What is ESG and why does a facility manager need to know about it?

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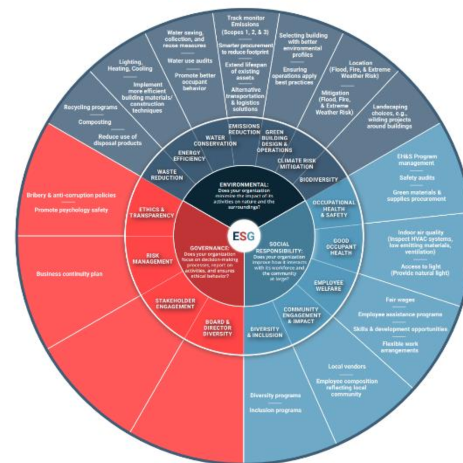
Years ago, several companies started marketing their efforts toward non-financial reporting of the work they were doing as a company. These "Corporate Social Responsibility" reports would highlight the good work they did in areas like recycling, environmental stewardship, community involvement, etc. It told a bigger story than just the revenues and profit. "we are your neighbors" and look at all of the good stuff we are doing they shouted on paper. While this started as simply "extracurricular reporting", over the years this reporting has been shaping into more of a compliance item or requirement. Now it is taking shape as Environmental, Social Responsibility and Governance (ESG) reporting and facility managers are directly responsible for some of the items being reported on.

The International Facility Management Association, or IFMA, uses this infographic to help communicate many of the areas that are covered by ESG programs and reporting. As you can see, many of the areas fall either directly into the realm of the facility manager (i.e., energy efficiency), in an area that they have to manage within (i.e., employee welfare like fair wages for their direct staff), or areas they would be a team member of (i.e., business continuity plan).



These areas of responsibility for facility managers are not new, but they are beginning to face a higher level of scrutiny or compliance. While much of this has been part of the scope for some time, the need for accurate recordkeeping to ensure compliance is increasing. Are your programs up to date, and is your recordkeeping in these areas ready to be shared with senior management, an even the public?

Here is an example of where the world is changing. Consider the State of California legislation that was recently passed, requiring ESG reporting by 2026 for companies larger than $1B in revenues that do business in the state. Senate Bill 253 will require such companies to file sustainability annual reports on their Scope 1 and Scope 2 items by 2026, following that, Scope 3 will follow with required annual reports by 2027. If you are in the European Union, you don't have that much time as the European Sustainability Reporting Standards requirements start on January 1, 2024 – Yes, I mean in 3 months!

While Emissions is only a small part of ESG reporting as a whole, we will use this area as an example of how to manage within all of ESG, beginning with "seeking first to understand".

If you don't know what Scope 1, 2 & 3 means, here is a quick lesson. Think of them as the Greenhouse Gas emissions that a company generates in the execution of its business. The terms were originally outlined in the Greenhouse Gas Protocol Initiative document *GhG Protocol Corporate Accounting and Reporting Standard* in 2001 with the intention that Scope 1 and 2 would not overlap between two companies. In other words, my Scope 1 cannot be your Scope 1, but my Scope 1 *might* be your Scope 2 depending on our business relationship. There should not be any overlap in the same company. Each item is clearly identified as Scope 1, 2 or 3.

Scope 1 is for direct emissions of a company. This is for items that are directly controlled or owned by a company. Think of the Furnace GhG emissions it takes to heat your headquarters office building, owned or controlled by you. This also includes your company fleet vehicles. As an example, when you switch from gas or diesel vehicles to plug-in Electric Vehicles, you move that Scope 1 emission to a hopefully lower Scope 2 emission.

Scope 2 is for indirect emissions of a company. Items that would belong in this area include the GhG emissions it requires to generate the electricity to run your facility, but occurring at the site of the electrical generation. So, when you reduce electrical consumption, you are reducing your Scope 2 emissions.

Scope 3 is for “other” indirect emissions, either upstream (i.e. supply chain) or downstream (use and waste). Items here are related to the GhG generation to extract and create the materials and supplies that go into your companies products, but not owned or controlled by the company. It also can include transportation of your products, use of sold products, and end of life treatment of sold products.

Using paper as an example, if you buy paper for printers, Scope 3 would include the logging operations to harvest trees, the paper mill fuels and electricity, the transportation of the paper to the supply warehouse and then to your site. That is just the upstream element for paper supply. You then have all the downstream portions for your product. As you can see, most of a company’s total emissions can occur offsite and by others.

To summarize, Scope 1 is unique to your company operations. Scope 2 of one company will also be Scope 1 of another (i.e., electric utility). Scope 3 overlaps quite a bit whereas upstream Scope 3 for one company will be downstream Scope 3 for another company.

Confusing, right? Trust me, the more you think about it the easier it gets. In the end we are after being accountable for how we treat the environment.

What’s next – As leaders of our facility organization, the time is now to begin understanding this subject and beginning to track the information you will need to report on, but more importantly to build a strategic plan to improve your operations when in comes to ESG as a whole. Create a map of where you are today, what your goals are, and what tactics and gap closing actions you can take to get there. Set SMART deliverables and be accountable to meet them.

Let us know how we can help you.