ESG in B.C.

An Opportunity for a Sustainable Economy

Business Council of British Columbia
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ESG FINAL REPORT: WHAT WE HEARD

ABOUT THIS REPORT

The ESG in B.C. series, convened by the **Business Council of British Columbia**, canvased the breadth and depth of the rapidly evolving influence and impacts of embedding, measuring, and reporting on the financial and non-financial environmental, social and governance (ESG) risks for business. The series also enabled conversations about the many aspects and influences of this approach to more sustainable business operations and finance. This discussion will continue throughout 2022.

This six-month, five-event ESG series was informed by global, national, and local leaders, including Indigenous, academic, government, ENGOs and business experts. The conversations explored the way we conduct business in British Columbia, the influences of ESG oriented performance expectations by investors, communities and employees, and the opportunity to differentiate ourselves by doing what we already do, only better.

As we heard in the series, the opportunity for B.C. to create a globally differentiated offering for capital with an ESG focus is real, but actions need to be taken to achieve this vision with credibility and impact. It can be realized, in part, through increased Indigenous involvement, ownership, and partnership in natural resources and infrastructure development projects. We can build on our advantage as a global supplier of choice for verifiable lower carbon natural resource products, inputs, and solutions. We can de-risk investment and become more competitive through streamlined and transparent decision-making processes with a focus on cutting cost and complexity. We can be a location of choice for investments in new technology and infrastructure that help reduce global greenhouse gas emissions.

We know that our people, geography, and other natural advantages are the ingredients that can lead to a higher quality of life for the people of B.C. while also solving global challenges. But this is only possible if we collaborate and focus. Governments, Indigenous, business, labour, and communities of interest must come together to bolster our unique enabling conditions. Concerted and consistent action must also be supported by clear communication and branding with markets, investors and, most importantly, with employees and the people of B.C. There is work to do, but we have the right ingredients and can make progress.

This report summarizes what we heard from presenters and participants. It offers advice to governments and considerations for business and Indigenous leaders as they contemplate their ESG approach and opportunity.

Watch the series here.

Visit the ESG in B.C. site.

CONTEXT

The ongoing global pandemic has been both horrific and hopeful. It provided some time to pause and reflect on how we will meet the basic needs of almost 8 billion people (and growing) globally, and by 2050 an additional 1 million people to B.C., all of whom are searching for a higher quality of life. The resulting challenges span the entire spectrum. From the environmental perspective, the primary and consistent issue is greenhouse gas emissions and climate change. But there is also recognition of the increasing pressure on the world's natural environment beyond air emissions because everything humans need and want begins with some material extracted from the earth.

In fact, in January 2020, the World Economic Forum estimated that over half of global output — $44 trillion per year — is highly or moderately dependent on benefits from nature. And meeting the needs of a growing global population does have real externalities. This was perhaps something less apparent before the current total mass of humanity and before global communications systems enabled real-time reporting and issues exposure. It is now challenging to escape the environmental, social, and governance issues in society, any one of which can ruin reputations in moments, undermine business models, and cascade through economic and social structures with unintended and unforeseen consequences.

The outcome of these changes is a marked societal shift in

"When we look at some of the key environmental and social issues associated with ESG, the reality is they have been part of the business fabric in B.C. for decades....B.C. has everything it needs to become a world-class destination for ESG-minded businesses and ESG-driven capital investments."

– Radha Curpen,
Vancouver Managing Partner and
National Leader, ESG Strategy and Solutions,
Bennett Jones

expectations about how companies conduct themselves not just on the environment but also on social issues around equity, diversity, support for communities, and capturing the voices and concerns of more than just a small set of stakeholders. Companies now face increased expectations from employees (and potential employees), consumers, regulatory pressures, and heightened scrutiny on seemingly unrelated issues, including privacy and data security to slavery, along with truthfulness, transparency, and accountability. These expectations not only apply within the boundaries of company local operations, but throughout supply chains.

Millennials and Generation Z are the generations of new investors now coming into their prime, demanding a different approach from the companies that provide goods, services, and overall economic prosperity. Less than half of these two generations have a favourable view of business and would prefer to work at companies that embrace the principles of ESG. They are "actively seeking to influence policy and business actions on matters that are important to them, including environmental issues, inequality, and discrimination."[1] In B.C., these generations makeup almost 44 percent of eligible voters. They have an increasing influence on policy and priorities as we move through a generational transition, domestically and globally. They are rightly concerned about affordability, diversity and inclusion, the environment, and the future for themselves and their families. These generations are also more likely to choose a job, work harder, and stay with a company long-term based on its sustainability performance and contribution to a better community and world.

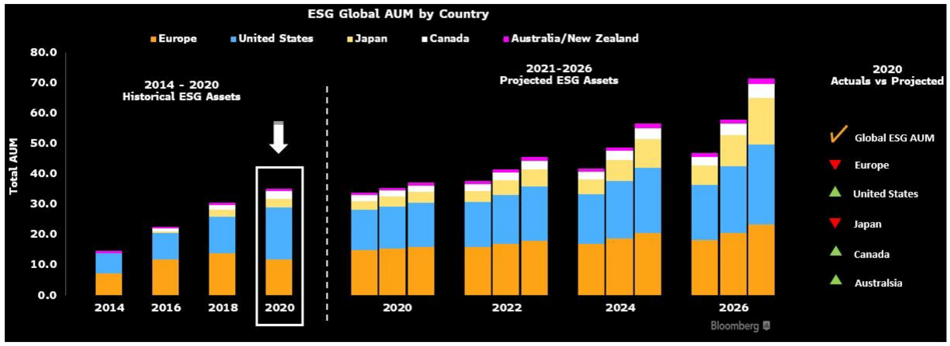
While ESG is not new[2], in 2020 major institutional investors raised its profile and emphasis substantially, making clear they expect the companies they hold to commit strongly to ESG practices. These investors are beginning to enforce accountability for lack of implementation and attention to ESG issues. At the same time, better and more available data and enabling technology facilitates a more comprehensive systems approach to collecting, analysing, validating, and creating the dynamic delivery of content and financially relevant insights into all aspects of business activities and impacts. Therefore, in many ways, measuring and talking about environmental, social and governance issues is no longer optional but a strategic imperative for growing a business. But it is also true that the market is, and will, seek a return on investment and good performance on ESG does not supersede financial performance and sound operating practices. These go hand-in-glove. Finding the right balance is key.

[1] https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html.
[2] Chafee, Eric C., The Origins of Corporate Social Responsibility, University of Cincinnati Law Review. April 24, 2017. Vol. 85.

Finally, this is all making its way into how business activities and companies are regulated. The E.U. has had ESG disclosure requirements for some time. North America is catching up. For example, in May 2020, the U.S. Securities and Exchange Commission investment committee decided to create an ESG disclosure framework for consistent and comparable information without the use of a third-party rating agency. This process is currently open for comments.[3] Canada has a more fragmented securities regulation structure but in the summer of 2021 the Canadian Securities Administrators hosted a conversation that may eventually lead to ESG-related fund disclosure for asset managers, ESG ratings providers, and retail investors.[4]

Governments are also now looking at how to capture the essence of ESG more fully in regulation and policy to use in branding their jurisdiction in order to attract capital, firms and talent. It is the Business Council's view that ESG principles are already well embedded in B.C.'s regulatory system. Attracting capital and talent requires a focus on competitiveness by making the current rules less complex and processes more efficient. Anything less will discourage investment in British Columbia, depriving the province of much needed private sector capital and erode rather than build a sustainable economy.

FIGURE 1: **ESG GLOBAL PROJECTED AUM BY COUNTRY**



Source: [Bloomberg Intelligence](#).

WHAT IS ESG — A REVIEW

From an investor's perspective, ESG is a set of environmental, social, and governance criteria used to evaluate a company's performance beyond traditional financial analysis and target investments that generate profit from positive social or environmental impacts in line with the investor's views. ESG information helps an investor assess long-term financial risks and opportunities and decide whether to entrust their capital in a business venture. Synonyms for ESG investing include sustainable investing, responsible investing, impact investing, or socially responsible investing.

From a company perspective ESG provides a framework for identifying and measuring the impact of non-financial issues that can have short and long-term material financial impacts on the value of an organization. In short, it is an expansion to what companies already know how to do — identify and manage material risks — with material being the critical word.

The concept of ESG is simple. Its implementation is not. First, there are many opinions across academia and practitioners about whether ESG helps or hurts company or investment portfolio performance. Todays' prevailing view is positive in this regard, with some estimates suggesting ESG investing will exceed $50 trillion by 2025 representing about one-third of total managed global assets.[5] Moreover, in 2021, the market for green bonds has boomed and is expected to reach at least $400 billion, nearly one and a half times the 2020 figure of $297 billion.[6] And despite representing less than 1% of total global bond values[7], the upswing in flows of capital towards those companies that embody the principles of responsible investment and who are proactively responding to the full range of sustainability factors in the way they conduct business is sizable.

[3] https://www.sec.gov/comments/climate-disclosure/cll12.htm.
[4] https://www.securities-administrators.ca/news/canadian-securities-administrators-to-host-roundtable-on-esg-related-regulatory-issues-in-asset-management/.
[5] https://www.bloomberg.com/company/press/esg-assets-rising-to-50-trillion-will-reshape-140-5-trillion-of-global-aum-by-2025-finds-bloomberg-intelligence/.
[6] https://www.climatebonds.net/.
[7] https://www.sifma.org/resources/research/fact-book/.

Finally, there is disclosure, comprised of measurement, reporting, and communication. The current most widely used reference "standards" are the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB)[8], Climate Disclosure Standards Board, Task Force on Climate-Related Financial Disclosures (TCFD), and CDP (environmental disclosure system). There is also the U.N. Sustainable Development Goals and the World Bank World Development Indicators. In 2020, given global business concerns about the lack of consistency, the World Economic Forum and the International Business Council along with Deloitte, PwC, KPMG, and Ernst & Young proposed a set of standardized measurements of 56 metrics (22 core and 34 structured to align with the U.N.'s SDGS).[9] Whether a common framework emerges is unknown, but desirable. What is important, regardless of framework chosen, is making clear business impacts and economic performance.

For more on the framework for ESG, read our paper *ESG and reporting: A primer*.

The E, S and G components

Environment: Stewardship of natural resources and a firm's environmental footprint is the focus of **E**. Global production and consumption of everything from food to cars is continuing to have a sizable impact on the natural environment including resource depletion, waste, pollution, greenhouse gas emissions, deforestation, and biodiversity.

Social: **S** has the biggest portfolio of components in the ESG equation. Companies have responsibilities not only to their employees but also their impact on the communities where they operate. Relationships is the focus of S, covering everything from a company's approach to diversity and inclusion, working conditions including health and safety for its employees and child labour and slavery, philanthropic investments, partnerships with contractors and suppliers, and commitments to investors. S now also includes recognition of Indigenous rights and responsibilities.

Governance: **G** is the foundation and essential for the success of any company. Positive outcomes on E and S are not possible without a strong governance framework. Governance is a system and a process for decision-making, accountability, control, and behaviour. It influences how an organization's objectives and commitments are set and achieved, how risk is monitored and addressed, and how performance is optimized. Done well, good governance cultivates a culture of integrity, strengthens stakeholder confidence, enables a nimble response to a changing external environment, and creates value for all stakeholders.

COMMON THEMES WE HEARD

The opportunity

It is clear from the perspectives offered throughout the **Business Council's** ESG in B.C. series that changes to and implementation of ESG principles is happening quickly. Investors, bankers, regulators, and consumers are all paying attention. One of British Columbia's advantages comes from our strong brand on all elements of the ESG equation. But B.C. also needs a coherent economic strategy to help fulfill the promise of shared prosperity, all of which is underpinned by our comparative advantage in resources, people and talent, and infrastructure.

The conversations also highlighted both the opportunity created by and the need for a more spotlighted focus on what has been a fundamental part of doing business in B.C. for decades. ESG is not new to our province. Speaker after speaker reinforced this idea and pointed out the shared responsibility for creating the conditions that leverage B.C.'s positive attributes to attract both capital and talent.

Of note, speakers from the investment community questioned the trend towards divestment, in particular fossil fuel companies. They noted it will have the opposite effect of its intended purpose, constraining the exact sectors, expertise, capital, and existing infrastructure required to enable an energy transition. Incenting energy companies to invest and new technologies — cleaner fuels such as hydrogen and

[8] SASB and the IIRC (International Integrated Reporting Committee) merged in June 2021.
[8] In November 2021, the International Sustainability Standards Board (ISSB) was formed. It is the latest action towards a consolidated set of ESG oriented "standards". Montreal, Canada is host to one of two offers; the other is Frankfurt, Germany.

biofuels as well as carbon capture and sequestration in agriculture and elsewhere are part of the answer to managing greenhouse gases. In B.C. this is also a domestic opportunity that could see us as a supplier of choice for lower GHG intensive products.

Presenters underscored the need for investors and banks to focus on rewarding innovation and actions that reduce emissions. There was agreement that implementing economic development through the ESG lens will lead to reallocation of capital. B.C. can be at the forefront, taking advantage of this shift in expectations for ESG consistent businesses. On this, estimates suggest there is $50 trillion of investment needed to achieve a net zero goal alone.

B.C. can be part of the solution and reap the rewards for future generations with our existing low carbon products, human capacity, and commitment to the ideas embedded in ESG, as well as a focus on innovation, a high quality education system, and our reputation for high environmental standards.

One size does not fit all

What became clear is that ESG, as a framework for developing business strategy is necessarily different for every company and every sector. There is no one size fits all. Each company, large and small, must adapt the principles and attributes of ESG to fit their own unique circumstances by focusing on what is material to their business, customers, and supply chain realities.

"Quite simply every company needs to develop a unique ESG strategy to differentiate itself."

– Lori Mathison, CPA BC

Fundamentally ESG is always defined by the specific risks and strategic orientation of a company. There was general agreement that successful implementation requires embedding ESG concepts and actions directly and deliberately into corporate culture and governance, starting at the top.

It was also acknowledged that small and medium sized companies may have more challenges with their ESG journey. The single most important step is to start somewhere. One option is to look at procurement. No matter how small, supply chain choices can have large ripple effects.

Materiality

ESG used to be a qualitative exercise. No longer. The ubiquitous availability of data and instant communications means if a company does not do the job of gathering and interpreting information, it will be done for them and not necessarily favourably. The outcome is not an appraisal of the business but of its leadership and culture.

"Good environmental, social and governance practices take a company from financial shareholder maximization to multiple stakeholder optimization: society, community, employees. But if done poorly, not only does ESG miss its sustainability goals, but it can also make things worse and let down the very stakeholders it should help."[10]

"Materiality encompasses all the issues that the leadership of an organization needs to consider when assessing their opportunities and risks, the factors that could have both significant positive and negative impacts on the company and cannot be ignored."

– David Labistour

All participants in the conversation confirmed that materiality is central to the ESG story of a firm.

Materiality originated as a legal concept largely oriented around identifying risks that require disclosure. It was seen as a chance to highlight future opportunities for competitive differentiation, growth, and profitability. Today the meaning of materiality is broader, helping to filter the important and relevant issues to a particular company given their unique goals and circumstances.

In keeping with one-size-does-not fit-all, narrowing the company specific material issues involves talking with stakeholders and communities, reflecting on boundaries and feedback loops, focusing on the issues where a company can have the most impact, and articulating a credible position on those issues. Importantly, speakers reinforced a simple idea — materiality (or what is important) is specific to a firm. The procedure for arriving at priorities is and it must include a continuous cycle of engagement with stakeholders.

Throughout the ESG in BC series, speakers identified the importance of scenario planning and examining trends — local and global — to help zero in on those risks that should be disclosed. A rule of thumb: what is heard the loudest and the most often is a good sign of importance, remembering that not all issues are

[10] https://dambisamoyo.com/book/how-boards-work/.

important or material. Companies need to understand what to let go of because their ability to affect change and control outcomes has limits. One interesting observation was the notion that assessing and reporting on too much is as bad as doing too little. Some companies release hundreds of pages of analysis on various issues. Speakers suggested moderation.

Disclosure: Measurement, Reporting, and Communication

ESG in BC series speakers echoed the concerns expressed by many about the plethora of both "standards" entities and the volume of possible metrics that can be used to measure performance as a challenge in the evolution and continuing refinement of ESG reporting. But there was also a recognition that convergence is starting to happen. Even if standards converge, eventually, how companies report and what they report on will not look the same. Regardless, all "standards" are meant to guide rather then direct disclosure.

"Acknowledging the role that you need to play when it comes to environmental, social and governance factors and setting strategies, credible goals and targets to achieve it"

– Dr. Stephanie Bertels, SFU

Importantly, there was agreement that measurement and reporting are "living" processes. The main objective is about facilitating transparency on current priorities (based on materiality), ranking these in order of importance and ability to influence, and communicating intentions to act. This is followed by an assessment of outcomes from those actions within a cycle of continuous improvement. The advice was, always provide context – challenges and headwinds. Do not only talk about what you have done, but include a plan of where you are headed as a business. Be forward looking and have a company strategy for each element of ESG for your business.

Climate change was a major topic of conversation. The TCFD framework was noted as the standard bearer for investors. As such, it is wise for companies to consider and align their assessment of greenhouse gas emissions with TCFD criteria when evaluating climate risks. On the other hand, SASB is a good place to look for general industry specific guidance, acknowledging it will not provide a full perspective. This led to comments about the stakeholder focus of GRI and a mention that the World Economic Forum has made a good attempt at combining "standards." (Post-series note: see November 2021 ISSB announcement.)

All speakers reinforced that the frameworks provide guidance, and should not to be used as a formula. It is ok to mix-and-match based on the specific and unique needs of the business and its ESG vision. The most important thing a company can do is come back to the issues identified as outcomes of a materiality assessment, otherwise there is a real risk of reporting everything, getting lost in a box-checking exercise, and being less transparent and impactful. In fact, if rating is important to a firm, ratings agencies are looking for good fits with criteria they have identified as important, not 200 pages. Quality over quantity – less is more.

"Meaningful community engagements are rooted in deep meaningful relationships"

– Chief Councillor Crystal Smith, Haisla First Nation

There was also consensus that sustainability reporting is not about "the report" but rather, continuous disclosure. This approach also presents expanded opportunities for small and medium sized companies who may not have the capacity to prepare the kinds of sustainability reports published by larger companies. In addition, qualitative reporting and story telling, if authentic and related to company goals, can be a substitute for splashy reporting. It is true, some things cannot be measured, but telling issues-related stories in relation to major societal trends and how these affect industry structure and competition can create a similar degree of understanding and transparency. Speakers agreed, ultimately and whatever a company does on ESG reporting, it must be tied to materiality assessment and answer the question: Am I perceived as contributing and doing my part?

Indigenous

"I" for Indigenous is most often associated/included with the S in ESG, but in Canada it so much more given the unique position of Indigenous peoples in Canada. Unfortunately, the average socio-economic conditions of Indigenous people in B.C. are well below that of non-Indigenous people in every economic category. This is unacceptable. A central message from Indigenous leaders is that reconciling the past creates significant opportunities for both Indigenous and non-Indigenous people going forward.

Access to talented people is becoming a much bigger factor in a company's success...

There was and is general acknowledgement and understanding of the importance of Indigenous people's perspectives and partnership opportunities for building a sustainable economy in every sector across British Columbia. If done well, meaningful relationships with Indigenous people will be a differentiating characteristic for British Columbia. It can provide clarity and certainty for investors as well as sizable economic opportunity and self-determination for many Indigenous communities and Indigenous owned businesses.

Indigenous leaders reminded participants of the obvious — Indigenous people want and deserve economic opportunities, to build successful businesses, raise their families, and provide economic legacies for their communities. They also reinforced the need for meaningful engagement with communities and the importance of authentic listening.[11] Companies hoping to do business anywhere in British Columbia must know the local Indigenous peoples, and this means actively engaging with respect, openness, and a shared mutual understanding. A key part of building a positive long-term relationship is engaging Indigenous peoples early in any process.

Speakers highlighted, in principle and in general, ESG is already reflective of Indigenous peoples' world views. However, the current frameworks are narrow and weak and do not adequately consider Indigenous perspectives nor measure them well. Fundamentally Indigenous people want both a say in and share in activities within their traditional territories. Increasingly, the role of Indigenous people in ventures around the province is expanding from stakeholder to partner to proponent. Participants were also reminded of the need to review cultural competency within their organizations, often overlooked until there is a major issue requiring damage control to mend broken relationships. This strategy is reactionary. Cultural understanding requires effort, and different knowledge and approaches depending on where a project or activity takes place. From a B.C. and Canadian perspective this is often daunting given the diversity of Indigenous groups.

In the end, Indigenous people want a seat at the table, to be participants in projects as owners, and for companies to pay attention to the people on whose traditional territories they are operating.

Healthy, productive, and skilled populations, talent attraction and retention

Series speakers acknowledged that "S" in ESG is multidimensional and the largest, and often most complex, portfolio of potential issues in a company. No company exists or can operate without people. They need talent to run their business today and in the digital, greenhouse gas constrained world of tomorrow. They also need customers to sell products and services to who will increasingly use an ESG lens for decision making in B2B and B2C transactions for goods and service.

Access to talented people is becoming a much bigger factor in a company's success — attracting, engaging, and retaining the skilled people to drive sustainable growth. Millennials are now the major demographic in today's workforce with Generation Z following closely. They seek values-based companies with a defined social purpose and who prioritize the issues addressed in the ESG conversation, especially climate, biodiversity, and equality. Any company who fails to deal with these concerns in their business strategy is at risk of high turnover and increased risks to profitability.

The COVID 19 pandemic exposed the reality of how vulnerable our human health, economies, and supply chains are to small viral and environmental threats. These risks are expected to increase in frequency and size in the face of climate change. The concept of One Health is an emerging approach to a more holistic human, animal, food, economic and environmental health system.

There was an interesting conversation about mental health in the series. Although not generally seen as an ESG issue, the COVID-19 pandemic raised the profile of stress and the potential social and economic consequences to business operations, and the responsibilities for the well-being of employees. This seems like a natural progression of how companies will need to evaluate their values and priorities to continue to retain their current employees and attract the workforce of tomorrow.

[11] Authentic listening is a skill that requires practice and concentration. It occurs when the listener gives every opportunity to the speaker to complete their train of thought and then respond in ways that indicates to them you care about what they have said and are saying.

Supply Chains and Procurement

Without a doubt the supply chains for people and products are tightly integrated around the world. The COVID-19 pandemic was a stark reminder of this. It showed that each company in the chain has and can influence all elements of the ESG equation through their own procurement processes. An ESG approach to the purchase of goods and services is an opportunity to look at different commercial models, create momentum for innovation, drive supply for ESG oriented products and services, determine need, and bring groups of companies together to co-solve broad issues.

"In British Columbia, there is a true spirit in the business community of meaningfully engaging people with purpose that creates a lasting community impact."

– Doron Grosman, Global Container Terminals

One of the challenges faced by businesses is how to measure, mitigate, and report ESG metrics along their supply chain, especially when they have limited control in the operations or decisions being made by others. But, customer expectations are changing, and businesses are beginning to tackle this complicated issue in a variety of ways, including with data and emerging technologies such as blockchain.

As with other components of ESG, every company has a unique supply chain journey. One-size does not fit-all.

External Stakeholders

Stakeholder and community engagement are key success factors. As for employees, failure to consider the values and establish respectful relationships matters. It is material. Everyone wants to be heard; Millennials are demanding to be heard. Other age groups have taken notice creating a new level of demand for engagement on all organizations. Moreover, companies are now being held accountable for, and delivering on, promises they make with respect to environmental, social and governance issues.

Although seemingly obvious, participants were reminded that relationships matter. These take time to build and must be differentiated by community or group to address their specific needs and viewpoints. All of this requires cultural awareness and competence and moving beyond a transactional approach to communication and action. Investing in relationships helps build good process, trust, and helps unify communities in support of projects and activities of a company.

There was consensus that having a more prosperous province for all British Columbians needs to be seen and understood through a diversity of perspectives. This cannot be achieved without authentic relationships and a willingness to listen. Customer and community loyalty and support is fragile and needs to be nurtured by showing genuine interested in what people think and believe. Investing in stakeholder engagement pays dividends if done well because ultimately everything is about people and what they believe is important.

"You have to build up relationships so that you build up trust... You need to have built up trust in advance of when you need that trust."

– Steve Vanagas, Translink

Climate Change

Climate change was identified as the most important issue in the E of ESG. For Millennials, 88% rank it as the most important issue. Speakers acknowledged that much of the current interest in ESG has been driven by climate change and that response to this issue alone is an historic investment opportunity. Investment fund managers are playing a big role in influencing how companies behave in response to climate change. Those companies who align their GHG management approach with the IPCC targets are being rewarded. Companies who ignore greenhouse gas emissions face the opposite, including physical risks and damage to real assets and missed business opportunities such as new markets, customer and employee loyalty, reputation, etc.

Much of the conversation reviewed the:

- Importance of innovation especially with growing global population and demand for goods and services.
- Use of lower carbon fuels generally because liquid fuels are, and will continue to be needed for certain activities.
- Opportunities for carbon capture, use, and storage.
- Need for increased public investment to facilitate commercialization of new technology.
- Avoid reinventing the wheel — "steal" from others' approaches if it makes sense and can be scaled.
- Importance of de-risking investment in emissions-reducing technology.

- The positive role of performance-based regulation versus adding more regulation — harnessing the creative potential of B.C. companies rather than strangling them with regulatory complexity.
- Demand is demand. Government attempts to manage Canada's supply and output of carbon intensive products will have negative climate impacts because customers end up buying products from jurisdictions with lower environmental standards.
- Need to leverage B.C.'s comparative low carbon advantage. Our resource products are part of the global solution given their lower carbon intensity. Lack of recognition by government in the current policy framework is a threat to that advantage and undermines the opportunity for B.C. to be part of the solution.
- Importance of moving forward on carbon offsets; these are critical to solving the net zero equation.

Overall, speakers and participants know there is no silver bullet for solving the issue of climate change. There are many challenges requiring many unique solutions on both the demand and supply side of the economy.

Innovation

The topic of innovation was primarily focused on climate change which is too big to solve any other way. Technology and innovation can help optimize operations, rethink business models, and has the potential to tackle big issues via breakthroughs and can only be achieved through partnerships and collaboration.

Speakers noted that small- and medium-sized enterprises (SMEs) are critical in the innovation space.

Regulatory certainty . . . will attract ESG capital and retain innovative ideas, people and companies.

This is where most of the creativity occurs. Many big companies know this and are looking to SMEs for "solutions." Many SMEs already exist in big company supply chains and can be encouraged via procurement policy and partner codes of conduct.

A question raised is how to de-risk innovation and find pathways to co-investment. Speakers also noted the importance of building regulatory frameworks and standards that provide certainty for, rather than penalize innovation. There was also agreement that one of the most powerful tools is collaboration along with leveraging B.C.'s resources sector who have been champions of innovation since their inception.

ADVICE TO GOVERNMENT

About a decade ago, the Business Council of B.C.'s initiative, *B.C. Agenda for Shared Prosperity*, identified many of the same themes that have now made their way into the conversation on ESG. During the COVID-19 pandemic these themes remain consistent and were articulated in BCBC's 2020 economic recovery plan for businesses and families, *Stronger Tomorrow Starting Today*. These include spurring and sustaining economic recovery by empowering people, accelerating innovation, and taking care of the natural environment. Not surprisingly, the recommendations are also similar.

There is a critical and absolute need for:

- Government to acknowledge ESG concepts are already embedded in the B.C. legal and regulatory structure. B.C. is a small jurisdiction. ESG is a global conversation.
- Government must provide the proper signals and let the market decide what ESG reporting needs to look like. Resist the urge to choose a regulatory "solution." With this in mind, government must enable and encourage creativity using collaboration and avoid unnecessary process.
- Regulatory certainty, within a transparent and faster decision-making framework that is consistent across all levels of government, will attract ESG capital and retain innovative ideas, people and companies.
- Set clear and stable policy goals accompanied by incentives that de-risk new approaches to solving problems. Constantly moving targets undermine investment potential. Failure to create this environment risks driving capital away, and stranding existing capital and assets, all of which are part of the solution governments seek for managing climate risks, driving higher productivity, and raising middle class wages.
- Use a common set of facts and methods that enhance access to, and use of, technology and enables efficient decision making. These are key to better outcomes, being able to act on opportunity, and enable more realistic outcomes.
- Invest in infrastructure including upgrades to the existing infrastructure and development

of a full suite of resilient trade enabled projects. This includes further support for foundational technologies in AI, IoT, 5G, augmented and virtual reality

- Collaborate with business and Indigenous communities to capture the benefits from development of B.C.'s comparative advantages in resources and people.
- Government should move quickly to develop digital regulatory platforms and make accessible public land and health data to enable faster decisions and increase transparency and facilitate collaboration that comes from the availability of open-sourced solutions.
- Government to provide early-stage equity and support to Indigenous peoples for their participation in land-based activities.
- A Productivity Commission focused on aligning government policies, procurement, and regulatory systems aimed at improving per capita GDP growth that can drive higher wages, increased government revenues, and higher living standards.
- Strengthen B.C.'s brand and tell our story so we can attract some portion of over a $100 trillion and growing global pool of ESG capital looking for a return. This will require the government to reduce the cost and complexity of doing business in B.C.

Weave ESG into core business operations and ensure active consideration rather than passive response to issues.

CONSIDERATIONS FOR BUSINESS

A currently popular idea holds that companies that score higher on rankings aggregating a myriad of ESG metrics, with little consideration of their financial materiality and its relation to the competitive strategy of a company, will deliver better shareholder returns. This is simply incorrect …. Yet there is compelling evidence that superiority in identifying and harnessing selected social and environmental issues relevant to the business can, over time, have a substantial economic impact on companies and even entire industries. Few corporate leaders, and even fewer investors, understand this powerful economic value proposition.[12]

Therefore,

- ESG is a front and centre strategic issue and the essence of today's business survival strategy. Companies who do not consider ESG factors will lose in the long run.
- Starting is important because lenders and bond holders are now more likely to ask for performance on ESG metrics. Consumers are also evaluating performance and making goods and services purchase decisions and talent is gravitating towards companies aligned with their values. Miscalibration in any of one these can have big consequences.
- Be proactive in the development of policy and processes to manage all material risks — identify, quantify, and integrate into company culture and across business strategies. In other words, weave ESG into core business operations and ensure active consideration rather than passive response to issues.
- Make ESG an Executive and Board level priority, cross functional, and embedded throughout a company including compensation. Leading companies are embedding an ESG approach into all business management systems.
- Create shared value. It is fundamentally distinct from making incremental improvements in a long checklist of ESG factors that tend to converge over time in any given industry.
- Ensure there is targeted and rigorous communications about ESG efforts for both internal and external audiences. A company cannot be all things to all people and an ESG strategy is not a one-size-fits-all approach. Be selective. Understand materiality, competitive advantage, and the economic value of actions.
- Use a range of concrete quantitative and qualitative metrics directly linked to economic performance.
- Address environmental externalities, directly, including greenhouse gas emissions.

CONCLUSION

ESG is a macro trend gaining momentum in all sectors of the economy. The companies operationalizing, measuring, and reporting on ESG may get better access to capital that can fuel stronger company performance long term. But understand that this is a journey. The frameworks and answers are still evolving. And even if the final global ESG measurement systems are not uniform, directors and CEOs need to think about ESG as part of the company's overall strategy. Collaboration is key to shared prosperity.

[12] http://sharedvalue.org.au/wp-content/uploads/2019/11/Where-ESG-Fails-_-Institutional-Investor.pdf.

The Business Council will continue this conversation through 2022 by hosting a dialogue series. This will bring together ESG practitioners and subject matter experts to consider the more granular aspects of embedding ESG fundamentals into organizations' strategy and operations. The Business Council will also continue to gather and share ESG in B.C. leadership, actions, and insights at ESGinBC.ca.

The Business Council appreciates the generous support and content contributions of our partners and sponsors for the ESG in B.C. series including lead sponsor Bennett Jones and partner sponsors CPA BC, Deloitte, Global Container Terminals, and TELUS. A full list of sponsors follows this conclusion.

We also thank our speakers and the more than 500 individual participants who contributed to and engaged in our ESG in B.C. series this year. A full list of speakers is included below.

The Business Council believes the ESG opportunity for B.C. is real. Together we can build on our strengths and assets for a sustainable economy that benefits all British Columbians. We want to be recognized as a global destination for ESG-driven investment, innovation, and talent.

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