and the planet (otherwise known as the 'triple bottom line').

Cross Overs

An ESG framework will help to bring structure to your ethical activities as a business, however there can be crossovers with no right or wrong approach. Making a decision on where things sit is an individual preference for your organisation and what works best for you.



ESG Ownership

ESG is a company-wide commitment. Established goals and activities become standard business practices assigned and owned by internal teams accountable for delivering and reporting on ESG.

Operationally, a business will have activities, campaigns and reporting aligned to an ESG framework. Still, it is about understanding the following areas to create a structure around it:

1. what is already in place
2. the type of data you already have or will need to capture to show your impact
3. how initiatives are created and managed, and
4. who is responsible for current ESG activities or ones to be developed.

Gaining clarity about ESG in a business can take time. Company-wide research will help illustrate what is already taking place, as well as adaptions that need to be made to support the development of a balanced ESG approach.

Each area of ESG will have a natural fit with certain areas of a business.

Here are some general examples of the departments that can establish ESG activity as part of their departmental responsibility.

Human resources

- Equality, diversity & inclusion management
- Health & wellbeing initiatives
- Employee benefits
- Volunteer hours
- Appraisal management systems
- Awards recognition

Marketing

- Campaign management and communications for ESG activities internally
- Driving content via PR and social media platforms to promote externally
- Producing creative content to visualise reporting
- Developing key messages and themes that support the positive promotion of ESG internally and externally

Operations

- Mental health first aiders
- Learning & development programmes
- Apprenticeships
- Work placements & experience for young people
- Mentoring

Procurement

- Supply chain engagement and management
- Supporting local suppliers
- Promoting best practices in support of the living wage and eliminating modern slavery

Typically, it is the case that more than one area/team can be involved as activities are defined and assigned to departments. Set out in this way, a business will begin to see a lot of positive collaboration across the organisation. Together, this helps determine how the activity will be measured and reported holistically, alongside its promotion.

Accountability, Longevity and continuous improvement

A culture of responsibility is the end goal for a business committed to defining, embedding and establishing ESG as part of its core business practice. By adopting a long-term approach, a business can create a values-driven culture that actively demonstrates accountability through effective reporting.

Businesses that consistently showcase their commitment to ESG practices will attract stakeholders who see the value for society and the planet. It will also help in retaining the best staff and creating efficiencies that reduce cost, making more profit that can be reinvested in the business to further its positive impact.

Once an ESG culture is achieved in a business, it establishes itself as a business taking a regenerative approach.

Regeneration is more than merely sustaining the future business and the environment as it is; it is about creating opportunities that focus on lasting value and continued contribution.

Examples include:

- long-term partnerships to build legacy projects, locally and internationally, around key themes (education, poverty and health)
- investing in green power sources for the business (wind, solar, hydrogen)
- creating internal training academies to close skills gaps and employ local young people (apprenticeships, mentoring and placements), and
- setting up a charitable foundation or community interest company to support the distribution of charitable donations.

When a business does more than just ‘business’ and begins to tackle societal disparities, it begins to position itself as a regenerative business.

Stakeholder Management

A business that engages in ESG will experience many positive benefits. Not only will the focus be on the company succeeding from a commercial perspective, it will also deliver added benefits and outcomes for its stakeholders.

A business can impact and influence many different people and organisations when embarking on its ESG journey, engaging them to participate or benefit from the outcomes. These are known as stakeholders: they have a 'stake' in the business, some greater than others.

A stakeholder is keen to understand if a business is operating successfully or whether it is experiencing difficulties. They will use this information to develop a business relationship, which can create many positive outcomes when stakeholder management is carried out correctly.

Using its platform, a business can influence and educate different stakeholders as part of its ESG commitments, with major stakeholders becoming the driving force behind the success of ESG when embedded and communicated in the right way.

Major Stakeholders

- Employees
- Shareholders
- Customers
- Suppliers
- Banks
- Investors
- Insurers

Other Stakeholders

- Competitors
- Charities
- Communities
- Schools
- Universities
- Students

Stakeholder Benefits

Let's take a look at some examples of the benefits conferred on different stakeholders when a business is committed to ESG and its outcomes:

Employees

Suppose an employee is part of group that is outlining the initial stages of developing an ESG approach, offering feedback and ideas. In this case, it can generate enthusiasm across the business and increase the chances of higher engagement and successful results. It can also build momentum around the activities and encourage people to take ownership of its implementation.

Employees will also learn from this experience, supporting their employed role and developing them personally, enabling them to engage across departments and locally in their community.

Once a successful programme is established, employees will also experience the benefits of delivering the ESG activities. These can include participating in community-focused activities and health and wellbeing initiatives, becoming part of focus groups to support diversity and inclusion, gaining financial support from their business to utilise more environmentally friendly ways of travelling and much more.

Customers

As ESG efficiencies and commitments are achieved, a business can communicate with its customers to engage them in its ESG goals.

Customers will have their own ideas when purchasing goods and services from an ethical perspective; promoting your ESG goals could be a differentiator for them and could gain their support, therefore creating a win-win situation for the business and customer.

Charities

A charity has the opportunity to present itself to a business when attempting to secure funding for the delivery of its services. When a company becomes ESG-focused, it will be keen to partner with charitable causes that align with its business mission and employees' interests. This saves the business and the charity time and resources, knowing which partnership is best.

ESG impacts significantly on the charitable sector, as a business is positively motivated to contribute financially or through volunteering with greater regularity due to the long-term approach in creating legacy projects.

Students

When a business focuses on future growth and success, it will be acutely aware of the talent required to achieve this. To fill a skills gap in an industry, they must consider the many available routes when attempting to recruit the right people.

ESG initiatives can focus heavily on community engagement through volunteering in schools and colleges, mentoring in the community, together with thought leadership across an industry.

These activities will have a strongly positive impact on the business, demonstrating to all that the business is engaged with the community, and raising the business's profile as an employer of choice.

Students will have opportunities to engage with that business and be aware of available options for their future careers.

The Importance of Structure

Businesses today cannot afford to overlook their ESG responsibilities – but for ESG to become embedded requires a consensus that will go on to support the positive outcomes when structured and formalised.

ESG management can certainly benefit a business positively. In the future, a company will be less likely to maximise its growth opportunities unless its ESG impact and reporting is clear.

ESG clarity, commitments and impact will be part of every tender process, be required in a supply chain, and probably become part of industry-wide legislation. Without it, a business will not operate effectively and responsibly.

As a business grows, there is increasing pressure to attract new talent, with those looking to join companies with ESG commitments and responsibilities high on their agenda.

ESG structure and commitments with clear aims and goals can support a business to:

- win more business
- retain clients
- attract the best talent
- retain a happy workforce
- differentiate from competitors
- gain a better brand recognition
- create a positive business reputation, and
- achieve operational efficiencies.

How to Establish
ESG in your business

Defining, developing and embedding an ESG programme while creating a culture of responsibility doesn't happen overnight.

A business needs to go through several phases to establish a programme and understand its impact. This process can take between 6–18 months.

1. AWARENESS & RESEARCH PHASE

- Outline the purpose of ESG for the business
- Engage employees in understanding ESG both commercially and personally
- Business-wide ESG workshops to develop ideas and define ownership

2. DEVELOPMENT PHASE

- Review and define the outcomes from the research phase
- Complete an ESG current position audit (sample audit included in ICA ESG course)
- Define and agree ESG working groups
- Activity & messaging development

3. STRUCTURE

- Define and agree on internal and external ESG activities & initiatives
- Understand data capture for reporting
- Define personnel accountable for data capture
- Update job description of personnel accountable for ESG data capture
- Include ESG in appraisal process
- Define metrics
- Define goals for activities and initiatives
- Develop central point for data capture and asset management
- Create a mechanism for employee idea generation and feedback

4. DELIVERY

- Develop ESG programme activity timeline
- Develop ESG communications plan
- Define those accountable for departmental promotions
- Ongoing content and ESG messaging development and promotion
- Tracking, measuring and reporting of data
- Develop content and assets for sustainability reporting
- Review the success of the programme and complete a gap analysis quarterly with working groups

5. REVIEW

- Culture review
- Current position audit
- Yearly feedback
- Appraisal – ESG review

Competitor Analysis

As mentioned already, ESG is about transparency and honesty, and correctly interpreting its impact. When you embark on your ESG journey, it is useful to build a picture of how ESG is already actively managed across your industry. This simple exercise will help you identify how your competitors and those in the supply chain are positively impacting society through ESG practices.

The best place to begin is to find evidence of the impact and reporting available, visit websites and social media platforms, and conduct searches online. A business will post proof of commitments and outcomes, produce sustainability reports and develop their content and messaging to help portray the activities and initiatives in which they are involved.

Here you can carry out your own benchmarking exercise to understand where you are positioned, and your ESG awareness position compared to your closest competitors.

Aligning Activity

ESG is very specific to each business when defining metrics and reporting impact.

Businesses report and produce data regularly for their operations and accounts, for the benefit of their shareholders and because of legal requirements.

They will also use data to understand how efficient the business is or to ascertain the cost of securing new contracts, customers and recruiting new employees.

Data is often key to understanding how to reduce costs, improve efficiencies and generate more profit.

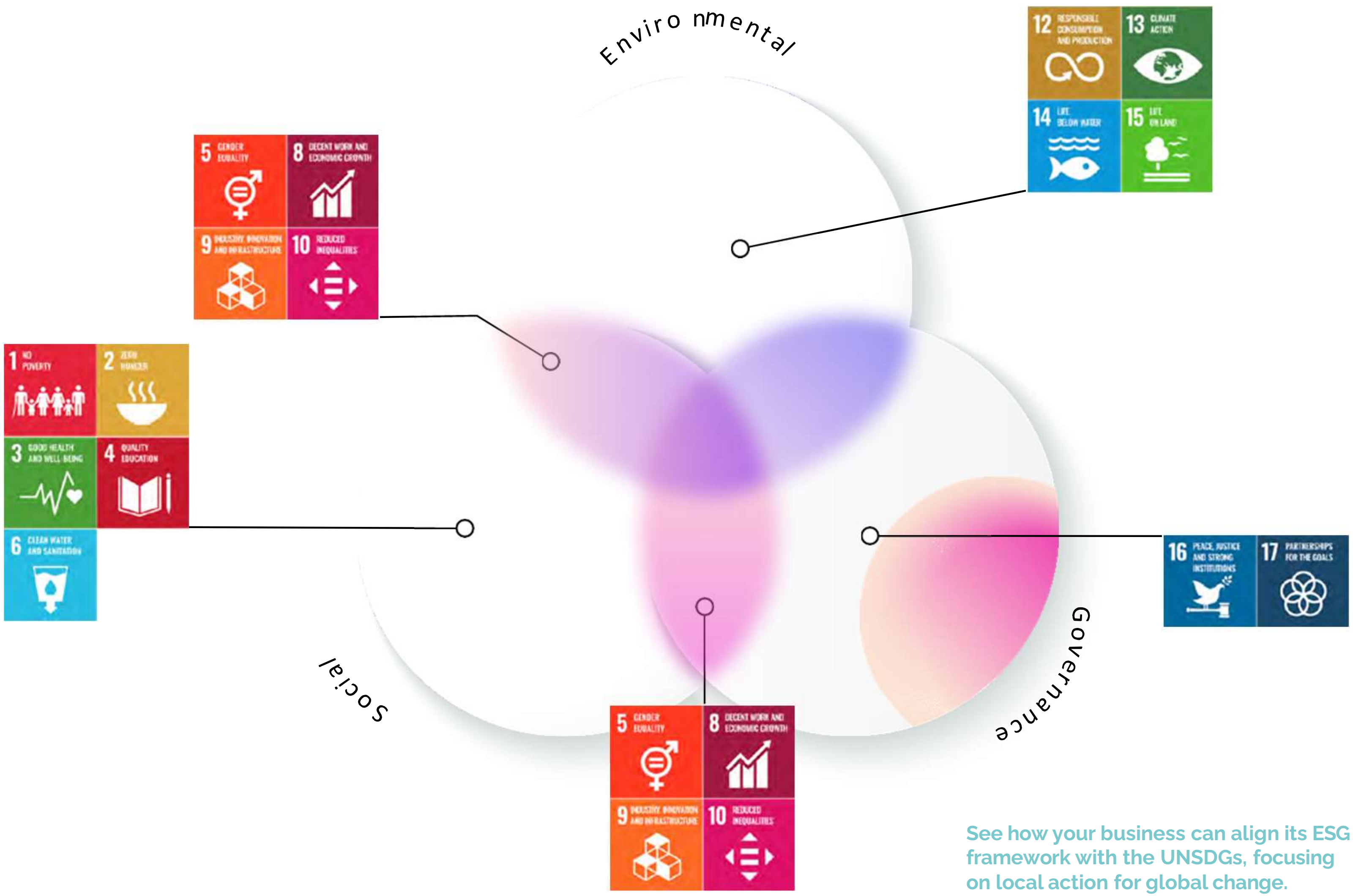
ESG reporting is another form of data capture that can support all of these areas.

When defining the main areas of focus for ESG activities, it is important to understand key themes for your industry, as well as the societal disparities the UNSDGs aim to eradicate.

Aligning activity, and reporting the outcomes in line with these goals, makes it easy for everyone to understand your commitments and their potential impact.

The UNSDGs are a considerable undertaking for governments, firms and individuals. The aim is to achieve them in just eight years.
To do so, everyone has a role to play; their achievement will only be positive if every individual and business commits to their attainment. Without action, there is no impact. Without impact, the disparities do not reduce or, worse, increase.

The UNSDGs are 17 interlinked global goals. They are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.



See how your business can align its ESG framework with the UNSDGs, focusing on local action for global change.

Example UK Frameworks That Align with ESG Activity

Here you can see example framework requests that all work towards creating outcomes aligned with ESG. These frameworks are well established in the private and public sectors.

When a business is bidding for new contracts, it is often asked that they include their social value or plans to support the planet. Social value and environmental requests require information on your commitments and project outcomes when a contract is implemented or completed.

Examples of ESG commitments or impacts include local employment, financial contributions to the economy, community engagement, waste management, carbon reduction and management practices to support reporting.

Different terminology will be used across frameworks -- but having an ESG approach within your business will mean you are starting with the right information.

National Health Service

Construction

Local Authority

Examples of ESG Data Collection

Impact data shows the outcomes of your ESG activities, evidencing your social value and environmental contributions.

When defining this data, clear reporting metrics will support how you translate this impact to be shared. It can determine your progress over time and help you visualise your goals for the future.

This historic, goal-driven analysis is essential in bringing your impact to life.

The metrics themselves need to be simple, relevant and demonstrative of progress as you develop your programme of ESG activities.

Note: it is essential to be completely transparent when the outcomes of your activities and commitments are not improving or progressing as you thought. A simple explanation to convey the reasons behind it and the action to remedy it shows your honesty and authenticity, building trust and accountability.

Quantitative Data
for example, the number of people supported, equipment bought or hours volunteered. These stats are great for creating infographics or comparing impact over time.

Qualitative Content
the stories, interviews, images and videos that evoke the emotional connection to the impact. These are fantastic assets with which to engage your stakeholders, sharing your social value and engaging them in your ESG activities.

Metrics Explained

Environmental

Activity	Metric	
Carbon literacy training	Number of employees completed training	
Waste management	Products used	Weight/amounts
Recycling	Products used	Weight/amounts
Energy	Usage/saved	
Water	Usage/saved	
Miles	Driven/reduced	
Car fleet	Fuel consumption/no. of electric vehicles Reduced	
Online & digital advances	consumption – paper, miles, people	
Gifts in kind	Products/received by and carbon reduced	

Social

Activity	Metric
Fundraising	Funds donated and number of causes supported
Employee numbers for fundraising and volunteering	Amount of employees involved in fundraising events and volunteering
Locations involved in fundraising and volunteering	Different locations participated in fundraising and volunteering
Volunteer and mentoring hours	Hours of volunteering & mentoring completed
Apprentices and work placements in place and completed	Amount of people in apprenticeships, roles and outcomes
Mental health first aiders trained	Numbers trained, people supported and outcomes
Cycle to work participants	Number of employees and miles ridden
Public transport users	Number of employees and miles taken off the road
Car sharers	Number of employees and miles taken off the road
Gifts in Kind	Items and causes or organisation benefitted

Governance

Activity	Metric
Policy reviews	How often, outcomes (i.e. training)
Appraisals completed	Percentage of employee numbers
Diversity data	Employee percentages, measures and outcomes
Equity data	Employee percentages, measures and outcomes
Inclusion	Measures and outcomes
Working groups – risk, health & safety, etc.	Outcomes and goals
Training completion	Data and outcomes (internal & apprentices, etc.)

Goal Setting

Once a business decides on the activities it will formalise, and has defined the metrics it will capture, the next step is in setting goals. These are vital to supporting positive development and outcomes, and to showcase their impact.

Goals are achieved through action, and these actions will require commitment from personnel in the business to support management and the execution of the activities themselves.

Examples of ways to consider goals, as well as the support required to achieve positive outcomes.

You can use each worksheet available from the course resource section to consider and map out goals for the three areas of ESG.

A goal-setting exercise helps an organisation communicate its commitment to its stakeholders and sense-check its success. Without developing a set of ESG goals, a business might lose focus, and fail to give the activity the priority it requires to achieve a positive outcome.

Once defined, goals can be used as part of internal and external business promotions to highlight ESG commitments.

Reporting

When reporting on your ESG activity, commitments and outcomes, storytelling using relevant and easily understood data (as shown in the metrics section) is key. This will provide clarity around successes and expose areas that require improvement.

A business should look at ways to capture this data monthly or quarterly to support operational requirements and budget forecasting and planning.

Once captured, it is best that the data is kept centrally, with access given to others across the organisation.

ESG data is becoming vital in supporting a business to win contacts, awards and accolades. When information is reported regularly and stored centrally, it supports the company in utilising it when required for business development and growth opportunities.

Once the business has completed 12 months' activity, it is useful to build up the content as a report to be showcased to stakeholders and housed on a website.

An ESG or sustainability report is made up of timely data and stories captured and created as the ESG programme progresses and evolves.

Here, an example report visualises the outcomes and impact data.

Current Technologies for Impact Reporting

There are many ways a business can capture its ESG data. Some of this will be in line with how it manages its operations; however, it is possible to use paid software to bring ESG-specific data together in one place to capture and visualise reporting.

The following are a range of options, suited both to those that are well established with their ESG practices and for those just starting out.

https://sustainiq.com
https://www.diginex.com
https://www.rio.ai
https://www.esgenterprise.com

When a business embarks on its ESG journey, it has to be clear about the outcomes it seeks to achieve, going on to measure and promote the success. Without promotion, it is difficult for stakeholders to identify the positive benefits of working with or being part of that business.

It might be more appropriate to capture data using internal documents and your operational software in the early stages. It is helpful as your activities progress to begin placing that data in a central access point, which is the main objective of these software options.

Gaining Foresight

Horizon scanning is a way of obtaining foresight, helping a business discover the early signs of change, which can present challenges or opportunities.

A beneficial process, horizon scanning helps organisations identify ESG trends before they become mainstream or legislative, helping to mitigate risk and understand measures they can put in place to achieve a more positive outcome and impact.

By horizon scanning, a business can:

- gain an understanding of emerging risks, threats and opportunities both internally and externally
- understand the themes and requirements of an industry or locality
- form strategies to create positive outcomes, and
- increase efficiency and productivity by engaging and executing activities.

The best way to horizon scan is to adopt the following process.

1. Defining the topic area to gain foresight

The table highlights some examples of the subjects to 'fact find' to identify trends, maximise opportunities and minimise risk.

Note: there are a number of crossovers in each area, as governance

2. Consider and look at ways to gain a broader outlook

There are many ways to build up knowledge that can bring to light changes that are taking shape. A great place to begin is to carry out a PESTEL analysis.

Political – how government policy and actions intervene in your business
Economic – considers the various aspects of the economy and how the outlook could impact your business (e.g. interest rates and inflation) **Social** – relates to the cultural and demographic trends of society **Technological** – linked to innovation in your industry
Environmental – concerns the ecological impacts on business (e.g. weather and policies)
Legal – pertains to any legal forces that define what a business can or cannot do (e.g. licence and permits)

3. Scan the Horizon Itself

Scanning the horizon is all about research. It will take time, but it is helpful in supporting structuring and prioritising activities.

Below are some locations where intelligence can be gained to scan the horizon around ESG.

- Online, including social media and news
- Via industry peers or leaders in the topic/field
- Within your business or through your customers
- In the local communities you operate and serve
- In partnership with schools, colleges and universities

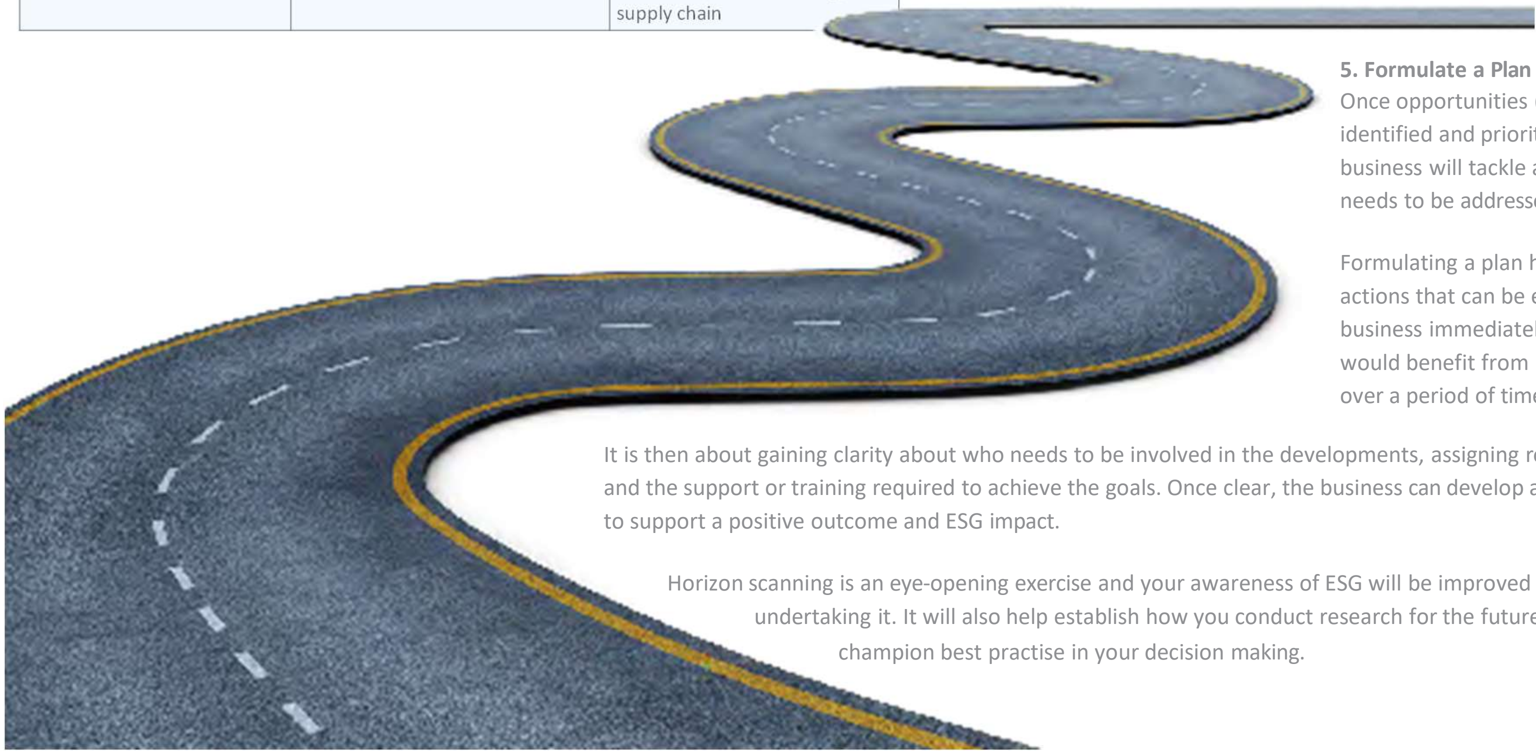
Environmental	Social	Governance
Taxation & fines	Employee wellbeing engagement tools	Policies, environmental, trade, tariffs
Emission expectations	Mental health fitness support apps & platforms	Wages, working hours, cost of living
New energy methods	Employee benefits and management	Health, career, health & safety
Grants and funding for environmental compliance	Fundraising & volunteering opportunities and management	Management systems and data intelligence
Quality control	Equity, diversity and inclusion topical developments	Legislation around employment, taxation, resources
Accreditations and accolades	Qualifications & training	Global warming, sustainable resources, ethical sourcing, supply chain

4. Evaluate and understand priorities

Once the information is collated and the horizon scanning is complete, there will be clarity around priorities. Some of these will be operational; others will be environmental (factors outside of your control) and not just locally focused but globally driven.

Bringing together a working group to understand opinions around these priorities will also help to gain buy-in and commitment to support goal setting and creating accountability.

This working group could be made up of internal stakeholders such as employees and suppliers, together with external networks like customers and industry experts.



5. Formulate a Plan

Once opportunities (or risks) are identified and priorities are clear, how a business will tackle and achieve success needs to be addressed.

Formulating a plan helps to decide the actions that can be embedded in a business immediately and those that would benefit from being tested or piloted over a period of time.

It is then about gaining clarity about who needs to be involved in the developments, assigning role responsibilities, and the support or training required to achieve the goals. Once clear, the business can develop actions and goals to support a positive outcome and ESG impact.

Horizon scanning is an eye-opening exercise and your awareness of ESG will be improved simply by undertaking it. It will also help establish how you conduct research for the future and champion best practise in your decision making.

Trends

Trends and topics around ESG can be easily accessed and understood by going online for mainstream news and updates across your industry.

Those effecting ESG at present include the following:

- COP26 – conference of the parties event that took place in Glasgow in 2021
- Kindness Economy – retail sector consideration for stakeholders
- Better Business Act – a change to UK law to align business interests with those of wider society and the environment
- B corp – making business a force for good

It is also useful to be cognisant of changes in legislation and compliance based on business size, industry and location.

Some examples include:

- Green taxation – in support of a more sustainable future
- Carbon taxation – a guide to what is happening in the UK
- Green Claims Code – guidance for businesses making environmental claims in the UK (to avoid greenwashing)

A business that familiarises itself with trends and changes in law can better consider future or even current business risks that could potentially impact the organisation.

Risk Management

For a business to succeed, it has to manage its risk to ensure sustainability and su people, community and the planet.

A well-structured and communicated governance approach can help maximise a system within a business.

Even though a large part of risk management is down to monitoring those PESTEL factors, g look at how you approach risk.

The UK Corporate Governance Code is a valuable set of principles and provisions desi a 'Comply or Explain' basis, championing transparency and recognising that one type of fit all.

It sets out standards of good practice on:

- board composition and development
- remuneration
- shareholder relations
- accountability, and
- audits.

Activity	Supporting Areas
Health & Safety	S/G
Human Resources	S/G
Information Security	S/G
General Data Protection Regulation	S/G
Finance	S/G & E
Fraud	S/G
Money Laundering	S/G
Consumer Protection	S/G
Prudential Management	S/G
Regulatory Compliance	E, S & G
Quality	S/G
Environmental & Sustainability	S/E & G
Business Continuity	S/E & G
Global Trading	S/E & G
Sales & Marketing	S/E
Physical Security	S/G
Transport	S/E
Buildings	S/E
Storage & Warehouse	S/E
Procurement	S/E
Governance	G
Directors	G
Insurance	G

Risk Management

The Code is published by the Financial Reporting Council (FRC).
Even when a business isn't on the UK stock exchange, this Code promotes the importance of establishing a corporate culture aligned with a company's purpose and overarching strategy, promoting integrity and valuing diversity – everything ESG supports.

When everyone is given responsibility for managing risk within a business, open communication channels and a desire to prove feedback are created, helping people feel part of the business's decision making. Such an approach is very much in line with ESG principles and its positive outcomes.

The culture of a business drives risk management. When a business is committed to its people, planet and communities, it is open to working collectively to succeed. ESG can help to structure this way of thinking and a collaborative approach to risk.

The governance of a business is all about the management of risk. Yet that business's culture has to be about honesty, giving employees the ability to speak the truth and not hide issues or concerns that could negatively impact the business.

When a business brings together representatives from different departments, giving them a voice on ESG, they begin to see this responsibility as an opportunity, becoming advocates and ambassadors for that business. The overall outcome is a positive effect on that business and its brand recognition.

These include:

- positive reinforcement of the business
- employee retention
- employee engagement
- departmental collaboration
- trust in the business, and
- clarity around reporting risk.

What Next?

We hope that this course has demonstrated why ESG is so important. You should now possess a firm understanding of how a business can consider, define and manage its activities to create a successful ESG programme.

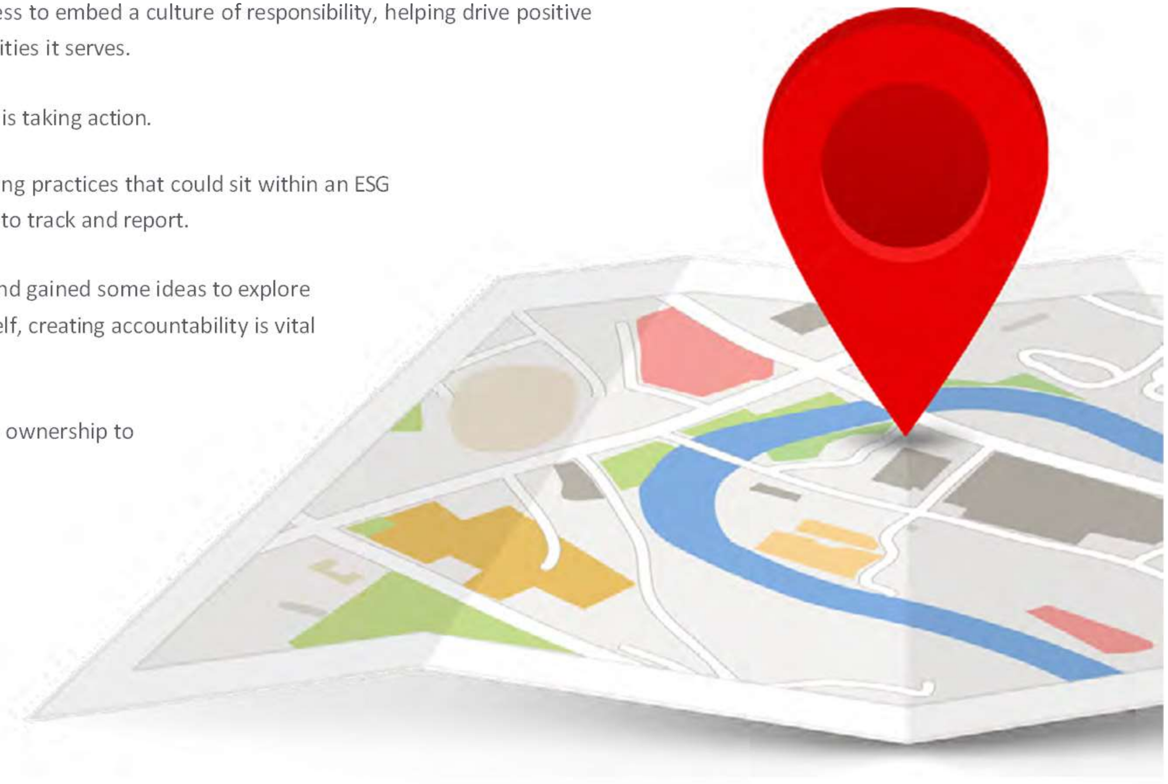
Such a programme will be one that supports a business to embed a culture of responsibility, helping drive positive outcomes for its people, the planet and the communities it serves.

Now that you have this understanding, the next step is taking action.

You might have already reflected on your firm's existing practices that could sit within an ESG programme, and the potential benefits you can start to track and report.

You may also have identified gaps in your practices and gained some ideas to explore and develop for the future. Wherever you find yourself, creating accountability is vital in moving forward.

We will now consider the best route to achieving this ownership to maximise your ESG success.



Where Would ESG Sit Within Your Business?

We explored how to carry out research to clarify where data is held, and the importance of having a main point of contact for that data.

Research is key in supporting the development of metrics and confirming when data is available for ESG reporting.

Engaging with colleagues to develop an understanding of data capture methods allows the overall reporting format for your ESG, together with the metrics, begin to emerge.

Research will also help initiate conversations about the purpose and proposed outcomes, enabling colleagues to understand the benefits of any activity, as well as a providing a sense of ownership around data management.

Once a central point for data capture and ESG content is established, the business opportunities that arise will save your teams a lot of time and resources.

But to drive your practices and reporting success, data capturing must become a habit.

Conducting research is a good place to start, but it will have little value without the business's buy-in and commitment.

It is recommend that, before you reach out to your teams to conduct research, your business creates a communication or carries out awareness training to position the importance of ESG.

Creating employee awareness around ESG gives your workforce insight into how they can personally contribute and gain value.

This will make them feel validated, maximise engagement and acceptance of any change, and demonstrate good governance to stakeholders.

Employee engagement is vital in building a culture of responsibility, and most ESG employee programmes will be driven by the fundraising and volunteering opportunities presented to them.

Setting the foundations, creating broader awareness and working with internal working groups will all maintain stakeholder momentum and help get your activities off the ground.

Carry Out a Competitor Analysis

An organisation should be clear about where it is positioned compared to its competitors from an ESG perspective.

We looked at a competitor analysis and how this helps to clarify your competitors' utilisation of ESG for their brand development and recognition.

Completing this exercise provides insight on what is working in your industry sector and the types of trends that can be utilised to build your programme.

This will inform where you place activities and identify any gaps to close, as well as your unique selling point and risk management.

Identify a relevant framework to align with ESG

ESG is just one framework used to manage responsible business practices, and can be easily aligned to work with others in a business and industry.

A different framework will use different terminology which, in many circumstances, will need to be translated into ESG language.

It is helpful to identify other available frameworks as part of your business and industry to practice aligning your programme activities.

We suggest you identify 2–3 industry frameworks to practice this translation exercise; this will support future expectations when business opportunities arise.

These can be easily visualised as an infographic or presentation slide to further aid interpretation, helping those who will benefit from utilising the outcomes as part of their operational outputs.

Glossary of Terms

Term	Definition
Actions	These are the proposed steps to achieve an outcome for your Environmental, Social & Governance (ESG) activities.
Activities	These are the different elements that make up your Corporate Social Responsibility (CSR)and ESG activities. For example, mentoring, apprenticeships, volunteering, donations and environmental commitments and contributions etc
Alignment	When your ESG activities match the way you do business from a value or behaviour perspective
Aware	Aware is beginning to understand the basics of the different elements, and can define activities in the business that can be adapted and developed to make a positive contribution (this training is supporting your awareness)
Behaviours	This is how people act when they engage with the ESG activities or the way people behave in relation to the values of the business.
Benchmarking (Competitor Analysis)	The practice of comparing business processes and performance metrics to industry best practices compared to other companies. The areas measured are usually quality, time and cost. When it comes to ESG, it would be around activities, engagement and impact
Best in class	Leading the way, being the frontrunner with new initiatives and campaigns and determining change in the industry for the good of society.
Carbon debt	When a business offsets its carbon consumption from birth.
Carbon offsetting	This is removing the carbon a business cannot reduce, elsewhere. Examples of carbon offsetting include: •tree planting •purchasing carbon credits, and •funding renewable energy sources.
Carbon reduction	This is how a business reduces the amount of C02 it emits into the atmosphere. Examples of carbon reduction in the workplace include: •green travel planning (i.e. cycle to work schemes, car sharing or encouraging the use of public transport) •waste management •recycling, and •green energy or energy efficiencies.
Commitment statement	A pledge to commit to achieving or supporting your ESG outcomes.
Community	This relates to who you are focusing your support on outside the business. A community could be a group of people, an area or an organisation, charitable or non-profit.
Company values	The core behaviours or standards that guide how a business performs. They sum up what your business stands for and influences your corporate culture.

Term	Definition
Consideration	Understands that it can support a business and has seen the positive impact of those utilising it.
CSR	Corporate social responsibility (CSR), the responsibilities that a business can consider that will impact positively on their employees, communities and the planet.
Culture	A company's culture is defined by shared values, goals, attitudes and practices that characterise that organisation. It is the way the people feel about their work environment, the values they believe in, where they see the company going and what they're doing as part of it.
Employee engagement	This is about successfully engaging employees to get involved in your ESG activities and initiatives.
ESG	Environmental, Social & Governance. The three main areas for responsible and ethical activities. A term created in the financial sector in 2004 as a way for investors to measure more than just the profit of a business.
Ethos	A joint way of thinking, acting and performing that informs the beliefs, customs, or practices of a group or society.
Future workforce	The workforce that will be part of your future business. Initiatives in this area can include engaging with young, diverse and up and coming people who are interested in the business you are in.
Goals	These are final markers for the success of an activity or initiative. Setting the goal before you begin the activity gives the momentum to achieve it.
Greenwashing	Masking an organisation's actual carbon footprint and not genuinely tackling the net-zero target.
Impact	The results or outcomes that an activity or initiative has or had at the point of completion. You will understand the impact through data – such as people, departments and locations involved, amount raised, the percentage increase in the last 12 months, quotes and feedback etc.
Impact or thematic	When a core business is offering or adapting its actual products and services to be ESG-focused; examples include servicing or selling solar energy, waste management, water security, electric vehicles and clean energy.
Initiatives	These generally become part of everyday activity in a business once adopted. An example is giving to charity via your salary, converting to green energy, utilising green methods of transport, regularly donating to food banks, encouraging learning and development as a norm within an organisation.
Integration	The business now places ESG at the forefront of its decision making; the workforce is clear and driven to achieve goals, and the company is reaping the benefits of its ongoing continuous improvement.
KPI's	Key Performance Indicators are what you measure your progress against to demonstrate how effectively your ESG activities are performing.
Marketing mix	All the different types of communication channels used to promote your ESG activities.
Objectives	Milestones for achieving your ESG goals
Planning & execution	Placing activities into a framework and beginning to promote and engage the workforce to participate and contribute.
Responsible business	A business that takes into consideration its employees, communities and the planet when operating or delivering their services.
Retention (employee)	G Retaining the employment or involvement of someone. This can be achieved by offering benefits and engagement activities as part of your ESG initiatives and campaigns.

Term	Definition
Service users	These are the people who are utilising the service of a charity.
Social	How a company manages its relationships with people, such as employees, suppliers, customers, and the communities where they do business. Employee engagement, diversity and inclusion, community partnerships and charitable support are social activities.
Social proof	Positive comments about your company, products or services that are promoted on social media.
Social value	Measuring the impact (or value) a business has on society. In particular, the support for your local society (community). For example, providing local job opportunities, using local suppliers, implementing waste management or contributing funds to local causes.
Stakeholders	The term for a person or organisation with a 'stake' in your business. Some have a more significant stake than others. Examples include employees, suppliers, customers, shareholders, banks and charities.
Strategy	A plan of action designed to help you achieve your business's overall mission. It can be a specific plan to support the launch and implementation of your ESG business activities.
Supply chain is the route	Taken for a supplier to deliver products or services to your business. This also includes the procurement of goods and services. Regarding ESG, this involves understanding how ethically responsible your suppliers are before you engage with them or researching the practices your current suppliers use to ensure they match your ethical commitments and goals.
Target customer/audience	Who you want to sell your products or services to, or who you want to target your activities, initiatives and communications.
UN SDG	A universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.
Unaware	Not aware of the positive outcomes of using ESG in support of sustainability and growth for a business.

Key Points

Questions?

What do we do?

QUALIFICATIONS
View our full
range of courses

TRAINING
View our in-house
training solutions

MEMBERSHIP
Find our more
about membership

EVENTS
View our full
events calendar

Why study with ICA?

It's the power to make better decisions:
ICA qualifications are not just focused on knowledge delivery but real-world application.

It's the way to drive effective change:
Provides confidence and credibility.

It's your path to investing in your future:
Our internationally-recognised qualifications set our professional alumni apart.

It's you making an impact:
Students understand the impact their role plays in the compliance community, within a global framework that shields society from harm.

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INTERNATIONAL COMPLIANCE ASSOCIATION

Understanding

New Entrant/Operations

Certificate

- **Length of course:** 4 weeks
- MCQ assessment
- OnDemand online learning

After the course I can:

- actively engage with my processes and procedures
- ask relevant questions
- understand what I'm asked to do and why I need to do it.

Become an Associate Member (AICA)

"Your name" **Cert(AML)**

Enhancing

Analyst/Manager

Specialist Certificate

- **Length of course:** 4 weeks
- MCQ assessment
- OnDemand online learning

After the course I can:

- broaden the projects I am involved in
- ask more specific questions on the topic
- become a catalyst and point of reference on the topic.

Become an Associate Member (AICA)

"Your name" **Spec.Cert(Conduct)**

Applying

Analyst/Officer

Advanced Certificate

- **Length of course:** 6 months
- 1 scenario based MCQ test and 1 written assignment
- Online + Workshops + Tutorials + Assignment preparation

After the course I can:

- identify gaps
- ask exploratory questions
- understand what I need to do, why and how I'm going to do it.

Become an Associate Member (AICA)

"Your name" **Adv.Cert(AML)**

Managing

Manager/Senior Manager

Diploma

- **Length of course:** 9 months
- 3 end of module objective MCQ tests and 2 written assignments
- Online + Workshops + Tutorials + Assignment preparation

After the course I can:

- identify, analyse and resolve gaps
- ask challenging questions
- make reasoned decisions
- support others to do the same.

Become a Professional Member (MICA)

"Your name" **Dip(AML)**

Leading

Senior Manager/Director

Professional Postgraduate Diploma

- **Length of course:** 12 months
- Reflective journal and competency based interview
- Online + Masterclasses

After the course I can:

- evaluate approaches to resolving gaps
- formulate frameworks to questions
- justify and critque decisions
- lead others to do the same.

Become a Fellow Member (FICA)

"Your name" **Prof.PgDip(AML)**

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Thank you

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