Post-Session Notes on

The Environmental Impact of ESG

8th Edition of the QED Changemaker Forum
On 12 November 2021

QED CONSULTING

ABOUT POST-SESSION NOTES

These notes are a **15-minute read**, and contain **5 main segments** covering the Accountability, Business, and Compliance aspects of Environmental Impact.

ABOUT THE QED CHANGEMAKER FORUM

The QED Changemaker Forum brings together senior management and leadership from enterprise and governmental organisations, to engage in dialogue and discussion around critical industry issues in an intimate closed-door setting. The Forum aims to both challenge and chart the future for industries and organisations, and empower change for the better.

This 8th edition of QED Changemaker Forum was held at the Singapore Sustainability Academy and brought together 40 pre-eminent industry leaders to exchange views, share candid opinions and gain deeper appreciation on the topic of Environmental Impact. The session discussion on 'The ABCs of Environmental Impact – Accountability, Business, Compliance' focused on the actionable steps that leaders can take beyond just disclosure to reduce impact on the environment.

The event (including these post-session notes) adheres to the Chatham House Rule. Beyond the information received at the session, no identities nor affiliations to the attendees have been included in these notes.

ACKNOWLEDGEMENTS

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TOPIC OF FOCUS –
The ABCs of Environmental Impact

(ABC = Accountability, Business, Compliance)

The Paris Agreement in 2015 set out a global framework to limit global warming to 1.5°C above pre-industrial levels – a goal the world has yet to meet. As a result of the agreement, ESG has taken centre stage in the minds of senior leaders. There have been many discussions about the environmental impact of ESG but we wanted to specifically ground them around Accountability, Business and Compliance.

The discussions detailed in these post-session notes are focused on collective actions and decisions (going beyond just disclosure) that companies can take to ensure no one is left behind and everyone, regardless of whether they are a big corporation or SME, crosses the finish line together. These notes detail suggested approaches and actionables, case studies, examples from organisations, and pertinent industry experiences from senior leaders.

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TLDR – A Quick Summary of the Forum Discussions

What's needed for ESG Transformation?

- The world's large carbon footprint results from our current economic consumption based on prevailing needs. **Adequate resources should be committed to changing current processes and mindsets of organisations** to successfully undergo ESG transformation.

- **CEOs cannot relinquish the responsibility for ESG**, and should lead strategic direction with support from Boards (providing guidance and endorsements) and Chief Sustainability Officers (as resident subject matter experts).

- Anecdotal evidence indicates that **current ESG literacy amongst key stakeholders and senior leaders is still relatively low**. More relevant ESG education is required to attune senior leaders to pertinent issues and equip them with the ability to make strategic decisions in this area.

- However, **education alone will not be sufficient** to motivate nor drive employees to collectively meet ESG objectives.

- **External parties** such as partners and vendors should also be **aligned with the organisation's ESG vision, goals and standards.**

- ESG goals should be **actionable, accessible and incremental** to ensure that goals can be measured, reported and acted upon.

- Current climate disclosures allow organisations the flexibility and discretion to select and report their respective material items. **Standardisation of auditing standards can mitigate the risk of cherry picking** what items are considered material and raise the overall standards of reporting and compliance.

Who should be footing the ESG bill?

- **Small & Medium Enterprises (SMEs) will likely require more substantial support** as compared to large enterprises to undergo any tangible ESG transformation.

- There are calls for **governments to provide a transition budget** to support SMEs and any organisations in need of support for their respective ESG transformation journeys.

- While reductions in energy consumption will correspondingly reduce cost of business operations, **ESG should not be merely viewed with the lens of cost reductions**. ESG investments should not be seen as costs and liabilities.

- Instead, they should also be viewed as an **opportunity to create value for organisations**. However, increased value is often harder to quantify than costs in the short term.

- **Initial ESG costs and investments will need to be significantly defrayed by governments**, before it eventually cascades to buyers and consumers. Some time must pass before economies of scale can be achieved, so the cost can finally become negligible and the value more visible for reporting.

How to meet global ESG targets?

- When the COVID-19 pandemic forced a global lockdown and put economies at a standstill in 2020, the world experienced **only a 6-8% dip in global annual greenhouse gas emissions.**

- If a global lockdown cannot cause a significant dent in our CO_2 emissions, **reductions of our existing consumption patterns will not get us to our collective goal of limiting global warming to 1.5°C** above pre-industrial levels.

- Investment of resources and effort must be committed **to the aggressive reduction of consumption, accompanied by radical innovation and value creation**, in order to drastically reduce our carbon footprint before our rapidly shrinking window of opportunity closes.

- **Business decisions must be structured and aligned to the DNA of the organisation.** When discerning what environmental investments to make, leaders must ensure that it makes sense to the organisation, such that it is not a one-time investment, but something that be sustained in the long run.

- The transition actions that can be taken by organisations to create value can be summarised into the 4Ds – **Differentiation, Decentralisation, De-risking and Double-down** on new tech.

- Moving the focus to value creation requires major shifts in how investors are currently assessing the environmental consciousness of companies. **The prism approach allows investors to observe whether companies are using sustainability at its core to amplify value creation**, in contrast to the older filter approach. This approach places **more emphasis on the value drivers, the existing investment process and how it plays into environmental themes.**

- Having a board and management that are focused on future-proofing the company, and well thought-out governance strategies, are key to doing well in ESG. Down the line, **it should not just be the senior management who are responsible for ESG, but everyone in the organisation playing an active role** in contributing to the ESG vision.

What areas of ESG should we be mindful of?

- Be extra wary of greenwashing (intentionally or otherwise) where **climate-related efforts are employed as green marketing solely as a PR initiative** or just to tick off a checklist. Under pressure, organisations have been known to embark on misguided efforts to look trendy.

- Once trust with key stakeholders is violated, it is extremely costly and time consuming to repair or recover. Organisations and companies should **take extra effort to ensure accurate and contextualised reporting in order to make more meaningful environmental decisions** that can withstand the intense scrutiny of activists or critics.

- It is important to take note that there will be a **constant balance required between what is good for business (and the economy) versus what is good for the environment.** We must acknowledge that the worrying state of the world's carbon footprint can largely be attributed to our increasing and often celebrated economic consumption.

- Collectively and collaboratively, organisations must proactively **find the right balance between economic growth and environmental sustainability**, or otherwise face an accelerated extinction event of our own doing.

1. What's needed for ESG Transformation?

Currently, the world is emitting more than 50 billion tonnes of CO_2 per year. The state of the world's carbon footprint results from our current economic consumption based on prevailing needs. Carbon offsetting shifts the problem to someone else without any resolution. Any reduction in the world's carbon footprint must therefore require organisations to prioritise the reduction of inefficient and wasteful energy utility instead. As a result, adequate resources should be committed to changing not only current processes, but also the mindsets of organisations to successfully undergo ESG transformation.

To illustrate the importance of ESG transformation, BlackRock announced that they will vote against management and flag companies for potential exit if they are found to pose a climate-related risk[1].

1.1 CEOs are ultimately responsible for ESG efforts

While ESG should be everyone's responsibility in an organisation, almost 50% of the participating senior leaders believed that CEOs are ultimately responsible for their organisations' ESG efforts. Hence, CEOs cannot relinquish the responsibility for ESG, and should lead the strategic direction. CEOs are supported by their Boards (providing guidance and endorsements) and the Chief Sustainability Officers (as resident subject matter expert).

Almost 50% of participants believe that CEOs are responsible for their organisations' ESG efforts.

ESG should never be perceived as a souped up variant of existing CSR efforts. Otherwise there will be a high probability of delegating that critical responsibility,

[1] BlackRock, (2021). "Net zero: a fiduciary approach". Available at https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter

often to a manager or department. Instead, CSOs, CMOs and CSR teams will play an important role supporting their respective CEOs and organisations to set and meet ESG goals.

1.2 More education needed for ESG transformation

Education will help in aligning the vocabulary to understand ESG goals within an organisation, but will not be sufficient to motivate nor drive its employees to collectively meet said objectives. In order to meet ESG goals as an organisation, both top-down and bottom-up approaches should be implemented for mutual and symbiotic support.

Beyond internal stakeholders, external parties such as partners and vendors should also be aligned with the organisation's ESG vision, goals and standards. For example, procurement teams must be sufficiently trained with appropriate scorecards and relevant competencies required to determine ESG-linked remuneration and awarding of contracts to vendors.

Anecdotal evidence seems to indicate that current ESG literacy among key stakeholders and senior leaders is still relatively low. ESG trivia conducted throughout the QED Changemaker Forum saw only 1 in 10 senior leaders answering all questions posed correctly. This may be a general indicator that more (and relevant) ESG education is required to attune senior leaders to pertinent environmental issues and equip them with the ability to make strategic decisions in this area.

On 26 August 2021, SGX RegCo proposed that all directors attend a one-time training on sustainability to ensure boards have common knowledge of their roles and responsibilities[2].

[2] SGX RegCo. (2021). "SGX RegCo charts the way forward on mandatory climate reporting, wants board diversity disclosures". Available at https://www.sgx.com/media-centre/20210826-sgx-regco-charts-way-forward-mandatory-climate-reporting-wants-board

1.3 ESG reporting standards and reporting

ESG goals should be actionable, accessible and incremental to ensure that goals can be measured, reported and acted upon. SGX RegCo recently proposed to have issuers perform reporting based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and made public for open perusal[3].

The following are some other internationally recognised auditing and reporting standards that senior leaders' can consider when benchmarking and developing ESG goals:

- Global Reporting Initiative (GRI)
- International Financial Reporting Standards (IFRS)
- International Institute for Sustainable Development (IISD)

However, current climate disclosures allow organisations the flexibility and discretion to select and report their respective material items. Hence, standardisation of auditing standards was suggested as a means to mitigate the risk of cherry picking what items are considered material. Combined with public availability of these climate disclosures, standardisation will facilitate public scrutiny, peer analysis and comparisons. This can ultimately raise the overall standards of reporting and compliance.

[3] SGX RegCo. (2021). "SGX RegCo charts the way forward on mandatory climate reporting, wants board diversity disclosures". Available at https://www.sgx.com/media-centre/20210826-sgx-regco-charts-way-forward-mandatory-climate-reporting-wants-board

2. Who should be footing the ESG bill?

2.1 Governments should provide a transition budget

Transition costs for organisations to align with various Nationally Declared Contributions (NDCs) will differ greatly from one organisation to another[4]. Unlike large enterprises who often have more access to significant resources, Small & Medium Enterprises (SMEs) will likely require more substantial support by comparison to undergo any tangible ESG transformation that will contribute to the NDCs. Yet, there are far more SMEs than large enterprises in most countries.

There have been calls for governments to provide a transition budget to support SMEs and any organisations in need to support their respective ESG transformation journeys. So governments need not merely focus on investors and asset managers, but can also support and empower everyone towards a more sustainable future, leaving no one behind due to lack of access to needed resources.

There have been calls for the government to provide a transition budget to support companies' ESG transformation journeys.

[4] United Nations Climate Change. (n.d.). "Nationally Determined Contributions (NDCs)". Available at https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs/nationally-determined-contributions-ndcs

2.2 ESG investments as short-term costs with long-term savings

Cost-related impact is quite often easy to track and report. So reductions in energy consumption will correspondingly reduce the cost of business operations. This is undoubtedly a vital and valuable first step most organisations must take towards meeting their ESG goals.

Being energy efficient has other upsides that not only reduces operational costs but also positions an organisation as a better and more ESG-friendly employer of choice that impacts costs of human capital. A study revealed that 75% of millennials are willing to take a pay cut to work for socially responsible companies[5].

Besides, ESG should not be merely viewed with the lens of cost reductions and treating these investments as costs and liabilities. Instead they should also be viewed as an opportunity to create value for organisations. However, increased value is often harder to quantify than costs in the short term. The journey to realise this latent value will need time to take its course.

Initial ESG costs and investments will need to be significantly defrayed by governments (though not always in financial terms), before it eventually cascades to buyers and consumers. It is only after a passage of time when economies of scale are achieved, that the cost then will finally become negligible, and value become more visible for reporting.

On a more encouraging note, present statistics already show that organisations with ESG excellence are strongly correlated with better market performance as well[6].

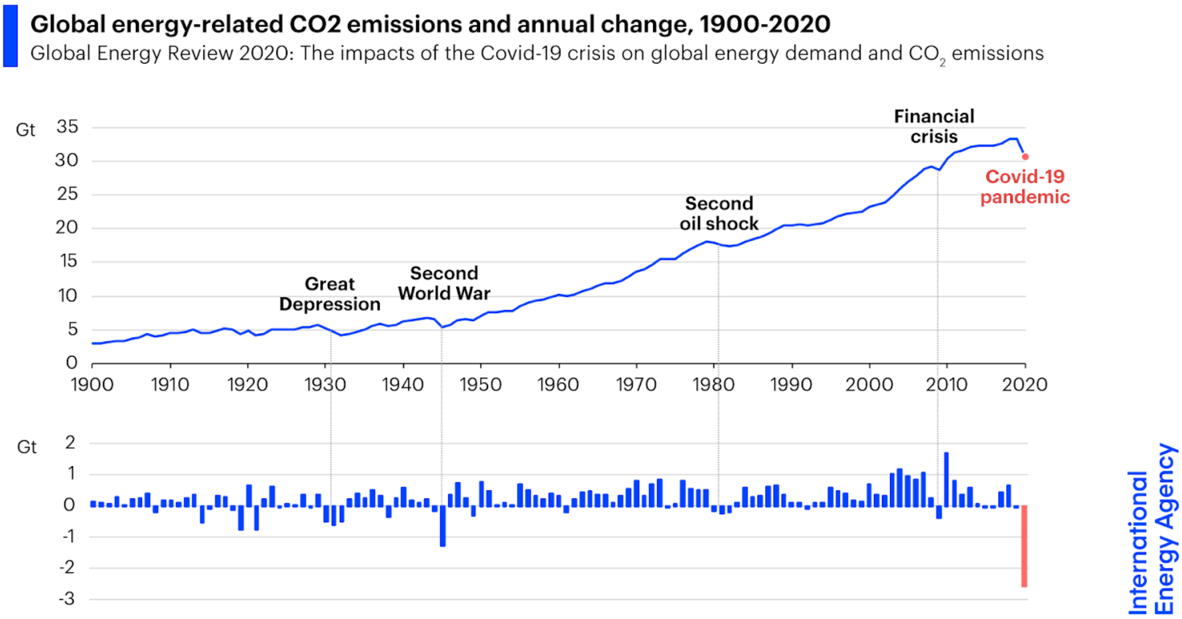
[5] Peters, Adam. (2019). "Most millennials would take a pay cut to work at a environmentally responsible company". Available at https://www.fastcompany.com/90306556/most-millennials-would-take-a-pay-cut-to-work-at-a-sustainable-company

[6] MSCI. (2020). "Is ESG Investing a Price Bubble? Probably Not.". Available at https://www.msci.com/www/blog-posts/is-esg-investing-a-price-bubble/02231869256

3. How to meet global ESG targets?

3.1 Consumption reduction alone will not get us close to COP26 ESG targets

When the COVID-19 pandemic forced a global lockdown and put economies at a standstill in 2020, the world experienced only a 6-8% dip in global annual greenhouse gas emissions. By contrast, we need a 50% decrease by 2030 in order to meet the net-zero goal set out in the Paris Agreement[7].



Source: IEA (2020), Global Energy Review 2020, IEA, Paris https://www.iea.org/reports/global-energy-review-2020/global-energy-and-co2-emissions-in-2020

If a global lockdown cannot cause a significant dent in our CO_2 emissions, it is fallacy to believe that reductions of our existing consumption patterns will get us anywhere near our collective goal of limiting global warming to 1.5°C above pre-industrial levels. This is a sad but brutal wakeup call on the reality of our world's current state of economic (over) consumption.

[7] United Nations Climate Change. (n.d.). "The Paris Agreement". Available at https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

3.2 Radical innovation and value creation may help us

A radical shift in approach and strategy to tackle our global climate problem may be needed. Aggressive consumption reduction accompanied by radical innovation and value creation may be the solution. Such investments of resources and efforts must be put in place right now and committed to drastically reduce our carbon footprint down to net zero by 2050 before our rapidly shrinking window of opportunity closes.

In fact, US$1 trillion (S$1.37 trillion) in sustainability opportunities are present across Southeast Asia[8] for organisations to look into especially in the areas of:

- Sustainable energy and resources (renewable and transitional energy)
- Food & agriculture (aquaculture, urban farming, sustainable diet, supply chain monitoring)
- Efficient industries (digitalisation of logistics, sustainable packaging, green technology)
- Green and connected cities (green buildings, energy connectivity, efficient manufacturing and promoting shared mobility)
- Circular economy (reduce, reuse, refurbish, repair and recycle)

When approaching these opportunities, green business investments need to be treated with strategic rigour – especially when 50% of emissions reductions by 2050

[8] Bain & Company. (2020). "Southeast Asia's Green Economy: Pathway to Full Potential". Available at https://www.bain.com/insights/southeast-asias-green-economy-pathway-to-full-potential/

will come from technologies under development[9]. There is no silver bullet and decision makers must not follow the crowd in deciding which new markets to enter and which existing markets to expand into. Business decisions must be structured and aligned to the DNA of the organisation. When discerning what and which environmental investments to make, it is pivotal to ensure that it makes sense to the organisation, such that it is not a one-time investment, but something that can be continually done over a long period of time.

One organisation, a retail bank in Singapore, shared the areas in which they are investing for value creation and put together a framework of green categories for which organisations can be granted sustainability-linked loans. It hopes to help organisations lower costs through a more streamlined process and set standardisations for impact reporting in the areas of:

- Clean energy generation and associated infrastructure
- Construction of buildings that utilise highly efficient technologies
- Improvement and retrofitting works to reduce energy use
- New energy vehicles, mass urban and low-carbon transport infrastructure
- Water efficiency and waste water treatment
- Waste management systems and Waste to Energy (WTE) plants
- Increased resilience of ecosystems and climate adaptation infrastructure

[9] International Energy Agency. (2021). "Pathway to critical and formidable goal of net-zero emissions by 2050 is narrow but brings huge benefits, according to IEA special report". Available at https://www.iea.org/news/pathway-to-critical-and-formidable-goal-of-net-zero-emissions-by-2050-is-narrow-but-brings-huge-benefits

3.3 Paradigm shift from filter to prism approach for ESG

Moving the focus to value creation requires some major shifts in how investors are currently assessing the environmental consciousness of companies. Previously, investors would rely on third-party data services to determine which companies were embroiled in ESG-related risk exposure and could then divest themselves of ownership in said companies. Unfortunately, this third-party information is often put together based on incomplete and potentially inaccurate self-reported numbers from companies themselves.

The older filter approach curates investment opportunities against a checklist of ESG criteria to meet. Only those who cleared the checklist of requirements are deemed investable and this significantly reduces the investment universe.

By contrast, the newer prism approach allows investors to observe whether companies are using sustainability at its core to amplify value creation. This latter approach places more emphasis on the value drivers, the existing investment process and how it plays into environmental themes. Organisations can then amplify and leverage every area of their business to gain a competitive advantage over others, for example by:

- Enhancing the brand through energy-efficient alternatives and offerings to consumers
- Creating new categories like alternative proteins (e.g. meat-free, plant-based options) that are consistent with consumer preferences
- Leveraging data to create better insights to solve power generation innovations

Organisations can create value through this ESG transformation and transition period using the 4Ds – Differentiation, Decentralisation, De-risking and Double-down on new technologies.

Another vision of a sustainable future can be found in the future of the grid. It is envisioned to be interconnected intelligent machines that consume and create power. The consumers of power are human services and these power will be obtained through automated layers, which means that there will be agents available in the future who will be deciding and brokering smartly on how we as humans will use energy.

Leaders have to collectively believe in this upcoming change in order to lead and achieve new technology breakthroughs, just like how it was done with IP addresses that now fuel emails that are core to the workforce, and other crucial data transmission activities.

3.4 ESG alignment as a workforce advantage and strategy

Having a board and management that are focused on future-proofing the company, as well as thought-out governance strategies and structures are key to doing well in ESG.

It is important to realise that ESG does not only impact financial performance, but human capital and manpower as well. For example, research from Swytch [10] has shown that 40% of millennials accepted one job offer over another because a company was environmentally sustainable. ESG can be a strategic approach to attract new talent and also engage existing employees. Down the line, it should not just be the senior management who are responsible for ESG, but everyone in the organisation playing an active role in contributing to the ESG vision.

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[10] Peters, Adam. (2019). "Most millennials would take a pay cut to work at a environmentally responsible company". Available at https://www.fastcompany.com/90306556/most-millennials-would-take-a-pay-cut-to-work-at-a-sustainable-company

4. How can we work towards a carbon neutral Singapore?

When creating value, companies can choose to go on a personalised journey or in an alliance with partners who share the same goals and vision in ESG.

In a table exercise during the onsite roundtable session, the participants were asked to work in partnership to put together precepts that they would like to collectively adhere to in the move towards carbon neutrality. The participants were given the scenario of working towards a carbon neutral Singapore by 2035. These were some of the commitments made:

- Encourage and shape policies towards measuring accountability of carbon consumption
- Every organisation to have their own zero emission plan
- Encourage reuse, repair, refresh in all that we do, starting from an individual level
- Offer sustainability incentives at every level of work
- Export best practices, instead of just importing them
- Look for ways of carbon sinks within Singapore, the surrounding ocean (blue carbon[11]), and in the region (use financial and economic power to positively influence the region)
- Address the lifestyle of over-consumption
- Price in externalities to make more sustainable products the obvious choice
- Ensure equity while advancing ESG goals

[11] Blue carbon is dominantly stored below ground in the soils of coastal ecosystems. Of the coastal blue carbon stored within mangroves, tidal marshes, and seagrass meadows, 50–99% is located in the soils below ground. These rich soil carbon stores can be up to six meters deep below the surface, where it can remain for very long times (up to millennia).

- Make renewable energy more accessible and at a lower cost, so that individuals and small businesses can participate in the movement
- Cooperate with neighbouring countries for mass engagement
- Force innovation and enable cross-industry design integration
- Integrate sustainability as part of educational programmes intentionally

Some of the pointers raised can act as principles that organisations can base their ESG goals off. While working individually on some of these commitments is possible, companies can consider partnerships with others to greaten their impact on the currently deteriorating environmental trend.

5. What areas of ESG should we be mindful of?

5.1 “False dawn” on ESG reporting and greenwashing

In 2021, some companies have reported a significant reduction in their carbon footprint. However, when viewing such data, one must consider that these reductions could be a direct result of hybrid work arrangements and a substantial decrease in business travel due to COVID-19 pandemic. As laid out in Section 3 in these notes, carbon emissions as a whole have only been reduced by 6-8% due to the global lockdown, and any more significant results must be contextualised and cannot be attributed to changes in business operations or processes.

Be extra wary of greenwashing (intentionally or otherwise) where climate-related efforts are employed as green marketing solely as a PR initiative or just to tick off a checklist. Under pressure, organisations have been known to embark on misguided efforts to look trendy. Something to bear in mind is that once trust with key stakeholders is violated, it is extremely costly and time consuming to repair or recover. Organisations and companies should take extra effort to ensure accurate and contextualised reporting in order to make more meaningful environmental decisions and changes in their business practices that can withstand the intense scrutiny by activists or critics.

5.2 ESG will see clashes between doing good for the environment and the economy

With more corporate emphasis, resources and efforts placed on transformational actions to reduce our carbon footprint as well as impact on the environment, we are also seeing an alarming opposing trend. Fast fashion, fast consumption (e.g. 11.11, Black Friday sales), and cryptocurrency (due to the large amounts of energy needed for mining) are gaining momentum, but are seldom eco-friendly and will likely be detrimental to the environment. Such movements will severely negate and limit many ESG efforts.

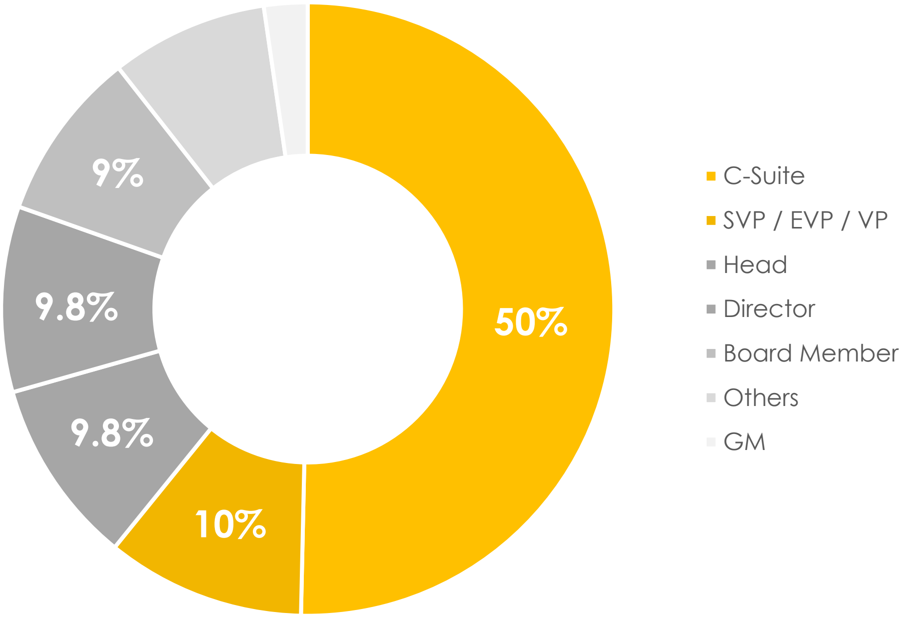
While organisations undergo their respective ESG transformation journeys, it is important to take note that there will be a constant balance required between what is good for business (and the economy) versus what is good for the environment. We must acknowledge that the worrying state of the world's carbon footprint can largely be attributed to our increasing and often celebrated economic consumption.

It is true we cannot deny the fact that humanity has built a fruitful but fossil fuel-reliant economy over the last century, and it will take both time and resources to decouple this dependency. However, collectively and collaboratively, organisations can choose to be mindful to proactively find the right balance between economic growth and environmental sustainability. Else, we may face an accelerated extinction event of our own doing.

Appendix

Attendee Profile

All **137 attendees** of this QED Changemaker Forum across online and onsite sessions were senior leaders and key decision makers in their organisation, with around **59.4%** at the C-Suite and Board level.



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