

# The importance of ESG measurement and Canada's opportunity for improvement

May 2022



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# Executive summary

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*Environmental, social and governance (ESG) is a set of standards that guides companies to operate responsibly, deliver sustainable outcomes and provide meaningful benefits to a broad range of stakeholders. There is an opportunity for Canada to drive standardization and improvement in ESG measurement in order to encourage the private and public sectors to deliver strong ESG outcomes that will help meet UN Sustainable Development Goals.*

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Global, societal shifts such as decarbonization, aging populations, social unrest, changing demographics and technological disruption are forcing business leaders to rethink the foundational purpose of a company. There is an increased awareness of the importance of sustainable value creation across all stakeholders (consumers, employees, suppliers and regulators), not just shareholders, and businesses are seeking to operate more responsibly under a set of environmental, social and governance (ESG) standards.

Businesses that are taking the lead on ESG and are getting it right, have adopted a holistic approach that recognizes and incorporates the needs, concerns and interconnectedness of all stakeholders. They're embedding ESG into strategy, operations and reporting in a transparent manner to build trust across all stakeholder groups. Through getting ESG right, they're bringing direct and indirect benefits to all stakeholders (for example, superior long-term return on investment, improved employee satisfaction, ethical supply chains and better community outcomes). These benefits, in turn, are creating a virtuous circle over time for business by forging trust with all stakeholders, elevating brand recognition, fuelling growth and increasing employee productivity. In contrast, failure to get ESG right can result in value erosion for a business.

Despite recognition by business leaders that getting ESG right is important, many organizations are still maturing in their ESG practices and are struggling to adhere to ESG best practice. In part, because getting ESG right is difficult, with businesses often stating they struggle to make trade-offs between short-term profitability and meeting their ESG responsibilities. Businesses also find it difficult to communicate their progress in a way that is recognized and rewarded by all stakeholders. As a result, businesses often fail to translate ESG actions into trust across stakeholders. However, a selection of leading businesses with strong ESG performance provide examples of how to get ESG right by setting clear targets and KPIs and then developing a roadmap that sets out how targets will be met and progress reported on. These leading ESG performers are building trust by demonstrating competence, reliability, integrity and empathy.

International awareness and commitment to the Sustainable Development Goals (SDGs) has led to increased attention being given to ESG measurement and reporting by governments, companies and third parties. Today, a range of objective ESG data, metrics and criteria can be used to track and measure ESG performance across industries and businesses. Additionally, a number of third parties (e.g. S&P Capital, MSCI, Refinitiv etc.) have established their own ESG measurement frameworks and methodologies that leverage this data to evaluate ESG performance in a comparable way.

As consumers, investors and governments seek to understand and incentivize businesses that perform well on ESG, there is a trend towards ESG measurement becoming standardized. For example, the establishment of the International Sustainability Standards Board (ISSB) and the merger of leading global standard setters, such as International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB), creates a foundation for standardized ESG reporting guidance.

Within this context, governments are playing an increasingly central role in incentivizing businesses' ESG activities and standardizing reporting. Leaders in this, such as the UK and Germany, are enacting a number of policies to incentivize ESG performance in order to drive progress against economic, environmental and social policy objectives (e.g. SDGs). Canada ranked 5th out of G7 countries on SDGs progress in 2021.

**To be in line with global peers on SDGs achievement and accelerate the progress on policy objectives such as the 2030 Emission Reduction Plan, Canada has an opportunity to be more proactive in ESG policy, including:**

- **implementing mandates on the disclosure of ESG-related information and requirements on third party attestation of that information**
- **enacting further regulations on ESG investing, such as an ESG labelling regime on investment products and imposing transparency requirements for ESG scoring agencies, under the lead of Sustainable Finance Action Council, created by the Government of Canada in May 2021**
- **enhancing ESG assessment in public procurement process, incorporating social factors into the existing Treasury Board Secretariat of Canada's Green Procurement Policy, together with quantifiable requirements to ensure effective implementation**
- **advancing the digitization of reported ESG data through building and expanding the Statistics Canada ESG portal to include more industries and industry-specific metrics in order to provide greater transparency and improved data access.**

# Section 1: ESG is increasingly important and directly linked to value

Environmental, social and governance (ESG) is a set of standards that guides companies to operate responsibly, deliver sustainable outcomes and provide meaningful benefits to a broad range of stakeholders. ESG is also a set of evaluation criteria used by many investors and lenders. Fundamental societal shifts such as decarbonization, social unrest, changing demographics and technological disruption are making ESG increasingly important for businesses, consumers, employees and suppliers. Business value can be eroded, preserved or created depending on ESG implementation.

## ESG guides companies to operate responsibly and deliver sustainable outcomes

ESG is a set of standards that guides companies to operate responsibly, deliver sustainable outcomes and provide meaningful benefits to a broad range of stakeholders

A number of fundamental societal shifts are making ESG increasingly important, including global decarbonization, an aging population and technological disruption. Business and policy leaders are responding to these shifts, as evidenced by the expansion of a firm's purpose beyond simply a focus on shareholder value. For example, the US Business Roundtable released a new statement in 2019 attesting that business' commitment included a broad range of stakeholders, including customers, employees, suppliers, communities and shareholders.<sup>1</sup> These stakeholders are increasingly focused on ESG in a number of ways , for example:

- **Consumers** - consider sustainable factors more than ever before when making a purchase. For example, PwC's 2021 global consumer survey found that 80% of respondents are more likely to buy from a company that stands up for ESG issues.<sup>2</sup>
- **Investors** and **lenders** - are calling for companies to take actions that address ESG issues. According to PwC's 2021 global investor survey, 82% of active asset managers, investing for the long-term, believe companies should embed ESG directly into their corporate strategy while 49% of investors would divest from companies not taking enough action to address ESG issues.<sup>3</sup>
- **Governments** and **regulators** - are committed to accelerating regulation on ESG reporting through the introduction of various ESG reporting standards and mandates. For example, the UK government will enforce mandatory climate-related disclosure in April 2022;<sup>4</sup> and the European Union intends to adopt the first set of Corporate Sustainability Reporting Directive standards in October 2022.<sup>5</sup>
- **Internal stakeholders** - are increasingly concerned with how the businesses they work for, or with are addressing ESG issues. For instance, the PwC's 2021 global survey found that 86% of employees prefer to work for companies that care about the same ESG issue as they do.<sup>6</sup> In addition, business leaders have realized the urgency and accelerated the enhancement of supply chain sustainability.<sup>7</sup>

1 US Business Roundtable - 2019 Statement on the Purpose of a Corporation

2 PwC Consumer Intelligence Series June 2, 2021

3 PwC 2021 Global Investor Survey

4 GOV.UK - UK to enshrine mandatory climate disclosures for largest companies in law

5 Corporate sustainability reporting. European Commission (2021, September 15)

6 PwC 2021 Global Investor Survey

7 SSCS.MIT - State of Supply Chain Sustainability 2021



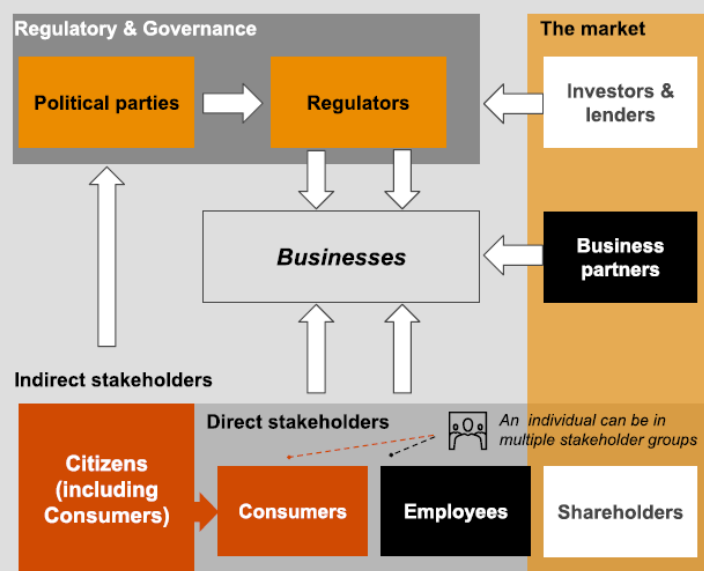
Expansion of the purpose of the firm and recognition that stakeholders are interconnected is driving businesses to adopt an holistic approach to ESG, creating value by getting ESG right across stakeholders and their interconnections.

## In Focus - The interconnectedness of stakeholders

As illustrated in Exhibit 1 stakeholders are interconnected in many ways:

- **Citizens** put pressure on political parties and government on key issues they are concerned about, i.e. cost of living, the environment
- **Governments** put pressure on the public service and regulators to address key political issues, e.g. carbon tax on business
- **Regulators** enact policy or regulation to achieve policy outcomes
- **Investors and lenders** in the market respond to macro trends and pressures, e.g. ESG investment criteria, while also influencing the political class and government by lobbying
- **Business partners** such as suppliers and contractors want to be supplying / working with businesses that are ethical, using sustainable business practices etc.
- **Customers and employees** put pressure on companies to change business behaviours, culture and action, while shareholders put pressure on the company to respond to macro trends and pressures

**Exhibit 1: Example stakeholder interconnection framework**



Source: PwC Analysis

## Sustained outcomes are generated through preserving and creating value

For businesses, delivering on value requires consideration of the costs and benefits of action (or inaction) on ESG. The cost of inaction is value erosion, where without taking action, progress on ESG issues by peers, changing consumer, employee and investor expectations, and new regulations, inevitably leads to a loss in value. For example, Peloton's share price declined by more than 70% from November 2021 to January 2022 due to a set of governance issues in product quality, supply chains and board composition.<sup>8</sup> Businesses can preserve value that would otherwise be eroded through taking targeted ESG actions. This often involves setting clear targets and KPI's and then developing a roadmap that sets out how targets will be met and progress reported on, for example, reviewing operations and value chains for exposure to climate change and social unrest, and developing and implementing resilience plans.<sup>9</sup> To create value through ESG, leading businesses are embedding ESG into strategy and operations and reporting in a transparent manner to build trust across all stakeholder groups.

<sup>8</sup> S&P Capital IQ company data, Fortune - Peloton's stock plunges to lowest point in 22 months. Here's what happened

<sup>9</sup> OECD Policy Responses to Coronavirus (COVID-19) - Building back better: A sustainable, resilient recovery after COVID-19

## Section 2: ESG performance can be objectively measured through increasingly standardized criteria

ESG performance can be tracked and measured using company reported data. However, the evaluation of ESG performance can be challenging due to the inconsistent quality of ESG reporting. To ensure reliable ESG disclosure, different sets of ESG measurement frameworks and reporting standards are starting to converge, providing a standardized reporting landscape for further regulation and third party attestation.

### ESG performance can be tracked and measured across a range of objective criteria

Business performance on important aspects of ESG such as decarbonization, workforce diversity and sourcing products through ethical supply chains can be evaluated and measured. Exhibit 2 lays out an ESG framework, which can be used to support measurement and score businesses on ESG performance. The framework identifies 36 measures that catalogue the environmental, social and governance performance measures of ESG. While the measures are not exhaustive, the framework provides a lens through which to understand the breadth of ESG concerns and issues that businesses are measured against. In addition, the key areas of focus across industries are designed to be aligned with the Sustainable Development Goals (SDGs) introduced by the United Nation in 2017,<sup>10</sup> considering the vital role businesses are playing in achieving SDGs. Notably, PwC's Global Equity Private Responsible Investment Survey 2021 found that 38% of Private Equity portfolio companies are using SDGs as the framework to guide ESG strategy and measurement.<sup>11</sup>

**Exhibit 2: PwC ESG framework**

Environmental					Social			Governance		
Decarbonization	Waste & Pollution	Biodiversity Fostering	Water Scarcity	Sustainable Supply Chain	Workforce	Human Rights	Community	Product Responsibility	Management	Corporate Behaviour
Carbon emissions	Pollution emission	Land use	Water consumption	Supply chain transparency	Diversity & inclusion	Supply chain labour standards	Infrastructure investment	Product safety	Board structure & actions	Transparency & reporting
Green products/ infrastructure	Waste disposal & diversion	Land preservation	Water recycling	Sustainable procurement	Equality		Community empowerment	Data privacy	Management compensation	Risk & compliance
Green operations	Energy consumption	Water preservation		Sustainable materials	Human capital development			Cyber security	Anti-corruption	Accountability / Ownership
Clean tech	Renewable energy				Health & safety			Responsible AI	Ethical business model	Partnership
	Packaging									

Source: PwC Analysis

<sup>10</sup> The 17 Sustainable Development Goals were introduced by the United Nations in 2017 in response to the 2030 Agenda for Sustainable Development, which were adopted by all United Nations Member States in 2015

<sup>11</sup> Global Private Equity Responsible Investment Survey 2021

## The increased importance of ESG is driving standardization of measurement

As companies seek to benchmark ESG progress and other stakeholders like investors and governments seek to understand ESG performance, third parties like S&P Global, MSCI and Refinitiv have developed quantifiable approaches to measure company ESG performance. These third parties determine ESG scores / ratings based on a range of company-reported data. According to Refinitiv's ESG scores as of September 2020, there is significant variation in ESG performance within and across industries. For example, the top 10% companies in the communication industry outperform their peers by 117% on average through a range of factors such as carbon emissions, privacy and data security and labour management.<sup>12</sup> The wide ranges of ESG scores could reflect differing ESG maturity levels across companies with a large number of companies appearing to have a relatively immature ESG profile.<sup>13</sup>

Notably, a reliance on company reported data provides performance evaluation challenges largely due to inconsistencies in the way companies report data and make policies publicly available. In addition, this data is being used by a range of stakeholders to inform important decisions, such as which business to invest in or which products to purchase. The reliance on ESG reporting to make these decisions and the associated evaluation challenges are driving reporting to become more standardized. The standardization of ESG data is occurring through the development and adoption of new reporting requirements and third party attestation. For instance, an increasing number of companies report climate-related data that is governed by a set of comprehensive climate-related reporting standards, e.g. Task Force on Climate-Related Financial Disclosures (TCFD). Reporting and measurement methodologies are also converging, driven by the need for consistent measures and a reduction in complexity. For example, in June 2021, leading sustainability disclosure standard setters, International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB), merged to form Value Reporting Foundation (VRF).<sup>14</sup> At COP26, in November 2021, the International Financial Reporting Standards (IFRS) Foundation announced the establishment of the International Sustainability Standards Board (ISSB) and the plan to consolidate VRF and the Climate Disclosure Standards Board (CDSB) in June 2022.<sup>15</sup> In financial markets, the variance and discrepancy among ESG scores provided by third parties are also expected to reduce as ESG measurement is standardized and the quality of company reported ESG data is improved.

## Governments globally are advancing regulations on ESG reporting, providing the best practices for Canada

Governments play a central role in accelerating the standardization and regulation of ESG reporting. Further regulation of ESG reporting will drive the private sector's adoption of ESG best practice, helping governments globally to achieve economic, environmental and social policy objectives, for instance, progressing against SDGs. The UN Sustainable Development Solutions Network (SDSN) tracks country and regional SDGs progress to encourage public initiatives on achieving SDGs and improve policy relevance. According to the UN reported 2021 SDGs index score, Canada ranked 5th out of G7 countries,<sup>16</sup> ahead of only Italy and the United States. In comparison to the average score of other G7 countries, Canada scored below average on Industry, Innovation and Infrastructure, Responsible Consumption & Production and Climate Action, while scoring above average on Gender Equality, Reducing Inequalities and Peace, Justice and Institutions.<sup>17</sup>

<sup>12</sup> Refinitiv ESG data of listed North and South American companies with annual revenue greater than \$100 million, as of September 2020, shows that the average ESG scores of 11 industries varies from 38 in Health Care to 53 in Utilities; the average variance between the highest and lowest ESG score within each industry is 85.8 (ranges from 75.7 of Communication Services to 92.6 of Consumer Staples)

<sup>13</sup> PwC - Exploring the ESG reporting maturity of Canada's top companies

<sup>14</sup> SASB - SASB standards and other ESG frameworks

<sup>15</sup> The Value Reporting Foundation - IFRS Foundation announces International Sustainability Standards Board

<sup>16</sup> The G7 is an informal grouping of seven of the world's advanced economies: Canada, France, Germany, Italy, Japan, the United Kingdom, the United States

<sup>17</sup> SDSN - Sustainable Development Report 2021



Globally, governments making strong progress towards achieving SDGs have introduced policies to accelerate regulation of ESG reporting. Canada has been progressing on standardizing ESG reporting. For example, in December 2021, the Independent Review Committee on Standard Setting in Canada proposed a Canadian Sustainability Standards Board that would work in lockstep with ISSB to support the adoption of ISSB standards while considering the public interest, diversity, equity and inclusion, and Indigenous rights;<sup>18</sup> in March 2022, Statistics Canada launched a pilot project of an experimental ESG dashboard to monitor and report industry-level ESG performance.<sup>19</sup> However, to be in line with global peers on SDGs and accelerate the progress on objectives such as 2030 Emission Reduction Plan, Canada can learn from the best practices of global peers to further advance ESG-related regulations across a range of areas:

1. **ESG disclosure mandates:** Mandatory disclosure and third party attestation are important for ensuring the availability and reliability of company reported data. Governments are increasingly recognizing the importance of disclosure mandates and have been introducing laws and policies for various ESG-related disclosures. For example:
  - the UK government enacted mandatory climate-related disclosure in April 2022<sup>20</sup>;
  - the German government released Corporate Due Diligence Obligations in Supply Chain in July 2021 to mandate company due diligence on human rights and environmental impact along the supply chain<sup>21</sup>;
  - the U.S. Securities and Exchange Commission (SEC) released a proposal for climate-related disclosures rules for public companies on March 21, 2022. The new rules will require companies to report greenhouse gas emissions with disclosure assurance starting from FY2023 or FY2024 depending on the size of the company.<sup>22</sup>
2. **Regulation on ESG investing:** Regulation on ESG in the financial markets will improve the efficiency of capital allocation, mobilizing finance to achieve resilient and sustainable growth. The UK government set an example on accelerating regulation in the financial markets with the release of a sustainable investing roadmap in October 2021. The roadmap sets out detailed plans to deliver Sustainability Disclosure Requirements (SDR), and aims to bring ESG rating agencies into the regulatory scope of the Financial Conduct Authority (FCA).<sup>23</sup>
3. **ESG assessment in public procurement:** Governments are also incentivizing the private sector's progress on ESG through public procurement. For example, the UK government published Procurement Policy Note 06/20 in September 2020, requiring a minimum weighting of 10% on ESG objectives in each procurement process with a greater emphasis on the social pillar through the use of a "Social Value Model".<sup>24</sup>
4. **Transparency and data access:** The monitoring and tracking of ESG performance by governments can improve data access, set benchmarks for ESG reporting and encourage businesses to improve. For example, the EU has committed to improve data access through the European Single Access Point (ESAP) introduced in November 2021, which will offer a single access point for public financial and sustainability-related information about EU companies and EU investment products.<sup>25</sup>

18 Independent Review Committee on Standard Setting in Canada - Consultation Paper December 8, 2021

19 Statistics Canada - Experimental Environmental, Social and Governance Dashboard

20 GOV.UK - UK to enshrine mandatory climate disclosures for largest companies in law

21 CSR in Deutschland - Supply Chain Act

22 U.S. SEC - Enhancement and Standardization of Climate-Related Disclosures

23 GOV.UK - Greening Finance - a roadmap to sustainable investing

24 GOV.UK - Procurement Policy Note 06/20 – taking account of social value in the award of central government contracts

25 European Parliament - Legislative train schedule: European Single Access Point

# Section 3: Companies that get ESG right - benefit stakeholders, create value and outperform

Businesses getting ESG right are able to provide benefits to a broad set of stakeholders, which in turn brings positive effect to business itself; this creates a virtuous circle where companies, stakeholders and society all benefit. While getting ESG right is difficult, ESG leaders globally have adopted a holistic approach, embedding ESG into every business aspect.

## Getting ESG right can bring benefits to a broad set of stakeholders and safeguard a company's long-term success

Through getting ESG right, businesses are able to provide a broad set of stakeholders with direct and indirect benefits, for example:

- **Consumers** - have better product choices, improved product quality and better customer experience with reduced cost from energy-efficient products and less risk associated with privacy. For example, customers of Patagonia are provided with better after-sale service such as return or repair options to encourage recycling and reduce waste.
- **Investors and lenders** - safeguard superior long-term returns from more sustainable investments while being less affected by risk and volatility. Notably, Morgan Stanley found that sustainable funds were less affected than their traditional peers, with sustainable funds outperforming their peers by a median 4.3 percentage points during COVID in 2020 but only a median of 2.8 percentage points in 2019.<sup>26</sup>
- **Internal stakeholders** - are provided with more resources, better working conditions and improved career/partnership stability; particularly, underrepresented minorities and people with disabilities see opportunities. For example, American Express has committed, as part of its ESG strategy, to double annual spending with minority-owned suppliers in the US from a 2019 baseline to \$750 million by 2024.<sup>27</sup>
- **Governments and regulators** - experience reduced regulatory complexity, lower fiscal expenditure and improved societal stability. In particular, businesses with strong ESG performance can be contributors to achieving SDGs - Science Based Targets Initiative (SBTi) found 388 large companies around the globe collectively reduced their carbon emissions by 25% from 2015 to 2019, contributing substantially to achieving the 2030 Climate Action goal.<sup>28</sup>

From a business perspective, by acting responsibly and doing good to the stakeholders, trust can be forged and value creation enabled in multiple ways:

- Improved consumer experience helps attract and retain consumers; companies with new sustainable products can tap into new markets and achieve top-line growth. For example, Microsoft launched its cloud solution for sustainability. The new product, while supporting businesses to progress on carbon reduction, has brought a new market and revenue for Microsoft.

<sup>26</sup> Morgan Stanley - Sustainable funds outperform peers in 2020 during Coronavirus

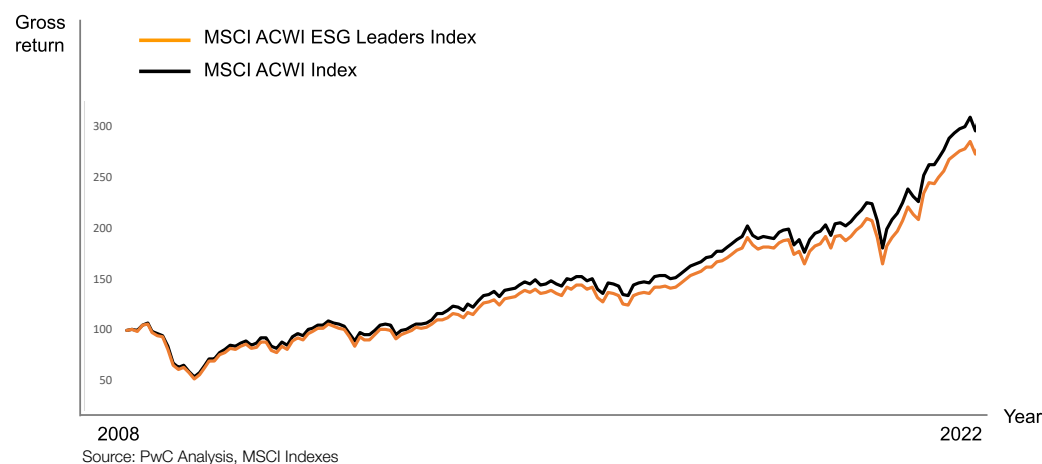
<sup>27</sup> American Express 2020-2021 ESG Report

<sup>28</sup> From Ambition to Impact: Science Based Targets Initiative annual progress report, 2020 - How companies are reducing emissions at scale with science-based targets

- Reduced ESG risks lower the cost of capital while attracting active and passive investment with more sustainable return - according to Morningstar, more than \$34 billion was invested into ESG Funds by Canadian investors in 2021, double the volume of the prior year.<sup>29</sup>
- Improved internal stakeholder satisfaction attracts and retains talent and socially responsible partners and boosts productivity. For example, Nvidia, ranked 1st on Glassdoor's Best Places to Work in 2022 and has been able to maintain a 3.8% employee turnover rate, significantly lower than the industry average of 15.3%.<sup>30</sup>
- Increased credibility brings more freedom to operate with governing authorities. For example, as governments are increasingly incorporating ESG assessment into the public procurement process, businesses with strong ESG performance have greater opportunities to win government contracts.

As a result, businesses are motivated to continuously improve, delivering sustained outcomes and safeguarding long-term success. For example, the value preserved and created is shown to have been reflected on companies' balance sheets. As illustrated in Exhibit 3, MSCI's ACWI ESG leaders index (which consists of 1,186 top ESG performers - as scored by MSCI) outperforms an index of all companies (2,959 total companies) with a cumulatively 26.9% higher gross return from 2007 to 2021.<sup>31</sup> In addition, using Refinitiv ESG scores, a comparison of the change in market capitalization over the last five years (from February 2018 to February 2022) between companies with the top quartile of ESG scores and all others within each industry showed that the top quartile outperformed by 464%, 239% and 171% for Consumer Discretionary, Information Technology and Communication Services industries, respectively.<sup>32</sup>

### Exhibit 3: MSCI ACWI ESG Leader cumulative index performance



In contrast, companies that do not take actions on ESG or fail to get ESG right struggle to meet the requirements of regulatory bodies and the expectations of stakeholders, and subsequently lag behind their peers. This inaction on ESG can lead to a loss of value, with adverse impacts such as increased customer churn, potential divestment from investors and increased regulatory costs. For example, PwC's 2021 global investor survey found that 49% of investors are willing to divest from a company if it does not take sufficient action to address ESG issues and concerns.<sup>33</sup>

<sup>29</sup> Morningstar - Sustainable Fund and ETF Assets Doubled in 2021

<sup>30</sup> 2021 Nvidia Corporate Social Responsibility Report

<sup>31</sup> MSCI ACWI ESG leader Index, MSCI ACWI Index

<sup>32</sup> PwC analysis, Refinitiv Company ESG Data as of September 2020, S&P Capital IQ company data

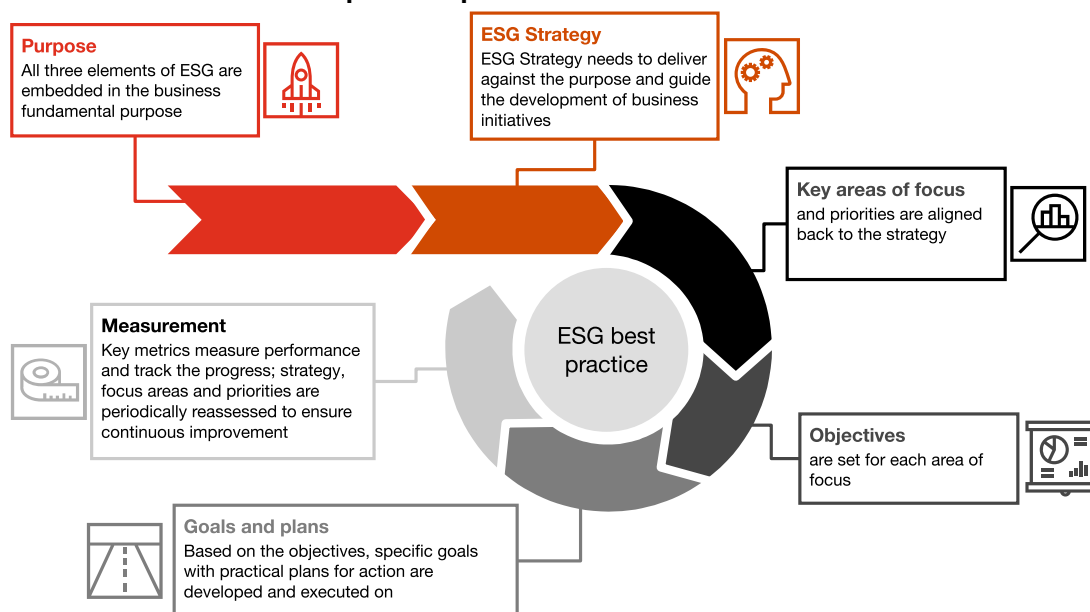
<sup>33</sup> PwC 2021 Global Investor Survey

## Getting ESG right is difficult and requires embedding ESG into strategy and operations

Having recognized the impact of getting ESG right, many companies struggle to make trade-offs between short-term profitability and delivering against longer-term ESG responsibilities, with investors expecting ESG targets to be met without negatively impacting returns. Notably, 40% of business leaders consider balancing ESG with growth targets as the biggest barrier to improving ESG performance.<sup>34</sup> Companies also struggle to effectively communicate on ESG progress, making it hard for ESG efforts to be recognized and rewarded by stakeholders. For example, in PwC's 2021 global investor survey, 79% of investors indicated that they would place more trust in the ESG information reported if the information had been assured.<sup>35</sup> Businesses also struggle to translate action on ESG into trust, as being trustworthy is about more than actions, it is based on demonstrating competence, reliability, empathy and integrity across all actions to influence the intangible ways in which stakeholders assess actions. Failure to consider how the traits of trust impact stakeholders' evaluations of ESG actions can often result in companies not receiving the anticipated returns from ESG actions and investments.

ESG leaders globally are able to get ESG right with a holistic approach, embedding ESG factors into all aspects of their business, leading with purpose, creating practical action plans and ensuring there is transparency. Exhibit 4 lays out an ESG framework that demonstrates how businesses can embed ESG in business purpose and corporate strategy, prioritize key areas of focus, set objectives, develop goals, set out plans and measure performance. Businesses can then seek to continuously improve.<sup>36</sup>

### Exhibit 4: Illustrative ESG best practice processes



Source: PwC Analysis

Underpinning this best practice process is transparent, high quality ESG reporting that communicates actions and the outcomes throughout the process. Key attributes of this include:

- engaging stakeholders along the journey
- being clear on what matters and aligning ESG focus areas to the business purpose
- establishing a baseline and making the objectives clear to all stakeholders

<sup>34</sup> PwC 25th Global CEO Survey, PwC Consumer Intelligence Series June 2, 2021

<sup>35</sup> PwC 2021 Global Investor Survey

<sup>36</sup> PwC Analysis

- communicating goals, plans and roadmaps
- choosing the right measures and providing timely and transparent updates of progress.

Globally, we see examples where ESG leaders have embedded ESG factors into all aspects of strategy and operations to enable them.

## Global Examples of leading ESG businesses creating superior returns and outcomes

**Microsoft** has made remarkable progress on addressing ESG issues by strategically leveraging its portfolio and resources to make a broader impact (e.g. using AI for Earth grants to provide resources and technical support to empower programs that leverage AI to tackle social and environmental challenges), in addition to focusing on ESG issues that directly link to its business operations.<sup>37</sup>

Microsoft **topped the list** of the **JUST 100 Companies** in 2021 and has been **awarded across a range of topics**, including employee satisfaction and digital rights.<sup>39</sup>



**Patagonia's** strategy is tailored to its business processes, dedicated to addressing ESG issues throughout the entire product lifecycle (from the farm of the material to product recycling). Notably, It has a decades-long focus of ensuring human rights and working conditions across the supply chain.<sup>38</sup>

Patagonia won the **UN's Champions of the Earth award** in 2019 and was named **the most credible business** in the U.S. in 2021 based on seven categories such as affinity, ethics and growth.<sup>40</sup>



**American Express** developed a robust ESG strategy and identified their priorities based on comprehensive ESG materiality analysis (i.e. identify key issues based on their relative importance to business growth and to its stakeholders). Under this approach, for example, it prioritizes improving financial confidence by improving access to credit to the most underrepresented populations.<sup>41</sup>

American Express has maintained **the lowest fraud rates** among the major card networks for the last 14 years, and was recognized among the Fortune's **2022 List of World's Most Admired Companies**.<sup>43</sup>



**Vodafone** focuses on ESG issues that support the mission of building a digital society, introducing a "social contract" to develop partnerships with the government and industries that allows it to leverage its network and infrastructure to accelerate the digitalization across a range of areas. It also uses green bonds, as a stronger commitment, to finance its environmental initiatives.<sup>42</sup>

Vodafone has improved its **Net Promoter Score** to be the **#1 or #2 operators** in 13 of 16 markets from 2018 to 2021;<sup>44</sup> Vodafone UK was voted the **best Mobile Service Provider of 2021** by the Trusted Reviews.<sup>45</sup>



<sup>37</sup> Microsoft Corporate Social Responsibility

<sup>38</sup> Patagonia.ca

<sup>39</sup> Forbes The Just 100 2021

<sup>40</sup> UN Environment - US outdoor clothing brand Patagonia wins UN Champions of the Earth award, Patagonia rated most reputable company in the U.S. Outside Business Journal. (2021, May 17).

<sup>41</sup> American Express 2020-2021 ESG Report

<sup>42</sup> Vodafone - ESG

<sup>43</sup> American Express - American Express ranks #13 on Fortune's 2022 list of world's Most admired companies.

<sup>44</sup> Vodafone Group Plc: Digital services investor briefing

<sup>45</sup> Net Promoter Score (NPS) measures customer experience and customer loyalty. Vodafone UK News Center - Vodafone wins Best Network Provider at the 2020 Trusted Reviews Awards



## Conclusion

Many countries understand the benefits to a broad set of stakeholders of incentivizing organizations' ESG activities and standardizing ESG reporting. Canada has made progress on regulating climate-related disclosures. But there's an opportunity for Canada to keep pace with its global peers and accelerate progress on a range of policy objectives to drive the private sector's adoption of ESG best practice and the improvement of ESG performance. Such improvement will allow Canada to be in line with global peers on SDGs achievement and help achieve the government's policy objectives such as the 2030 Emissions Reduction Plan. Key areas of ESG policy to be considered includes:

- implementing mandates on the disclosure of ESG-related information and requirements on third party attestation of that information
- enacting further regulations on ESG investing, such as an ESG labelling regime on investment products and imposing transparency requirements for ESG scoring agencies, under the lead of Sustainable Finance Action Council, created by the Government of Canada in May 2021
- enhancing ESG assessment in public procurement process, incorporating social factors into the existing Treasury Board Secretariat of Canada's Green Procurement Policy, together with quantifiable requirements to ensure effective implementation
- advancing the digitization of reported ESG data through building and expanding the Statistics Canada ESG portal to include more industries and industry-specific metrics in order to provide greater transparency and improved data access.



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