The Rise of ESG & Its Impact on Business Decisions

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Introduction

June 2023 to May 2024 marked the hottest 12-month period on record, with May 2024 reaching a temperature of +1.52°C above the historical average. May 2024 was also the 12th consecutive month to set a new global average temperature record, exceeding the key Paris Agreement target of limiting global warming to 1.5°C above pre-industrial levels.[1]

Many countries around the world have implemented climate change mandates or proposals, with many more announcing their intentions to combat climate change and its impacts. Over 80% of New Zealand's exports by value are directed to markets in countries with mandatory climate-related disclosures.[2]

Access to global markets and capital is increasingly dependent on sustainability performance. Regardless of your personal or business views on sustainability, a company's ability to operate will be impacted by Environmental, Social, and Governance (ESG) compliance, either directly or indirectly.

REFERENCE

[1] *Copernicus: June 2024 marks 12th month of global temperature reaching 1.5°C above pre-industrial* (2024) Copernicus.
Retrieved from: https://climate.copernicus.eu/copernicus-june-2024-marks-12th-month-global-temperature-reaching-15degc-above-pre-industrial
[2] Chapman Tripp (2024). *Protecting New Zealand's competitive advantage*. Retrieved from: The Aotearoa Circle Report

As New Zealand businesses face increasing pressure to meet their ESG obligations, the following challenges have emerged:

- Difficulty in defining where to start with meeting ESG obligations
- Navigating the various and ever-changing global factors that inform areas of focus within each element of ESG, such as the recent rise of social responsibility
- Balancing operational requirements with the need to prioritise ESG
- Gaining access to reliable reporting data from suppliers
- Managing the complexities of selecting suppliers whose business practices align with your company's ESG requirements. This is critical, as businesses are now judged by the partners they choose.

We have experienced these challenges firsthand. Now, we are working alongside our customers and suppliers to support them in addressing these challenges.

For Snell, our approach focuses on risk mitigation, vendor consolidation, and supply chain management. Often, we begin our engagement by exploring product alternatives as a starting point. The environmental pillar of ESG prompted many of our customers to engage with us initially, due to the clear connection between packaging products and environmental impact. However, we have now entered a second phase, focusing on more strategic and less tactical aspects of ESG, such as social responsibility and governance.

While the connection between Snell as a packaging and safety supplier and the rise of social responsibility may not be immediately clear, we have partnered with many businesses to make a positive impact beyond just the environmental pillar of ESG.

Through this partnership process, we have learned that meeting your ESG commitments is far more complex than producing a yearly sustainability report or simply exploring product alternatives.

In 2020, we released the first edition of *The Truth About Packaging*, which was designed to help inform our customers of the key terms and information relating to environmental impact. As we conducted research and reflected on our learnings with the intention to redevelop *The Truth About Packaging*, we concluded that our approach to sustainability has become far more sophisticated. As a result, naming this guide *The Truth About Packaging* would not accurately encapsulate its content.

So, we now have two whitepapers: *The Rise of ESG & Its Impact on Business Decisions* and a revised edition of *The Truth About Packaging*.

This is *The Rise of ESG & Its Impact on Business Decisions*, in which we share knowledge gained from our network of external experts and our in-house team who continue to partner with our customers as they work to meet their ESG goals.

A Simple Breakdown of ESG

ESG, which stands for Environmental, Social, and Governance, is a framework used by socially conscious investors to evaluate a company's ethical behaviour. It emphasises achieving a balance among these three pillars, recognising that actions in one area can impact others.[3]

As businesses work to meet their ESG objectives and commitments, many find it difficult to know where to begin. Once businesses get started, the advice regarding ESG is ever-changing. As a result, it's easy to feel like you're not making any meaningful progress.

At Snell, we prefer to guide our customers through the challenges of ESG where the products we supply can have an impact. Often, our customers are surprised that our approach can aid them in meeting their social responsibilities, in addition to the environmental pillar which usually serves as a starting point when engaging Snell.

As both consumers and businesses become increasingly conscious of the products they are purchasing, it's clear that minimising environmental impact while operating ethically from social compliance and governance standpoints are core to a business' ability to retain and attract customers. We see time and again that businesses must prove they are meeting their ESG obligations to get a seat at the table.

REFERENCE

[3] The Investopedia Team (2024). *What is ESG Investing?* Retrieved from: What Is Environmental, Social, and Governance (ESG) Investing? (investopedia.com)

The First Pillar of ESG
Environmental

Environmental factors refer to an organisation's environmental impact and risk management practices, including greenhouse gas emissions and the stewardship of natural resources by management.[4]

At Snell, we have assisted our customers in meeting their ESG requirements by taking action in the following areas:

1. Vendor and order consolidation to minimise truck movements and, consequently, your Scope 3 emissions.
2. Offering product alternatives when available and fit for purpose.
3. Providing guidance on end-of-life options for products, including partnerships with Agrecovery, Future Post, and others.
4. Downgauging plastic materials and reducing packaging wherever possible.
5. Advising on small changes that can positively impact ESG goals without compromising operational performance.
6. Provide reporting to help customers measure carbon impact.

REFERENCE

[4] Peterdy, K. (n.d.) *ESG (Environmental, Social, & Governance)*. CFI. Retrieved from: ESG (Environmental, Social, & Governance) (corporatefinanceinstitute.com)

The environmental pillar of ESG has moved from a “nice to have” to table stakes. An article from the NZ Herald says:

> “It’s not enough anymore just to say you are doing it; you have to show it and prove how you will lower emissions. Sustainability has moved from a nice-to-have to a must-have.” [5]

As a result of this shift, many businesses are starting to measure their greenhouse gas emissions and require more accurate data sets to complete their calculations. This necessitates full supply chain data, including logistics.

It is becoming common practice for companies to request this information from their suppliers. Therefore, suppliers who are unable to provide this information may adversely impact their own customers. It is critical to partner with an organisation that can provide the data you need to make informed decisions.

Businesses are becoming more aware and are measuring their Scope 1, 2, and 3 emissions with a view to increase their commitment to sustainability and environmental responsibility.

REFERENCE

[5] *The Pressure Building on NZ Business.* (n.d.) Source: NZ Herald. https://www.nzherald.co.nz/sponsored-stories/the-pressure-building-on-nz-business/6FYVOT3NJNB6LO6642LWKBMQPQ/

Understanding the Types of Emissions

SCOPE 1

Direct emissions from sources owned or controlled by your company. An example is company-owned vehicles and facilities. This does not include the transportation of your company's goods and services.

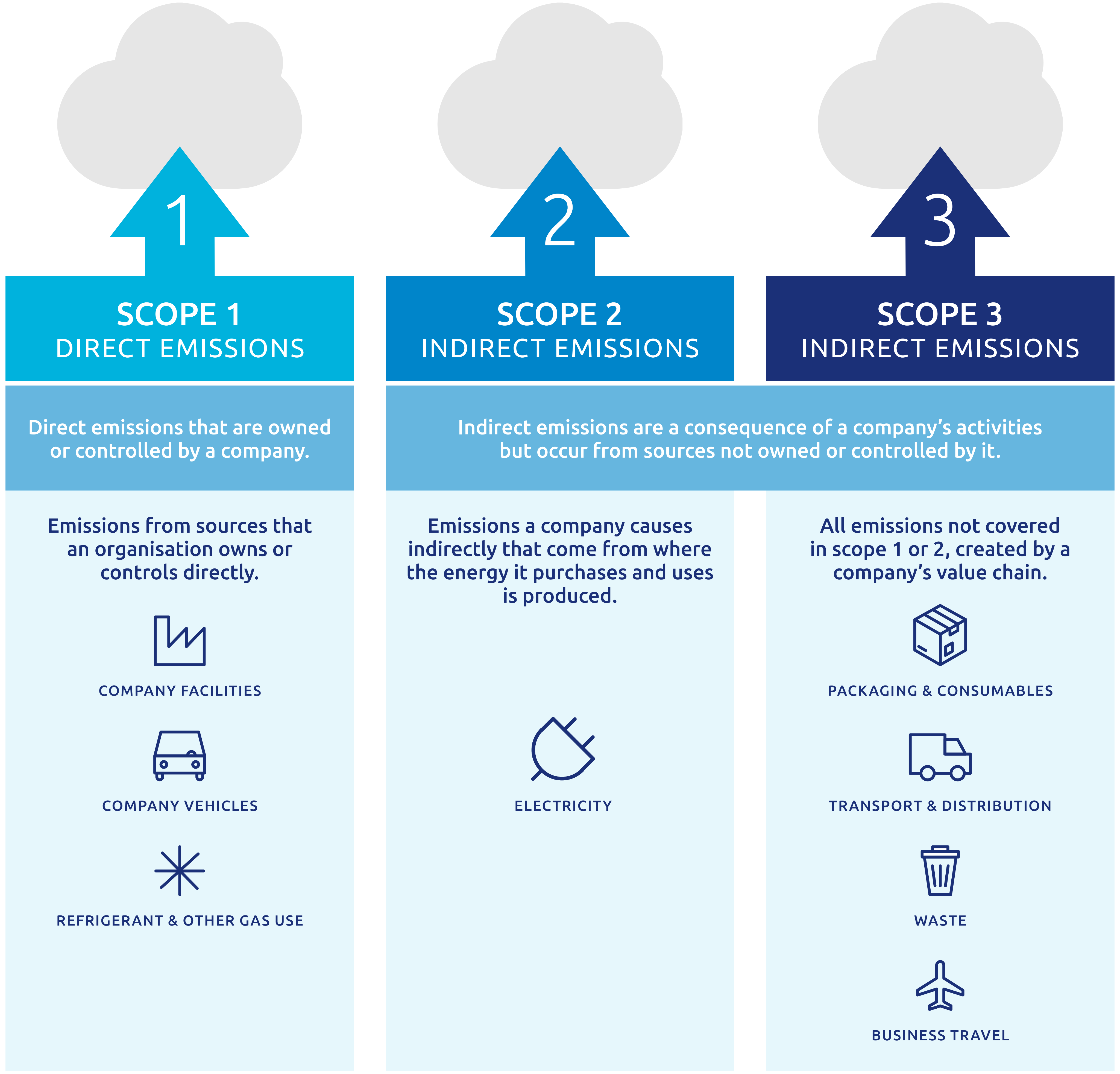
SCOPE 2

Emissions produced from purchased energy, such as electricity or steam.

SCOPE 3

Indirect emissions tied to a business' activities from a business' supply chain to the dispatch of its products. Scope 3 emissions can come from a range of different upstream and downstream factors, such as purchased goods and services, transportation and distribution, processing of goods and services and waste and business travel.

For many businesses, Scope 3 emissions pose the greatest challenge. Despite this, we have partnered with companies to uncover ways to help reduce these emissions. Many businesses have achieved cost reductions and improved efficiencies, in addition to being closer to meeting their ESG obligations, through reducing their Scope 3 emissions.[6]



REFERENCE

[6] Vereb, M (2024) *Understanding Scope 1,2 and 3 Emissions: Explained with Examples* Abor.
Retrieved from: https://www.arbor.eco/blog/understanding-scope-1-2-and-3-emissions-explained-with-examples

Waste Hierarchy –
Where Does Your Business Sit?

Waste management falls under the Environmental pillar of ESG. The waste hierarchy framework prioritises waste management preferences, with waste reduction and consumption minimisation being the top choices. Partnering with experts and utilising appropriate technology can yield substantial reductions for businesses.

Ask yourself and other key stakeholders in your business:
Where does your business sit in the waste hierarchy?

The waste hierarchy is a timely reminder of where you can have the most meaningful impact. You may be surprised where you can make incremental improvements by identifying the low-hanging fruit. The Snell team has a depth of expertise in guiding our customers through this complex and ever-evolving area.

Waste Minimisation Hierarchy
Most to least effective methods

Our Key Takeaways

- Scope 3 emissions are not outside of your control
- Who your business partners with will affect the quality of data you are able to source regarding the environmental impact of your products and business activities
- Meeting your obligations under the environmental pillar of ESG is no longer a ‘nice to have’; it’s a non-negotiable.

The Second Pillar of ESG
Social

Social factors refer to and address an organisation's relationship with its stakeholders and includes supply chain transparency. They also encompass modern slavery and ethical sourcing practices, ensuring fair treatment and labour conditions.[4]

A key stakeholder that impacts a business' ability to meet its social commitments is its suppliers. As New Zealand businesses increasingly focus on the social pillar of ESG, many are looking within their operations to drive diversity and inclusion. While this is a critical component of the social pillar, businesses must also consider their supply chains.

REFERENCE

[4] Peterdy, K. (n.d.) *ESG (Environmental, Social, & Governance).* CFI. Retrieved from: ESG (Environmental, Social, & Governance) (corporatefinanceinstitute.com)

We advise our customers to ask their suppliers the following questions:

- How does your company promote equal opportunities for all employees?
- What are the social risks associated with your supply chain?
- Have you had to make changes to your supplier base due to your ESG objectives and compliance?
- How does your company ensure that human rights (including modern slavery and forced/compulsory labour) are respected and supported within your operations?
- What happens in the case of non-conformance?

At Snell, many of our customers are requesting evidence of certification or access to supply chain compliance information. The process of partnering with third-party businesses like SEDEX, WorldFavor, EcoVadis, or B Corp can be in-depth and requires financial and resource investment.

New Zealand media and consumers are facing increasing pressure to:

- Action effective supply chain management and awareness of social compliance at every stage
- Make real changes within their own businesses to support and encourage diversity and equal opportunities.

Regardless of your business' stance, it has become clear that businesses are judged by who they choose to partner with. The shift that has brought social responsibility to the forefront is reminiscent of the changes we've seen in recent years regarding the environmental pillar of ESG.

Here's an overview of the key standards and supplier assurance schemes that have emerged in the New Zealand marketplace:

SEDEX

Supplier Ethical Data Exchange (Sedex) is a collaborative, globally recognised platform for sharing ethical supply chain data. The system helps reduce risk, protect companies' reputations and improve supply chain practices.[7]

ECOVADIS

EcoVadis provides holistic sustainability ratings of companies, taking into account a broad range of non-financial management systems, including environmental, labour and human rights, ethics and sustainable procurement.[8]

CERTIFIED B CORPORATION

B Corp certification is awarded to businesses that meet high standards of verified performance, accountability and transparency. Companies must demonstrate high social and environmental performance, make a legal commitment by changing their corporate governance structure to be accountable and exhibit transparency.[9]

REFERENCE

[7] *Supplier Ethical Data Exchange (Sedex)* (n.d.) BSI Group New Zealand. Retrieved from: Supplier Ethical Data Exchange (SEDEX) | BSI New Zealand (bsigroup.com)
[8] The EcoVadis Team (2024). *What is EcoVadis?* EcoVadis. Retrieved from: What is EcoVadis? – EcoVadis Help Center
[9] *About B Corp Certification. Measuring a company's entire social and environmental impact. (n.d.) B Corporation.*
B Corp Certification demonstrates a company's entire social and environmental impact. (bcorporation.net)

Modern Slavery in New Zealand

Modern slavery is defined by several international standards and represents the extreme end of a spectrum of labour exploitation. It is an umbrella term covering slavery, servitude, forced or compulsory labour and human trafficking.

Global supply chains link modern slavery practices in less regulated or economically developed countries with manufacturing and consumer markets in developed countries like New Zealand.[10]

REFERENCE

[10] *Modern Slavery: What Aotearoa NZ Organisations Need to Know.* (2022) PwC New Zealand. Retrieved from: modern-slavery-what-aotearoa-nz-organisations-need-to-know.pdf (pwc.co.nz)

Diversity & Inclusion

Diversity, equity and inclusion are closely linked values practiced in many organisations, aimed at supporting different groups of individuals. Companies that encourage diversity and inclusion are better equipped to respond to challenges and meet the needs of diverse customer bases.[11]

Within our customers' businesses, we have observed a significant rise in diversity and inclusion. This shift is evidenced by the increasing visibility of diversity and inclusion-focused roles. While this is a positive step, businesses also need to examine their supply chains.

A key question you should be asking your suppliers is:
What steps does your company take to promote diversity and inclusion?

REFERENCE

[11] *What is diversity, equity, and inclusion?* (2022) McKinsey & Company.
Retrieved from: https://www.mckinsey.com/business-functions/organization/our-insights/what-is-diversity-equity-and-inclusion

Health & Safety

Health and safety should be treated as a day-to-day practice within your business and managed appropriately according to the level of risk within the workplace. Everyone at your workplace should be responsible for managing risks and identifying health and safety issues.[12]

Legislation in New Zealand recognises that a well-functioning health and safety system relies on participation, leadership, and accountability from businesses, workers and the government. The Health and Safety at Work Act provides principles, duties, and rights related to workplace health and safety to ensure the highest level of protection for all.[13]

REFERENCE

[12] *Health and safety basics.* (n.d.) Business.govt.nz. Retrieved from: Health and safety basics — business.govt.nz

[13] *Health and Safety at Work Act 2015.* (2016) WorkSafe New Zealand. Retrieved from: Health and Safety at Work Act 2015 | WorkSafe

Fair Labour Practices

Fair labour practices uphold the dignity of workers and refer to a set of standards that employees can expect from their employers in terms of treatment, compensation, and other working conditions. In recent years, there has been increased awareness regarding fair work practices as businesses outsource labour to countries with loose labour laws.

As a result, businesses need to understand their supply chain end-to-end to guard against brand damage that may result from utilising unfair labour practices, even unknowingly.[14]

REFERENCE

[14] *What are Fair Work Practices?* (n.d.) Oboloo. Retrieved from: What are Fair Work Practices? Definition (oboloo.com)

The Importance of a Supplier Code of Conduct

At Snell, we mitigate the risk of modern slavery through a Supplier Code of Conduct, which 95% of our suppliers have signed.

A signed Supplier Code of Conduct is an essential tool to ensure your suppliers' practices align with your business' requirements. This document not only ensures that our suppliers comply with ethical business practices, but also aligns expectations around minimising climate impact and driving diversity and inclusion within our suppliers' businesses.

Businesses need to evaluate whether the actions of their suppliers align with their own values and practices.

In addition to a Supplier Code of Conduct, our senior team also visits our international suppliers in person on an annual basis to assess ESG compliance. Unfortunately, relying solely on external audit results and certifications is not sufficient.

Our Key Takeaways

- Social responsibility is the next frontier of ESG, so businesses need to take action now to avoid falling behind the curve
- Large businesses are utilising third-party standards as a tool to mitigate business risk. All other businesses should take advantage of this by partnering with suppliers who already meet these standards, as required by their larger customers
- Modern slavery exists in New Zealand. While New Zealand has no specific legislation, it is critical to partner with suppliers who have protections in place, such as a Supplier Code of Conduct and other auditing practices.

The Third Pillar of ESG
Governance

Corporate governance refers to how an organisation is led and managed. This pillar sets standards regarding shareholder rights, stakeholder expectations, and the internal controls in place to promote transparency and accountability.[4]

At Snell, we are focused on helping our customers understand the impacts of governance outside of our own business. As we know, businesses are judged by who they choose to partner with. Therefore, businesses need to consider the governance practices of their suppliers.

Aimed at promoting sustainability and responsible business practices, governments and regulatory bodies are increasingly implementing policies and regulations for businesses. Companies that align with each ESG pillar can stay ahead of regulatory changes and avoid the risks associated with non-compliance, such as brand damage and legal ramifications.

In recent conversations with market leaders, we have often heard the 'S' and the 'G' of ESG combined – it's the joint rise of social and governance.

To meet your obligations under the Governance pillar of ESG, we advise our customers to partner with businesses holding certifications relating to quality, environmental and food safety.

REFERENCE

[4] Peterdy, K. (n.d.) *ESG (Environmental, Social, & Governance)*. CFI. Retrieved from: ESG (Environmental, Social, & Governance) (corporatefinanceinstitute.com)

Here is an overview of the key certifications to look for in a supplier:

ISO STANDARDS

- ISO 9001 is a globally recognised standard for quality management. It helps organisations improve their performance, meet customer expectations and demonstrate their commitment to quality [15]
- ISO 14001 is an internationally recognised standard for environmental management systems. This provides a framework for continuous improvement in environmental performance.[16]

HACCP

- HACCP is an internationally recognised certification to ensure that businesses are meeting food safety standards. This can be used throughout all stages of the food chain.[17]

FSSC 22000

- FSSC 22000, a Global Food Safety Initiative, is a certification focused on food safety, environmental, ethical trade and employment practices and other key indicators of ESG compliance.[18]

REFERENCE

[15] *ISO 9001:2015 - Quality management systems - Requirements*. (2015) Retrieved from: ISO 9001:2015 - Quality management systems [16] *ISO 14001:2015 - Environmental management systems — Requirements with guidance for use*. (2015) Retrieved from: ISO 14001:2015 - Environmental management systems — Requirements with guidance for use [17] NZ Government. *ISO Hazard Analysis and Critical Control Point* (n.d.) Ministry for Primary Industries, New Zealand. Retrieved from: Hazard Analysis and Critical Control Point | NZ Government (mpi.govt.nz) [18] *Delivering trust and impact for global food safety with FSSC 22000*. (2023) FSSC. Retrieved from: Delivering trust and impact for global food safety with FSSC 22000 - FSSC

What's Your Risk Level?

There is an inherent risk in engaging suppliers who do not hold these certifications as they demonstrate a commitment to risk management and quality assurance. Snell is pleased to hold ISO 9001, 14001 and HACCP certifications. According to FSSC's publicly accessible register in November 2024, Snell is one of the first warehousing companies in New Zealand to achieve FSSC 22000.

Regardless of your business' expectations around certifications, the media has warned that many banks in New Zealand will not lend to businesses unless they are meeting their ESG obligations. For example, ASB and Trevelyan's, New Zealand's largest single-site kiwifruit and avocado packhouse, have partnered on a sustainability-linked loan.

A press release by ASB explains:

> "Sustainability-linked loans require the borrower to commit to key environmental, social and/or governance (ESG) targets, with borrowing costs adjusted based on their performance against these targets."[19]

This example illustrates the increasing pressure on New Zealand businesses to commence or continue making progress in relation to ESG. A business' level of ESG compliance may impact its access to the capital required to operate.

As with social responsibility, there are both internal and external factors that impact your business' ability to meet its ESG obligations under the governance pillar. Again, you need to look outside of your own business and evaluate how your suppliers are doing business. Consider factors such as the origins of products and raw materials, as well as labour practices and working conditions.

REFERENCE

[19] *ASB and Trevelyan's partner on new sustainability-linked loan.* (2023) ASB New Zealand. Retrieved from: ASB and Trevelyan's partner on new sustainability linked loan

Our Key Takeaways

- Your business' ability to operate will be impacted by your level of ESG compliance
- The rise of governance is coming, so businesses need to take steps to keep pace
- Selecting a supplier who holds certifications such as ISO, HACCP and FSSC 22000 provides your business with a high degree of assurance that they are meeting their ESG obligations.

In reality, ESG is not about the products you use. Instead, it's about how you do business, who you choose to partner with and the values your business holds. From minimising your environmental impact through to operating ethically at a Board level, the pressure on businesses is increasing to meet their ESG obligations.

At Snell, our approach to ESG is strategic as it's about how a business operates. This is why we partner with many of New Zealand's largest manufacturing, agricultural, and food processing companies to help them become more competitive through meeting their ESG commitments. We do so through effective supply chain management, vendor consolidation, and risk mitigation.

To partner with the Snell team, contact us via our website.

Key Questions

In the meantime, here are some key questions we recommend you ask the relevant stakeholders within your business to better understand how you should best approach ESG:

- How important is partnering with an environmental and socially responsible business?
- Do you audit your suppliers on their environmental and social responsibility?
- What are the environmental and social risks associated with your supply chain?
- How are you measuring your own business' environmental and social impact?
- Do you have any certifications on your products or packaging (such as certifications on the percentage of virgin paper or plastic in packaging)?
- What assurances do your customers require from you?
- What steps do you take to minimise the environmental impact of your products, from manufacturing to disposal?
- What changes have you had to make to your supplier base on the back of your ESG objectives and compliance?

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