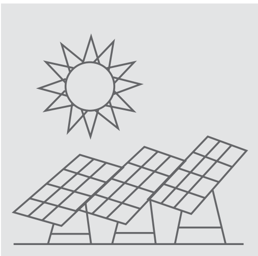
thinkBIG...

pulse of the SME sector

Your guide to sustainability and ESG



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Sustainability: What's all the fuss about?

While technology may have been the theme of the past decade, there's definitely a new kid on the block. Sustainability is fast becoming a hot topic in offices and boardrooms across the globe, for large and small businesses alike.

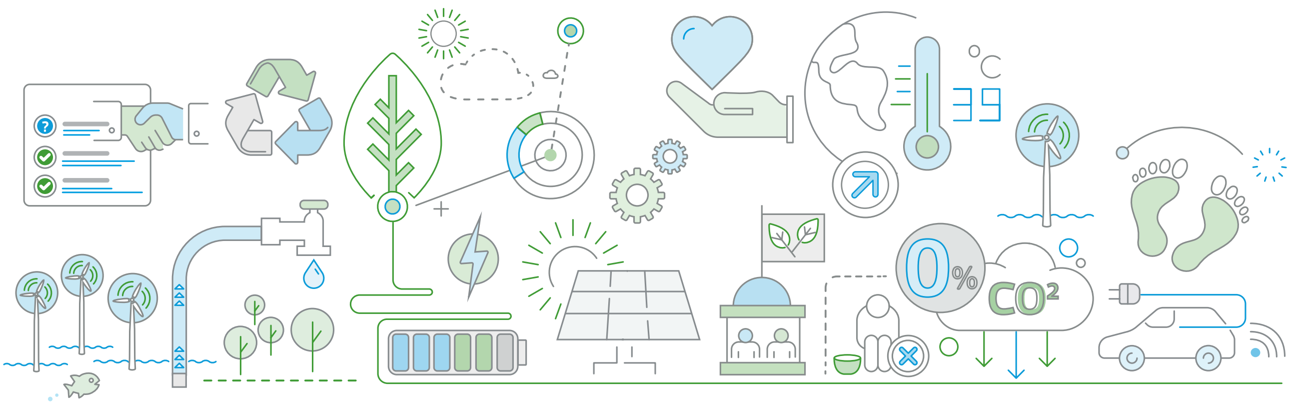
> But what exactly does "sustainability" mean?
>
> The term sustainability simply means "to continue" or "endure". It certainly isn't a new concept to business owners, who understand the importance of managing resources to ensure their business can survive in the future. For example: do we have enough supply to sustain production? Or, will our cashflow sustain operations until we can expand?

In an external and global context, sustainability is used to describe the way humanity as a collective manages natural, social, and economic resources to sustain quality of life for future generations. For example: will deforestation jeopardise the availability of timber in coming years? Or, will poor working conditions lead to depopulation in disadvantaged societies?

Growing concern about our ability to protect humanity's resources has led to a demand for more accountability and transparency in our practices – particularly from big businesses.

There have been several approaches put forward as ways to measure how sustainable our actions are. One of these is 'United Nations' 17 Sustainable Development Goals (SDGs) which are being seen as a blueprint to help nations be more sustainable. The goals include environmental aspects such as energy efficiency, waste management and forestation, as well as social aspects such as education and equal rights. Environmental, social and governance (ESG) is another approach, and one that appears to be gaining increasing support – particularly due to its practical application for businesses.

In Australia there's growing interest from individuals, collectives, and regulators in taking actual steps towards supporting global sustainability efforts. This is already affecting how consumers and investors behave, and paving the way for new regulations.



The rise in sustainability-related regulations

In 2021, the Australian Government announced a commitment to achieve net zero emissions by 2050. This means Australia will need to take practical steps to achieve balance between the amount of greenhouse emissions produced and the amount that is removed through green initiatives.

As a result, the Australian government will likely introduce new regulations to achieve this target, as we have seen with other national governments. This may include the institution of emissions thresholds, with penalties for companies that exceed them. This already exists for larger emitters under the Safeguard Mechanism, which applies to facilities that emit more than 100,000 tonnes of carbon dioxide equivalent (CO_2e) per year.

Net-zero emissions by **2050**

Companies are recommended to report **climate related** and **social risk exposures**

While there is currently no legal requirement for sustainability reporting in Australia, ASX-listed companies are already recommended to report on certain non-financial risks - such as climate-related and social risk exposures. Similar initiatives have existed around the world for years, like the Non-Financial Reporting Directive in Europe. This requires large companies to report on how they deal with issues such as environmental pollution, social responsibility, human rights, and diversity.

We're starting to see growth in initiatives like these with the introduction of more robust reporting requirements and frameworks. In 2021, the International Sustainability Standards Board was established to develop disclosure standards for listed companies globally. The aim is to make a company's sustainability risks and opportunities transparent and publicly available so investors and stakeholders can make informed decisions.

While most of the current changes appear to target big businesses, there are several reasons why small to medium enterprises (SMEs) should take notice. The first is the likelihood that regulatory change will eventually apply to SMEs too. The second is that there are plenty of opportunities SMEs can gain from becoming more sustainable as a business. The third reason is the potential risks that could unfold for companies which are slow to adapt.

Consumer behaviour is changing

As demand for corporate responsibility grows, an increasing portion of consumers are choosing to vote with their wallets.

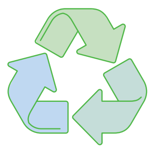
Globally, eco-conscious consumers and investors are behind a surge in demand for sustainable products and brands. This is echoed in Australia, with 90% of consumers expressing a desire for sustainable products.

The heightened focus on sustainable business practices connects to growing concerns around the environmental impacts of greenhouse gas emissions. A survey published in April 2022 revealed that 83% of Australians are concerned about climate change, with 73% believing that it "poses a serious threat to our way of life."

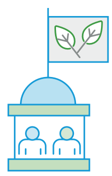
This shift in attitudes means that businesses who don't adapt to sustainability trends risk getting left behind. Meanwhile, SMEs that can demonstrate increased sustainability may gain a competitive edge over their peers because they are engaging consumers in ways that matter to them.

Early adapters have an opportunity to engage consumers and demonstrate increased value. New sustainability initiatives may improve customer retention, while creating avenues to attract new customers.

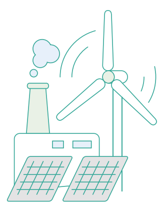
There have been a wide range of recent studies examining consumer sentiment on sustainability in Australia. Some of the findings include:



79%
of consumers are aware of the sustainability practices of brands (BCG 2021 global consumer survey)



61%
say a company's sustainability practices influence their purchasing decisions (Capterra study)



81%
of respondents agree that clearly demonstrating a commitment to sustainability adds value to a brand (BBC study)

Sustainability initiatives attract talent

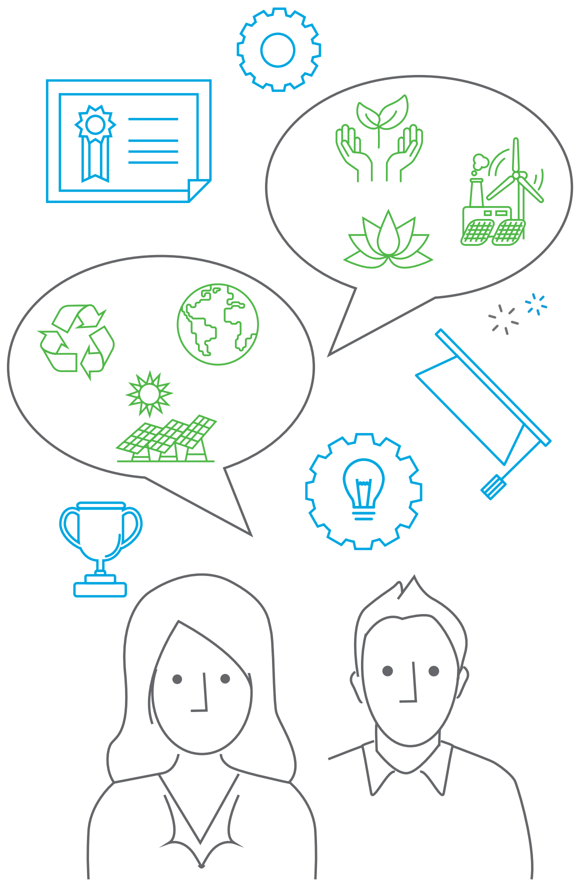
A recent study by IBM found a growing interest from employees wanting to work for environmentally sustainable companies. In the study, 67% of participants said they were more willing to apply for a job with an environmentally sustainable company. 68% said they were more willing to accept a position with an environmentally sustainable company.

In the midst of a global skills shortage, this is quite significant and represents an opportunity for sustainability-focussed organisations to stand apart from their competitors and attract much-needed staff.

Several studies have also shown that the desire for meaningful work now outweighs salary. Meaningful work creates a sense of fulfillment and purpose, and has positive impacts on wellbeing, workplace culture, and talent attraction.

Going green and committing to social responsibility demonstrates a level of care and innovation that a growing portion of skilled employees find meaningful.

For existing staff, there is potential to drive employee engagement by empowering individuals and teams to help the business achieve its sustainability goals. This includes goals to reduce environmental impacts, as well as initiatives that enhance social and ethical practice – such as promoting health and wellbeing, and diversity and inclusion programs.



CASE STUDY:
Ngeringa Vineyards

"

Growing up, Erinn Klein didn't know an alternative to organic farming even existed. His parents founded leading organic skincare brand, Jurlique, for which they grow the active ingredients on a biodynamic farm they hand-picked in South Australia.

When Erinn decided to establish a vineyard winery on his parents' property, he was already farming on land that hadn't seen a single chemical since the 1980s.

"I had a very green head start – I remember making biodynamic compost as a kid," says Erinn. "My parents were ahead of their time and never considered anything other than biodynamic farming. It essentially puts you in control of your own destiny as a farmer – you know the land and can steer the system your own way. You don't need to rely on synthetics and suppliers who will always want to sell you something new."

Ngeringa Vineyards is six hectares of vineyards on nearly 80 hectares of land in total. It includes fruit orchards, more than 400 olive trees, and an intensive three hectares of mixed vegetable farming which the business supplies to local restaurants and grocers. The farm is almost completely self-sustainable, with each farming practice designed to serve the whole.

"We use all organic matter – from fallen branches to old hay and manure – as compost. We graze Scottish Highland cattle, sheep, and chickens at specific times of the year to ensure fertiliser and insect management without overgrazing.

"We're always on a path of constant improvement. Every year we plant between 1500 and 5000 native trees, shrubs and grasses to improve the biodiversity of our habitat and reverse the broadscale clearing that happened here over the past 150 years. When we moved here in the 1980s there were no kangaroos or koalas, and now we have many more native species amongst the habitat we have helped restore. Every year we engage a bird surveyor to measure the impact of what we're doing, and they always find new species that haven't been seen here before."

Erinn and his family's efforts have also had a positive impact on staff retention, with the vineyard constantly receiving applications from people who want to work on the farm.

"People love working on our vineyard because it's so clean, without being exposed to nasty chemicals. We've had people say they've worked on other land and it stinks of chemicals; some get it on their skin which causes bad reactions. It's really nice to have people approach us all the time, wanting to be part of what we're doing here."

RSM has been part of Ngeringa Vineyards' support network for several years, providing tax accounting and business advisory services.

"One of my friends is the first biodynamic farmer in the southern hemisphere. He said to me once, 'Erinn, there's no point being green and clean if you're always in the red.'

"Our accountant at RSM supports us with tax compliance and auditing, but especially as a trusted adviser. He helps us look at our expenditure and where we can improve to become more profitable. Anytime we have questions or need advice we just call him and he's there for us."

Into the future, Erinn is excited to see more farmers adopt biodynamic farming practices. He believes that with the right approach and mindset, it can be achieved.

"The key to biodiverse farming is to make sure the soil is ideal for the type of crop, and to avoid taking too much from the land for short term gain. If you have a good soil biology then most – if not all – the nutrients you need for crops are already there and available to the plants. You can then build a self-sustaining system that doesn't need high level inputs.

"If there's an imbalance, you need to examine the whole system to treat the cause, not just throw temporary solutions to target individual symptoms. It's a different way of working, but it's highly rewarding and ensures we leave the land in a better condition for future generations."

"

Industry is already evolving

When consumer behaviour changes, industry takes notice. Large entities have become more vocal about their commitment to sustainability, and this has already led to concrete changes in their practices and processes

With supply chain due diligence emerging as a key area of sustainability, these entities are also changing how they engage with suppliers and distributors. We've recently seen the banning of plastic bags in major supermarkets, and the shift to paper straws in cafes and restaurants. Initiatives such as these are only set to increase, and could soon include requirements for vendors to demonstrate that they meet certain carbon emission thresholds.

Any SME that supplies to (or buys from) larger entities needs to account for this risk. Those that act now will be well-placed to maintain existing contracts and tender for new ones, even if it's as simple as being able to show that the organisation has developed a roadmap to become more sustainable.

The difficulty with a "wait and see" approach is that it takes time to properly assess operations and implement sustainable changes. Given how quickly the space is evolving, SMEs that embrace their agility won't lose precious time and will be well-equipped to minimise risk and maximise opportunity.

CASE STUDY:
PURE Grain

PURE Grain connects grain growers with grain buyers in an open, transparent way. They use purpose-built systems to gather data about grain and organise it effectively, so buyers have all the information they need to support purchasing decisions.

This includes sustainability metrics which make it easy for buyers to validate that grain production meets specific requirements as part of sustainability targets.

Stuart Tighe, CEO of PURE Grain, says supply chain data is fast becoming the primary focus of major buyers.

"PURE Grain was founded to close the gap between data provided by grain growers and what is now required by grain buyers. Having this traceability and data on hand, in the format they need it, increases processing efficiencies and streamlines supply relationships.

"As demand for transparency in farming practices increases, the need to properly capture supply chain data will be essential. It's this data that proves a farmer has followed certain practices to grow their grain, and provides assurance to buyers that their purchases align with purchasing policies."

PURE Grain also assists grain growers to assess their operations and identify gaps and opportunities for compliance with global standards. This includes the International Sustainability and Carbon Certification (ISCC) system.

"ISCC is the most prevalent certification system for growers, and we can help farmers understand what they need to do to prepare for accreditation. PURE Grain has also developed its own accreditation formats where we could see that a gap existed. Another role for PURE Grain has been facilitating trials of waste materials from the processing and the potential to turn this into nutrient fertiliser as part of a move to a more circular economy.

"RSM has assisted us with claiming the research and development (R&D) tax incentive to support this research."

Stuart's advice to any business about to embark on a sustainability journey is to understand their customer's requirements.

"Understand what your customer wants so you can collect that data and provide it in the appropriate format."

"Find out if they're joining particular platforms that their purchasing decisions need to align with. In grain, most growers now need an ISCC tick of approval. Each industry will have its own set of standards and guidelines that suppliers will need to adhere to. If you can meet those standards, you're much less likely to lose supply contracts to competitors."

Investors are backing sustainable companies

Dubbed a "mega trend" by some, interest in green investing has skyrocketed in recent years. In fact, a 2021 study found there had been a 34% jump in environmental investing in just 12 months.

A growing number of big investors have declared an intention to invest only in companies that are proven responsible corporate citizens. This is echoed by the growth in green superannuation funds, where members opt to have their money directed to funds that only invest in companies which meet certain sustainability conditions.

These investment factors have lit a fire under industry, with stakeholders concerned they'll be unable to secure funding or investment if they don't take steps to be more sustainable. At the same time, businesses that can already demonstrate a commitment to sustainability are finding it easier to attract investors.

So what does it take to become more sustainable, and be able to prove it to external stakeholders? Where do you even begin? This is where we can look to certain frameworks, such as ESG, for guidance.

What is ESG?

Environmental, social and governance (ESG) is a reporting framework for measuring an individual or commercial impact on environmental, social and economic resources.

It's a broad term that covers many factors, and people might use it to:

- refer to an investment strategy
- evaluate business impacts
- rate risks in a business

They may even use it to describe the concept of sustainability itself! Because it can get confusing, we've boiled it down to the most relevant parts. Essentially, ESG was developed to help environmentally and socially conscious investors identify funds that match their ethical values. Developing an ESG report that divulges your company's performance in these areas is thus a critical tool for attracting this growing pool of investors.
ESG also provides a straightforward way for corporate entities to benchmark performance against their own goals, and the performance of their peers.

A BRIEF OVERVIEW OF ESG FACTORS: WHAT DOES IT MEASURE?

Environmental

When evaluating environmental factors, ESG looks at environmental risks and impacts. Risks are a measure of how environmental factors, such as resource depletion or weather events, might impact business operations and performance. Environmental impacts refer to the impact of an entity's practices and processes on the natural environment.

Some of the environmental factors that are measured include:

- greenhouse gas (GHG) emissions
- waste and pollution
- resource depletion
- energy efficiency
- water management
- deforestation
- habitat destruction
- animal treatment

This will apply in different ways to different industries and encompasses a business's entire operations – from the head office to field operations and supply chains.

Reporting against the "E" within ESG relates to the nature-positive goals of an organisation, and how well they are tracking against those goals. Carbon emissions are of particular importance due to global efforts to limit the impact of climate change.

Social

Social refers to how an organisation's practices and processes impact people, including employees and the broader community.

It includes factors such as:

- employee relations and modern slavery
- human rights
- data protection and privacy
- ethical supply chain practices
- diversity and inclusivity
- health and safety
- conflict management
- working conditions

Modern slavery is an aspect of the social element of ESG. The purpose of recent legislation is to eliminate the severe exploitation of people through methods such as human trafficking, forced labour, slavery of children, and so on. Large entities in Australia are already required to report annually on the risks of modern slavery in their operations and supply chains, and how they address those risks.

Governance

Governance, also called corporate governance, refers to how a company is managed and the level of responsibility in its policies and practices.

It includes factors such as:

- board structure and advisory committees
- enterprise risk management
- executive pay
- tax strategies
- political lobbying and donations
- board diversity and structure
- anti-bribery and corruption
- shareholder rights

> Ethical governance shows investors and the community that a business operates in a way designed to ensure the highest standards of behaviour.

THE ESG FRAMEWORK IS EVOLVING

As it stands, there are a number of different frameworks or reporting standards for companies to choose from when publishing their ESG performance. This has drawn criticism from some as it has allowed unethical entities to "greenwash" or disguise poor environmental performance through cherry-picked data. This has already led to reform in the EU where they have introduced regulatory standards and mandated reporting to ensure transparency.

Despite this criticism, ESG still appears to be a frontrunner in the field of measuring sustainability, with ESG investing achieving massive growth in recent years. It is likely that ESG reporting standards will undergo further refinements in the future, but its status as the dominant framework for business sustainability is unlikely to change. As such, it is currently the best option for businesses looking to comply with emerging regulations.

Developing an ESG scorecard

While ESG provides the framework for sustainable practices, an ESG score measures how well a business is performing within that framework.

Finance and investment firms, consulting groups, and even government agencies can develop their own ESG scores to measure an organisation's sustainability efforts.

Internally, any business can develop its own ESG scorecard to measure and report on progress against ESG-related goals.

The scorecard includes aspects of ESG that relate specifically to the business, and could include:

- carbon emissions
- raw material sourcing
- packaging material and waste
- clean technology
- supply chain labour standards
- privacy and data security
- health and wellbeing initiatives
- employee and diversity management
- tax transparency
- business ethics
- shareholder management

An ESG consultant can support you to develop an ESG scorecard and a maturity assessment. It is a valuable way to retain focus on sustainability initiatives within your business, and will help you keep track of progress over time.

Organisations that develop an ESG scorecard and targets now are also well-prepared if an external stakeholder decides to introduce one as a requirement in the future.

COMMON ESG KPI THEMES

ENVIROMENTAL KPIs	ESG FRAMEWORK FREQUENCY
Climate change opportunities and risk	10/10
Emissions -Greenhouse gas emissions	9/10
Environmental policy	8/10
Energy	8/10
Environmental management systems	7/10
SOCIAL KPIs	**ESG FRAMEWORK FREQUENCY**
Supply chain – social	10/10
Stakeholder engagement	7/10
Health and safety	7/10
Workforce development / Human capital	7/10
Diversity and equal opportunity	6/10
GOVERNANCE KPIs	**ESG FRAMEWORK FREQUENCY**
Compensation policy	7/10
ESG reporting standards	6/10
Board level oversight – ESG	6/10
Governance policy	6/10
Governance risk assesment	6/10


A little understanding goes a long way
CO_2

Achieving net zero within your business

Australia has declared a commitment to achieve net zero by 2050. This means we will have strategies in place to equalise the amount of carbon emissions produced with the amount being taken out of the atmosphere.

We're already seeing new initiatives that seek to take a collaborative approach between government, business, and community to address climate change as we transition to a more sustainable world. This reflects legislative changes recently passed in the House of Representatives to cut greenhouse gas (GHG) emissions by 43% by 2030, and achieve net zero emissions by 2050.

It will not be possible for every business to achieve a state of zero emissions. Where there is a gap, the business can purchase what's known as "carbon offsets" to achieve net zero emissions. Carbon offset units are used to fund actions taken to reduce, remove or capture emissions from the atmosphere. These offsets often improve other sustainability focus areas with accompanying social, environmental, and economic benefits.

You can choose to purchase carbon offsets locally and support Australian-based projects, or you can purchase international offsets to support projects in countries such as Africa.

If your business is already achieving net zero emissions, you can apply to become a certified Climate Active member.

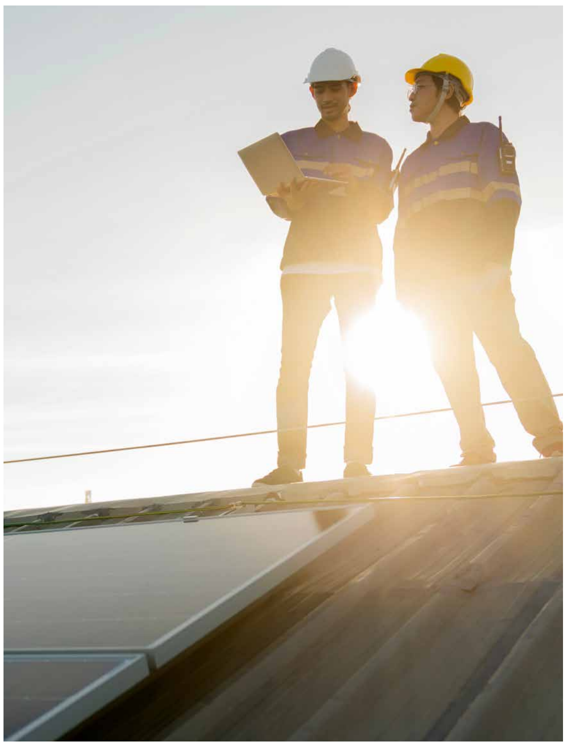
WHAT IS CLIMATE ACTIVE?

Climate Active is an initiative by the federal government to assist Australian businesses in becoming carbon neutral.

To receive a Climate Active certificate, an organisation must demonstrate carbon neutrality. This can be achieved through a combination of taking action to reduce GHG emissions produced by your business operations, and offsetting the remaining emissions by purchasing carbon offset units.

Organisations that achieve net zero emissions are awarded a certification stamp. The Climate Active certification stamp acts as a signal to consumers to help them identify sustainable brands.

A Climate Active Registered Consultant, which RSM can provide, can help you prepare and apply for Climate Active certification.



CASE STUDY: GreenCollar

GreenCollar is Australia's largest environmental markets investor and project developer. They operate in Australia and overseas, developing projects that have a measured positive impact on carbon, water quality, biodiversity, and the elimination of plastics.

Currently, GreenCollar has over 200 carbon projects covering over 10 million hectares of land across Australia. These projects will generate more than 126 million carbon credits over their lifecycle, while delivering tangible benefits for the environment and landholders.

Neil Hereford, Chief Investment Officer at GreenCollar, says he's proud of the reputation GreenCollar has gained for delivering the highest quality, highest integrity, and highest impact projects in the market.

"We see landholders as our partners and work closely with them on projects from start to finish. We underwrite the project development costs and risks, design and oversee the project plans, and manage the sale of the carbon credits to corporate and institutional clients. The landholder receives 70% of the net revenue and we receive 30%. This covers the upfront costs and risks associated with the project, as well as ongoing administration of the project through its lifecycle.

"Our focus is to integrate carbon farming with a landholder's broader agricultural enterprise so it doesn't replace what they're doing from an agriculture perspective. In the early stages, we'll work with them to assess the land, take on-ground measurements, and design the project in the most optimal and integral way.

"A typical project covers 20–30% of their land and often involves regeneration to reverse the impacts of overgrazing. We'll use various land management action plans such as fencing, managing feral animals, and rotational grazing to improve soil productivity and native vegetation, and enhance biodiversity. Projects also deliver measurable benefits to local communities, including employment opportunities and the money invested in farm infrastructure which often flows back to local businesses.

"In addition, projects provide a diversified annuity income stream for landholders. Because projects generally run for 15 to 20 years, they assist succession planning as the landholder knows they have a credible revenue stream to support future generations."

In working with institutions to realise their carbon offset goals, Neil says it is important to integrate the credits from GreenCollar projects with a clients' net zero, ESG, and carbon neutral strategies.

"An organisation will first review its carbon footprint and look for ways to reduce emissions internally. What cannot be reduced can be offset, and we'll work with them to build a tailored portfolio of projects that align with their strategic goals. For example, they may want to support local projects with stories that match their broader strategy. So we'll help them build out these case studies, and highlight the local and extended benefits of the projects they're supporting.

"We've worked with major Australian brands to develop carbon neutral products that speak to their customers' values and provide a key point of differentiation. We're also developing an SME solution that will make it easy for SMEs to offset their emissions by using our own customised portfolio of high impact projects that have a great story."

Moving forward, Neil believes the changing landscape of sustainability provides excellent prospects for landholders.

> **"We see this as a great opportunity for landholders and agribusiness to take advantage of carbon farming to improve the value of their land for the long term, while generating a new and uncorrelated income stream."**

"For institutions and SMEs, it's very important to do your due diligence when investing in carbon credits. Greenwashing (deceptively claiming that a product or project is environmentally friendly) is very real, and can have reputational risks for the organisations that invest in them. So focus on the quality, integrity and impact of the project and offset, and make sure you're working with the right partner."

Sustainable practices make your business more sustainable

It's important to remember that most efforts to be more environmentally and socially sustainable don't only benefit the environment and local communities. They make your business more sustainable too.

For example, consider the cost savings of reducing your total energy usage by 20%. Or, reusing materials instead of discarding them!

Think of the financial and reputational possibilities that could stem from new innovations. Or the increase in staff retention that could be achieved by implementing new social policies.

Because SMEs are more agile than larger entities, they have a significant advantage if they choose to be early adopters. Whether it's just a few small changes or revolutionising your entire business, those that start now will be in a much stronger position to manage whatever unfolds in the future.

CASE STUDY:
Quality Global Supply

Quality Global Supply (QGS) is an innovative food manufacturing company specialising in honey powder. The business was established to promote honey consumption in an effort to save the world's rapidly diminishing bee population.

QGS founder, Karl Lijun Qin, has gone on to develop a range of honey-based products – including a honey powder which has received notable attention as an alternative to processed sugar and as a nutritious space food for astronauts. Karl's team is also engaged in clinical trials for its QV0 product. QV0 is derived from the Manuka plant and is proven to attack only cancer cells without any harm to healthy cells (animal tests conducted by the Asbestos Diseases Research Institute), so it is currently being evaluated as an alternative cancer treatment.

Having founded QGS to address the sustainability of Australia's bee population, Karl says sustainability is central to the way they operate.

"As a small enterprise, our entire operation is guided by sustainable practices. We don't use plastic packing materials, and we don't overpack goods. When we collect materials, we use reusable bags. When we use water, we have processes in place to keep discharge to a minimum. We reuse absolutely everything we can – such as making pillows or quality fertiliser from the Manuka plant leaves after extracting QV0. We also source leaves for QV0 from the waste of another company that first uses them to extract Manuka oil. This type of closed production circle means we generate very little waste.

"I believe we have a responsibility to choose sustainability, or the environment will choose it for us. If we agree on evolution, we must also agree that we have evolved in unison with our environment. Nature has sustained us since the beginning of time, and the increased consumption of synthetic products – including foods and drinks – is not sustainable for the environment or our health.

"We don't need to wait for government regulation; we can take our own action. Humans and the environment are not separate, so we must learn to respect nature and protect what sustains us."

3 steps to start your journey

Perhaps you have already made some operational changes to be more sustainable. Or maybe you are still in the early stages, with just a few ideas on where to begin.

Whatever the case, keep in mind that sustainability is a long game. Try not to make hasty decisions without proper planning, as these could end up costing you valuable time and money.

Ideally, you want to take a measured and purposeful approach. A sustainability report is about stepping back and examining the bigger picture. It's about asking questions around the sustainability factors that impact your business, and how your operations impact those factors. This helps identify business risks like supply chain vulnerabilities. It also helps cut down business costs by revealing inefficient resource use or bloated costs.

You can start by understanding the level of change you need to make based on your industry, stakeholders, and existing practices.

Here are three steps to help you launch your sustainability journey...

STEP 1: UNDERSTAND STAKEHOLDER EXPECTATIONS

Conduct an analysis on the needs and expectations of external stakeholders such as customers, suppliers, regulators, investors, financiers, and even insurers.

Then, analyse the expectations of internal stakeholders such as employees and leadership.

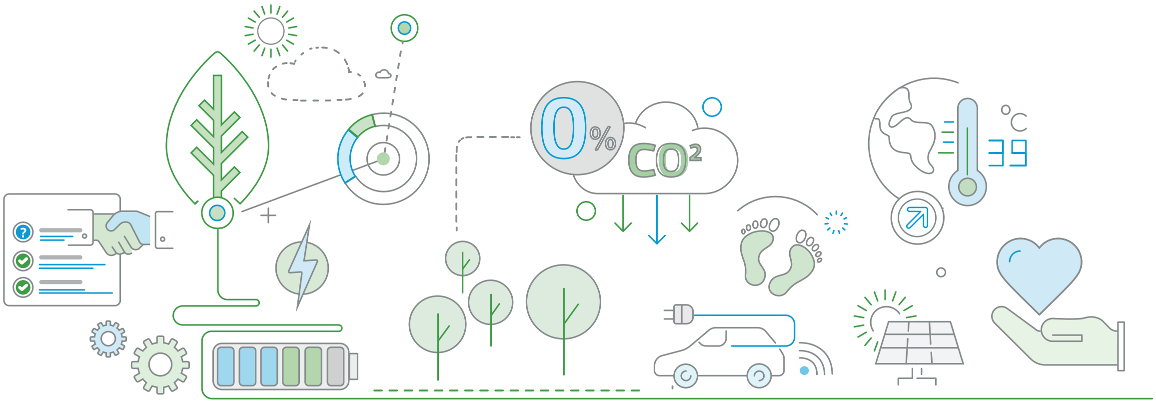
Together, these will dictate the speed of change and the types of changes that are needed.

STEP 2: EVALUATE BUSINESS OPERATIONS

Not all sustainability measures apply to all businesses. There will also be opportunities to improve in areas you are well aware of, and others you would never have thought existed.

Take a holistic view of your organisation and examine all practices and processes. Review how you use resources, and dig deep into your governance arrangements.

If it's difficult to do this objectively, engage an RSM ESG consultant to assist.

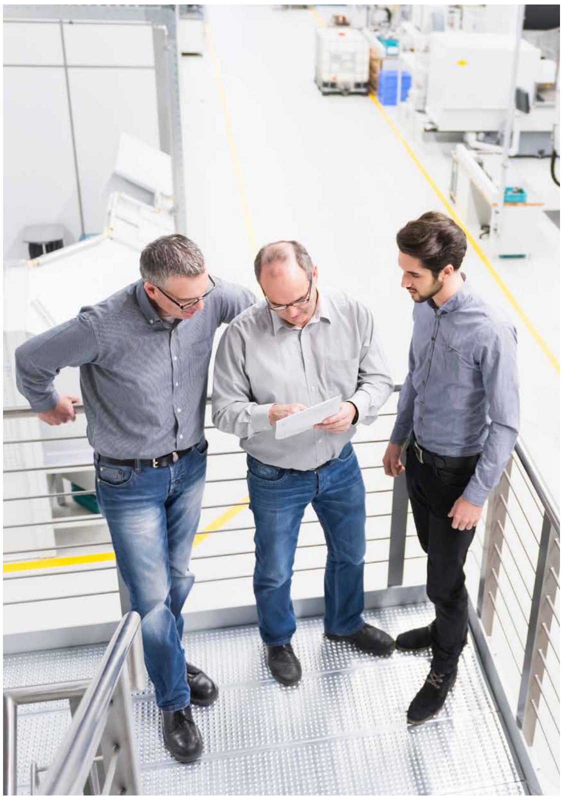


STEP 3: COMPLETE A RISK (AND OPPORTUNITY) ASSESSMENT

Conduct a thorough ESG risk assessment of your current state versus existing requirements, as well as potential future requirements. You could do this internally, or engage a third-party to provide an ESG risk assessment and material topics assessment (an analysis of topics that represent your business's most significant impacts on the economy, environment, and people).

Keep in mind that risks will often go deeper than they appear at first glance. For example, data is a vital element to producing a sustainability report. The ability to capture accurate and trusted data can be a feat in itself, and requires appropriate processes and tools. If you don't have these in place, this is a risk that will need to be addressed.

Remember also to look at the full spectrum of environmental and social risk that could apply to your business. For example, what is your level of climate resilience? Can your operations withstand the impact of changing weather patterns, and what strategies are in place to handle more extreme weather-related events if they occur?



Keep in mind that risks will often go deeper than they appear at first glance.

If you're unsure, ask for help

You don't have to go through the sustainability journey alone. There are a wide range of consultants in different fields linked to sustainability and ESG, and you can leverage their expertise and services to create a clear path forward.

An ESG consultant can:

- act as a friendly sounding board for concerns and ideas
- conduct audits and assessments
- provide quality advice
- simplify existing and emerging regulations
- identify business-specific opportunities
- keep you updated on changes in the space

RSM provides ESG consulting and assurance services to businesses of all sizes, in all industries. We can work with you to develop an ESG maturity roadmap, supported by an implementation plan to eliminate the guesswork and narrow your focus to align and integrate with business strategies.

We also have in-house specialists within certain areas of sustainability and ESG, such as greenhouse gas emissions, supply chain, workplace wellbeing, and corporate governance best practice frameworks.

SUSTAINABILITY ASSURANCE

Once you enact sustainability reporting, assurance will play an important part to ensure your data is high quality and reliable. It gives your stakeholders peace of mind over the integrity of what is being reported, and assures that the figures:

- have been independently vetted
- were benchmarked against relevant standards
- can be trusted to inform decision making

As experienced auditors and advisers, RSM is well-placed to support your ongoing sustainability journey with sustainability assurance.

Our assurance services cover all aspects of sustainability reporting – from broad reporting through to climate reporting, as well as industry or organisation-specific sustainability metrics.

CASE STUDY:
Mackenzie Marine and Towage

For over 50 years, Mackenzie Marine and Towage have provided harbour towage and pilot boat services in Western Australia. Forward thinking and planning has been a vital aspect of sustaining the business, which is now in its third generation.

Ian Saunders, General Manager of Mackenzie Marine and Towage, says they were initially very confused about sustainability and how to put it into perspective in terms of their operations.

"When we first investigated sustainability, there were so many definitions of what the green future looks like. It was really quite confusing. We were trying to understand all the individual pieces – from our direct fuel use to energy suppliers, waste management practices, and so on. We wanted a cradle-to-grave grasp of everything we use."

To help make sense of it all, Ian and his team reached out to RSM's ESG consultants.

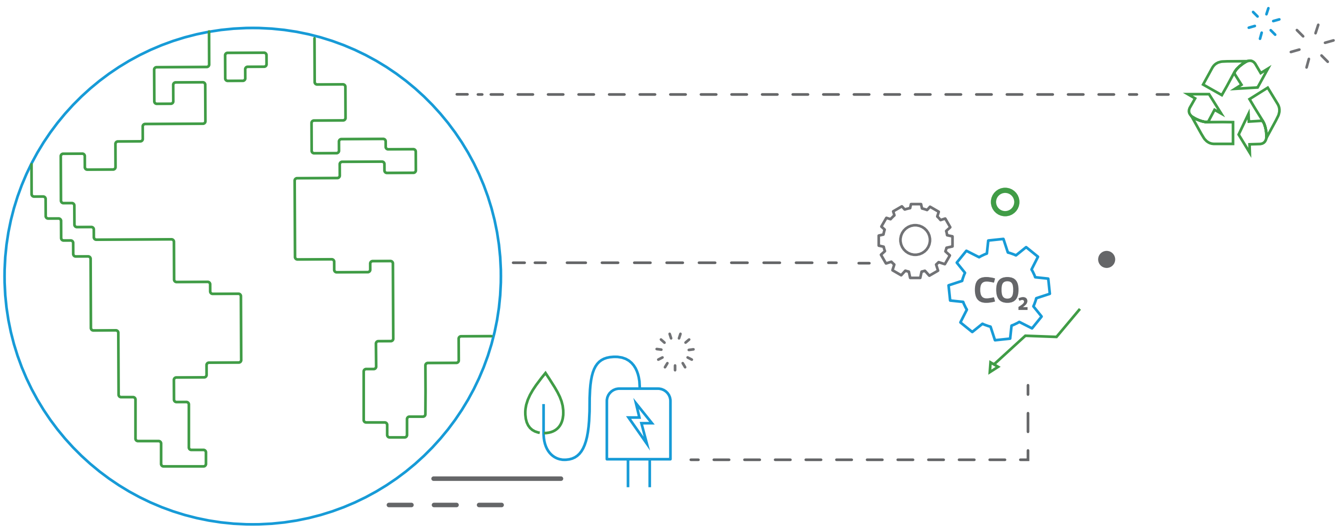
"RSM helped us understand sustainability in a very holistic way. They provided a clear direction, and really nailed what we were looking to do and why.

"The team developed a sustainability report which has directed our strategy, and can be overlayed onto any area of our operations. Importantly, it has allowed us to understand what we can control and what we have absolutely no control over.

"The report put into perspective all the talk and technologies being spoken about, such as hydrogen and other fuels. Commercially they may be a long way off, but realistically we need to talk about them now. When we buy equipment – such as a new tug boat – it's a 30 year investment. Something we order today might not be suitable in five years, so that would be 25 years of not having a fit-for-purpose asset. The sustainability report has guided the way we purchase new assets to ensure they can accommodate new technologies as they become commercially available."

RSM also assisted Mackenzie Marine and Towage to apply for **Climate Active certification**.

"Our sustainability report was sent off as part of our application and helped us achieve Climate Active certification. Certification is the ticket to the dance. If you don't have it, you're excluding yourself from a lot of opportunities."



Small changes can have a big impact

Although change on this scale can seem daunting, there is a great opportunity to see sustainability for its possibilities and positive outcomes. Most sustainable actions provide measurable benefits to the natural environment and overall human happiness. Ultimately, a focus on sustainability also enables longevity for your business.

Try not to feel overwhelmed by the idea of becoming sustainable. To keep it simple, we've put together a roadmap which may be helpful as you move forward.

Remember, if you have any questions, our sustainability and ESG consultants are just a phone call away.

1. Measure impact

Take stock of your business operations to measure your environmental impact. In terms of emission targets, this will centre on energy and transport.

2. Reduce waste

Identify ways to reduce these impacts. You could reduce power use, find new uses for wasted materials, or switch to local sources for product supply.

3. Offset remainder

When you've reduced everything you can, purchase offsets for any remaining emissions.

4. Let experts help

A sustainability expert will have the knowledge and skills to quickly find the relevant data to measure your impact. They'll know where to look for inefficiencies and can offer suggestions on ways to reduce your environmental impact.

5. Start now

It's better to get ahead of change than get caught out by it. With regulatory changes on the horizon and a push by bigger corporations to embrace sustainability within their supply chains, SMEs can risk being cut out of bread and butter contracts they rely on. So why not seize the opportunities early, and get started now?early, and get started now?

Sustainability terms

Glossary

When you first dip your toes into the world of sustainability, it's easy to get overwhelmed by the flood of new terminology or initialisms. In fact there's so many, we could have published a dictionary of sustainability terms instead of this report. We've included a glossary of some of the most common terms, for easy reference.

Climate change – Long-term shifts in temperatures and weather paterns. Primarily driven by human activity.

Fossil fuel – Non renewable sources of energy. Formed in the earth's crust, preserving the carbon from dead plant and animal lifeforms. Commonly used fossil fuels include coal, crude oil, and natural gas.

Global warming – The rapid heating of the Earth's surface temperature due to greenhouse gas emissions over the past century.

Kyoto protocol – Signed in 1997, the first implementation of measures under the UNFCCC.

Modern Slavery –Umbrella term for exploitation of people that undermines their freedom, usually by coercion, threats, or deception. Includes human trafficking, slavery, debt bondage, child labor, domestic servitude.

Paris Agreement Signed in 2016 Also known as Paris Accords or Paris Climate Accords. Current treaty under UNFCCC.

Regeneration – Moving beyond sustainable to restore life, habitats, and resources which have been damaged due to human activity

Resilience – The ability to adapt to change and recover from adversity.

Renewable – Renewable resources are those which are naturally replenished in a human timescale. Usually re-fers to renewable energy sources such as solar, wind, hydropower and geothermal.

Vehicles which are powered by electricity via rechargeable batteries, rather than a combustion engine which requires fossil fuels such as petroleum gas.

Triple bottom line – A business concept that includes social and environmental as well as financial stakeholders when evaluating business performance. These three bottom lines are also referred to as the three p's: profit, people, and the planet.

What do those letters stand for?

CSR – Corporate Social Responsibility.

ESG – Environmental, Social, Governance.

EV – Electric vehicle.

GRI – Global Reporting Initiative

GEMI – Global Environmental Management Initiative.

GSCO – Global Consortium for Sustainability Outcomes.

IPCC – Intergovernmental Panel on Climate Change.

ISO EPE – International Standards Organisation - Environmental Performance Evaluation.

SDG – Sustainable Development Goals.

UNFCCC – United Nations Framework Convention on Climate Change.

UNCSD – United Nations Conference on Sustainable Development.

EMISSIONS

Carbon footprint – Measurement of total amount of GHG emissions generated by an entity.

Carbon positive – Produces more renewable energy than it consumes.

Carbon offsetting – Removing carbon from the atmosphere to compensate for GHG emissions.

Circular economy – A way to produce and consume goods which extends the life of materials and products as long as possible. Involves sharing, reusing, leasing, repairing, refurbishing and recycling.

Emissions – Releasing something (usually a greenhouse gas or other poullutant) into the atmosphere.

E-waste Electronic waste

Discarded electronic devices, particularly items with batteries or power cords.

GHG Greenhouse Gas

Refers to gases which absorb infrared radiation and trap heat in the atmosphere. Notable inclusions:

- **CO_2** Carbon Dioxide
- **CH_4** Methane
- **N_2O** Nitrous Oxide
- **O_3** Ozone

GHG protocol – A standardised framework to measure GHG emissions. Includes three scopes.

- **Scope 1** –Direct Emissions
- **Scope 2** – Indirect (purchased) emissions
- **Scope 3** – Indirect emissions resulting from business operations or product

LCA Lifecycle Assessment

Analyses environmental impact of a product, material or process over its entire life cycle.

Net Zero – Cutting GHG emissions to as close to zero as possible and offsetting the remainder to reach a "net" of zero.

Net Zero 2050 – Agreement between countries to reduce GHG emissions to net zero by 2050.

3 Rs Reduce, Reuse, Recycle.

Reduce consumption. Reuse products. Recycle products to be given a new use (usually through the material components) instead of discarding.

Zero carbon – Produces no carbon emissions. The distinction here is that this does not rely on offsets to reach a "net" of zero.

Zero waste – Involves managing production cycles to reduce volume.

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