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Strategy and Sustainability

What is ESG?

ESG & Sustainability Transformation

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What is ESG?

ESG stands for Environmental, Social, and Governance. ESG gained traction after the United Nations published its **Who Cares Wins** report in 2005 and until recently, its fortunes were steadily growing. To take one example, there has been a fivefold growth in internet searches for ESG since 2019, even as searches for “CSR” (corporate social responsibility)—an earlier area of focus more reflective of corporate engagement than changes to a core business model—have declined. Across all industries, geographies, and company sizes, organizations have been allocating more valuable resources toward improving ESG. More than 90% of S&P 500 companies now publish ESG reports in some forms, as do approximately 70% of Russell 1000 companies (as reported by McKinsey). ESG covers a wide range of issues that may have a direct or indirect impact on financial relevance. Some of these issues that come under the purview of ESG reporting include resource management, supply chain management, organizational health, safety policies, and building trust through transparency.

Corporate Social Responsibility (CSR) and ESG are similar but there are enough differences not to use the terms interchangeably. The former is a driving factor behind the company's internal operations. However, it does not use external certifications to prove that it meets specific expectations. ESG uses external assessments to determine compliance.
The biggest difference between CSR and ESG is the inclusion of governance issues of the latter. CSR primarily focuses on social and environmental concerns to improve how the organisation impacts society. While investors can use CSR or ESG to identify investments, ESG provides more information about a company's actions to allow investors to obtain more data on specific ways the business addresses environmental issues, social and governance.

ESG itself is a collective term for a business's impact on the environment and society as well as how robust and transparent its governance is in terms of company leadership, executive pay, audits, internal controls, and shareholder rights.

It measures how your business integrates environmental, social, and governance practices into operations, as well as your business model, its impact, and its sustainability.

Two decades ago, when the Euro was created and pan-European markets were formed, foreign languages became the skill du jour in the labour market. More recently, JavaScript, Python, and other programming languages have been the differentiating factors. And now? ESG credentials are becoming the new must-haves for finance jobs.

The three components that makeup ESG are environmental, social, and governance.

Environmental

The environmental aspect focuses on how the business minimises its negative impact on the environment.

It covers the business’s products/ services, the supply chain, and operations.

ESG allows the business to target different areas of its organisation and implement more sustainable, ethical practices.

Examples of environmental business practices include:

- Reducing energy consumption and using renewable energy sources to become a net zero organisation.
- Developing greener products and services.
- Switching to zero-waste products or sustainable packaging using biodegradable materials.
- Reducing carbon emissions by changing to LED lighting.
- Encouraging recycling and reducing the amount of waste destined for landfills.

Social

The social aspect focuses on how a business impacts wider society and workplace culture.

Organisations can positively contribute to fairness in society, investing in fair and equal opportunities and conditions for employees, people working in their supply chain, and local communities.

Equality and fairness are at the heart of this aspect and examples of social and ethical business practices include:

- Ensuring products are safe and customer data is secure.
- Preventing abuses within the supply chain, such as labour rights, including modern slavery and freedom of association.
- Providing training and supporting health, safety, and well-being.
- Promoting equality in the workforce with diversity and inclusivity policies.
- Investing in local community projects, such as funding educational initiatives.

Governance

Governance refers to the processes of decision-making, reporting, and the logistics of running a business.

It also looks at the business's ethical behaviour and its transparency with stakeholders about its activities.

Governance is linked to the environmental and social aspects of ESG in that it looks at the transparency and decision-making behind them.

ESG governance standards ensure a company uses accurate and transparent accounting methods, pursues integrity and diversity in selecting its leadership, and is accountable to shareholders.

ESG investors may require assurances that companies avoid conflicts of interest in their choice of board members and senior executives, don't use political contributions to obtain preferential treatment or engage in illegal conduct.

Examples of governance practices include:

- Accurate reporting to stakeholders on financial performance, business strategy, and operations.
- Ensuring business leaders and managers are accountable for risk and performance management.
- Undertaking business ethically, such as preventing bribery.
- Ensuring diversity in any leadership team and being open about executive pay.

Ensuring good governance in your business can appeal to investors and your supply chain and practising good governance may also help enable businesses to grow.

Key Pillars of ESG

While talking ESG the people, process, and products have been considered as key pillars. Equal employment opportunity and gender diversity stand for people. An opportunity promoting social inclusion enhances the organisation's facilitating working environment. The process stands for screening impacts through multiple criteria. It ensures the investment is less harmful to the community and environment and does not result in negative consequences in society. It also indicates the governing system and democratic process of the organisation. The product stands for the organization's accountability and responsiveness of the investors to the customers. The complaint handling procedure and customer's choice of freedom also benefit considered.

The foundation of ESG and Sustainability are Values, Governance, Transparency and Stakeholder Inclusiveness. In the other side, the pillars of sustainability can be broadly categorised as:

- Ecological Footprint of Operation.
- People at the workplace.
- Product and customer stewardship.
- Supplier Responsibility.
- Systematic Social Issues.
- Community Engagement.
- Disclosure as a transformative catalyst.
- Advocacy.

Some of the most commonly used ESG frameworks and standards include:

- Global Reporting Initiative (GRI)
- Carbon Disclosure Project (CDP)
- Climate Disclosure Standards Board (CDSB)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Principles for Responsible Investment (PRI)
- World Economic Forum (WEF) Stakeholder Capitalism Metrics

To learn more about ESG and sustainability-related models, don't hesitate to contact **YTT Consulting**!