



GLOBAL COMPLIANCE

# Environmental, Social, & Governance (ESG) Risk Assessment Roadmap



For more information on this roadmap, and any of the others in our Global Compliance Roadmap series, please get in touch with the Osborne Clarke team [here](#).



# Introduction

## **Environmental, Social, & Governance (ESG) impact is playing an increasingly important role in the evaluation of investments, suppliers and corporate performance.**

There is a rapidly growing recognition that value is about more than pure financial returns. By engaging with those that avoid contributing to climate change, pollution, and human rights and labour abuses, businesses can reduce reputational risk and encourage more responsible business practices.

Consequently, there is a growing expectation from investors and stakeholders that businesses will report on non-financial issues, risks and opportunities with the same discipline and rigour as financial information. This is becoming increasingly reinforced by legislation mandating non-financial issues businesses are required to report upon.

Working out what a business needs to do and how to do it, is not straightforward. The UN Sustainable Development Goals are often used as a starting point, but setting objectives and benchmarking against them can be challenging. There is no one-size fits all approach. What there is, is a fast developing body of universal, and sector and issue specific, metrics and disclosures, within differing schemes, frameworks and guidelines, that can help businesses measure their ESG performance and assist them in meeting their compliance obligations in a sensible and justifiable way. Benchmarking sustainable business performance in a clear, transparent, comparable way is challenging but also important if you are going to drive the value for the business that comes from achievement on ESG.

Set out below is a 'roadmap' of questions designed to help a business understand and identify key information and issues that it will need to take into account in developing its approach to ESG and to reporting publicly on ESG.

This roadmap is not intended to provide you with a comprehensive answer but rather, provide your business with a context and a starting point from which an assessment can be developed of the ESG risks and opportunities faced by the business, and a strategic plan developed to move the business from where it is to where it wants or needs to be on ESG.



# 1. Where to start

There is a lot of guidance and resources available relating to the appropriate course of action a business should take to become more ESG-compliant. Broadly, there are 6 key practical questions for a business to answer when considering its approach to ESG:

- What ESG standards and obligations are relevant to your business?
- What ESG actions does your business have to, or want to, implement?
- What ESG risks are relevant to your business?
- How do you measure ESG performance?
- How do you manage ESG risks?
- How do you report on ESG performance?

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## 2. Your ESG exposure

### 2.1 Your approach to ESG so far

- Has your business
  - (i) engaged shareholder and wider stakeholder support on becoming a more sustainable business?
  - (ii) adopted sustainability reporting methods/models?
  - (iii) adapted operational activities, both internally/or within the wider supply chain, to take account of ESG factors?
- Do you have a Board-level or equivalent senior person who has responsibility for ESG and/or taken any other steps to create a governance structure which takes account of ESG issues?
- Do you adopt consistent compliance policies across your group or allow individual businesses/countries/areas to adopt

- Have you undertaken any other steps to understand and/or publicise your ESG exposure?

### 2.2 Sectors

- What sectors do you operate in?
- From your knowledge to date, what are the public/governments/other stakeholders' biggest ESG issues you are exposed to?

### 2.3 Footprint

- Which countries do you have operations in? What is the nature of that operations? Do you have subsidiaries or joint ventures?

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## 3. Environment

- What greenhouse gas (GHG) emissions (carbon dioxide, methane nitrous oxide, F-gasses etc) are produced
  - (i) by your business?
  - (ii) by your supply chain?
- Do you measure any of the GHG emissions from your business and/or supply chain by reference to Scope 1 emissions (direct), Scope 2 emissions (indirectly purchased) and Scope 3 emissions (indirect from supply chain)?
- Are there water scarcity/water stress areas where your business and/or supply chain operates?
- To what extent is the energy used by your business from a renewable source?
- Does your business have a Carbon Disclosure Agreement in place?
- Does your business infrastructure or operations in a high risk environment require investment?

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## 4. Social

- How diverse and inclusive is your employee workforce (applying common measures such as age, gender, sexual orientation and ethnicity)?
  - (i) How diverse is the section of your employee workforce taken on in the last 12 months (applying common measures such as age, gender, sexual orientation and ethnicity)?
- To what extent is there pay equality in your business (for example, when measured by gender, ethnicity or other measures) has the business taken any steps to address any pay gaps?
- How do pay levels in your business (where applicable, known) compare to applicable industry benchmarks?
- How do your employee benefits compare to applicable industry benchmarks?

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## 5. Governance

- Does your business have a clear stated purpose?
  - (i) Does that purpose include or refer to economic, environmental and/or social issues?
- What is the composition of your senior management/Board:
  - (i) in terms of economic, environmental and social competencies; and
- Does your business assess and disclose its risks on a register or otherwise?
  - (i) If so, does that assessment include or refer to material economic, environmental and social issues?
- What are the material issues in your business? What products or services do you provide to your key stakeholders, and how do you manage those issues?

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# Contacts



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