

Environmental

Social

Governance

ESG IN HIGH RISK INDUSTRIES

What is environmental, social, and governance (ESG)?

Incorporating environmental, social, and governance (ESG) into small and medium-sized businesses (SMBs) offers incredible business opportunities and profit by attracting socially conscious and impact investors. For instance, Canadian responsible investment is at **\$3.2 trillion** annually (an increase of 48% since 2017). In the United States, ESG investing has increased five-fold to **\$17 trillion** in 2020. Banks are also looking

at a company's ESG policies and performance before offering a loan. Businesses with ESG commitments are seen as less risky investments with higher resiliency and long-term vision. Not having an ESG policy is a deal-breaker for some investors and insurance agents.

Smaller businesses, especially, are at an advantage in transitioning to ESG practices as they are more agile and quick to make decisions than a bureaucratic firm. This adaptability allows small businesses to more easily meet increasing regulatory requirements to decrease the industry's carbon footprint. SMBs are also more involved in their communities than large corporations. Consequently, they have a strong brand reputation with their customers that can shift to a sustainable image more easily.

Some examples of ESG measures include: switching to digital receipts, using recyclable or compostable packaging, and improving energy efficiency. Look for suppliers who also have ESG practices such as fair trade. Make sure your employees receive a living wage and that your teams are diversified from people of all backgrounds.

While these changes are good for the environment, they also add value to businesses' profitability, revenue growth, and a higher corporate valuation. Below are additional areas of improvement under each of the three categories of ESG: environment, social, and governance.

Environment

- Climate policies or an annual sustainability report
- Limit pollution and waste
- Natural resource conservation
- Renewable energy use
- Fair treatment of animals and biodiversity

Social

- Ethical supply chain (no conflict minerals, forced labor, or human trafficking)
- Encourages diversity in the workforce
- Fair wages
- Land use
- Vulnerable people
- Sexual misconduct policies
- Donations to the local community
- Safe workplace conditions, such as occupational health and safety (OSHA) ISO 45001 certification to reduce COVID-19 risk

Governance

- Transparency
- Legal compliance
- Anti-bribery and corruption (ABC)
- Having integrity (such as avoiding conflicts of interest)
- Diversified leadership
- The chair of the board is not the CEO

Clients are increasingly asking contractors about ESG-related policies and activities, especially those in high-risk industries such as construction, energy/oil & gas, mining, manufacturing, transportation, and marine. ESG investors have long avoided these services in the past. Yet, as the world seeks to become more sustainable, these enterprises have the highest potential of impact through sustainability practices to curb their greenhouse gas emissions. High-risk industries must actively take steps toward mitigating ESG risks that may affect their ability to raise capital, obtain permits, and protect their existing assets.

"Credible mine certification is becoming mainstream as a way of providing a shortcut to ESG disclosure due to the emergence of agreed standards of good practice in mining and metals production," Francis Sullivan, deputy chair of Responsible Steel, says. He predicts that in a few years, capital will start flowing to certified supply chains and diverge away from uncertified ones.



Sustainable or ESG investors (as well as socially conscious consumers and clients) are looking for environmentally responsible companies led by accountable managers who manage risk properly and are overall good corporate citizens who positively impact their surrounding communities. Interestingly enough, Tesla was recently kicked out of the S&P 500's ESG index for "**lacking a low-carbon strategy**," their handling of waste for spent batteries, poor working conditions at their factory, and discriminatory practices against black employees, illuminating the fact that even an electric car company must have strong ESG ratings to be considered a valid investment.

Today, very few transactions are approved without an ESG review. By improving your ESG performance, the cost of funding your next project will decrease as risks are avoided to ensure profitability and limited disruption to operations.

How to get started?

Analyze your business' entire lifecycle and supply chain to look for areas of improvement. ESG due diligence involves identifying and remedying ESG risks to make the world more sustainable. This process begins with reading your company's latest sustainability report, ensuring compliance with international law, monitoring statistics, and introducing programs for continual improvement. By mitigating ESG risks and being proactive before an audit, companies can prevent future losses and secure approval of insurance underwriting – which is particularly relevant for high-risk industries.



Below is a sample six-step approach to getting started and navigating your ESG risks and opportunities.

1. Assess ESG risks and opportunities
2. Decide on an ESG strategy and objectives
3. Define your strategic plan
4. Act on specific project interventions
5. Collect and report on ESG data for investors and stakeholders
6. Obtain certification and independent

Determining a strategy for measuring the impact of your ESG efforts is the most challenging aspect of ESG initiatives. Fortunately, HSBC and NYU Stern have created a [Return on Sustainability Investment \(ROSI\) toolkit](#) that benchmarks sustainability investments against nine quantifiable criteria that affect business performance:

- Risk management
- Stakeholder engagement
- Operational efficiency
- Talent management
- Supplier relations
- Media coverage
- Customer loyalty
- Sales and marketing
- Innovation

What is corporate social responsibility (CSR)?

While CSR and ESG are very similar concerning their goal of creating socially responsible businesses, the main difference is that CSR holds corporations accountable qualitatively,

whereas ESGs are measurable and quantifiable. For example, CSR includes improving company culture so that employees have increased morale and productivity as they work towards a shared social goal or company mission.

Environmental responsibility/ stewardship

- Reducing pollution and waste
- Lowering greenhouse gas emissions
- Limiting water consumption
- Adding renewable energy
- Increasing recycled materials
- Offsetting emissions (planting trees, funding research, donating to causes)

Ethical responsibility

- Paying employees a living wage
- Sourcing products and ingredients from fair trade suppliers

Philanthropic responsibility

- Donate a portion of your earnings
- Create a charitable trust organization

Economic responsibility

- Making financial decisions with the above three points in mind

Managing contractors in high-risk industries

Managing contractors in high-risk industries, such as mining and oil & gas, is one way to ensure ESG and CSR compliance. Basic contractor due diligence avoids risks such as legal liabilities, incidents, and costs by increasing visibility and transparency into your business. Evaluate your contractors based on your own ESG and CSR standards by analyzing contractors' existing certifications and performance. Have the peace of mind of a fully monitored supply chain throughout your entire business' streamlined operations with an automated contractor management platform.

Taking social responsibility is a mutually beneficial commitment that makes sense financially as well as ethically. Being sustainable is beyond a trend and is a necessary aspect of the present competitive business landscape. Be one step ahead of the curve and begin assessing ESG and CSR risks and opportunities within your industry today.

Businesses are no longer solely focused on profit but also have a responsibility for people and the planet too as part of their triple bottom line. There are various certifications for companies that embrace corporate social responsibility (CSR), such as B Corporations (B Corps), social purpose corporations (SPCs), and low-profit limited liability companies (L3Cs). These companies are self-regulated to act responsibly through their organizational structure, initiatives, strategies, and goals.

CSR initiatives are not only morally good but are also an excellent marketing tool to be seen as favorable by customers, investors, and potential future employees. Companies that incorporate CSR measures have higher employee satisfaction, leading to a lower turnover rate and attracting new talent. Also, by improving a company's image, customer loyalty is boosted. By analyzing each aspect of business operations, leaders find more innovative solutions to capitalize on decreasing their bottom line while becoming more environmentally friendly and ethical.

CSR measures have higher employee satisfaction, leading to a **lower turnover rate** and attracting new talent. Also, by improving a company's image, **customer loyalty is boosted**. By analyzing each aspect of business operations, leaders find more innovative solutions to capitalize on decreasing their bottom line while becoming more environmentally friendly and ethical.



References

1. <https://www.business.hsbc.ca/en-ca/insights/growing-my-business/wh-at-is-the-roi-of-esg-for-a-small-business>
2. <https://www.stern.nyu.edu/experience-stern/about/departments-center-s-initiatives/centers-of-research/center-sustainable-business/research/return-sustainability-investment-rosi>
3. <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>
4. <https://www.cnbc.com/2022/05/18/why-tesla-was-kicked-out-of-the-sp-500s-esg-index.html>
5. <https://www.esgthereport.com/what-is-esg-due-diligence/>
6. <https://www.slrconsulting.com/en/news-and-insights/insights/esg-insights-what-does-esg-mean-mining-industry>
7. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/miners-will-turn-to-esg-certification-as-mark-of-trust-62225403>
8. <https://insights.energydais.com/corporate-social-responsibility-in-oil-and-gas-industry/>