SIGNIFICANCE OF ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) & ITS REPORTING*

Introduction

The 2030 Agenda for Sustainable Development, with 17 Sustainable Development Goals (SDG) at its core, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

ESG (Environmental, Social and Governance) is an approach that covers an investment strategy that takes into account the sustainability aspirations of companies, including environmental, social and corporate governance aspects in the decision-making. The priority areas of the Environmental aspect are climate risks, resource management and clean energy, greenhouse gas (GHG) emissions, waste management; the most important issues of the Social perspective are diversity, human rights and corporate social responsibility, cyber security; and from the point of view of corporate governance, business ethics, transparency and the avoidance of corruption are crucial points.

In recent years, climate change concerns and sustainable development have taken centre stage in global and national priorities. There has been a growing recognition of the significant financial and economic impacts of Environmental, Social and Governance (ESG) risks across the globe, with many international bodies and financial regulators emphasising on ESG-related issues.

Interlink between ESG & SDG

ESG based investment decisions are directed toward long-term value creation for the business and the society. Consequently, it draws a direct connection with the SDGs' concept of creating 'shared value' that represents a constructive intersection of market potential, societal demands, and policy action for a sustainable and inclusive approach to economic growth and well-being.

At the corporate side, ESG considerations can be broadly mapped to SDGs, as illustrated in the graph below, which is a general representation that can be relevant to most sectors and sub-sectors. While companies find it comparatively easy to identify and align Environmental and Social considerations (as they invariably assume a directly mapped context to SDGs); association via their Governance function is rather indirect, and many a times found to be linked to their existing environmental and social functions. Nevertheless, ranging from tangible to intangible associations, all of the 17 goals can be attributed to individual elements of ESG considerations.

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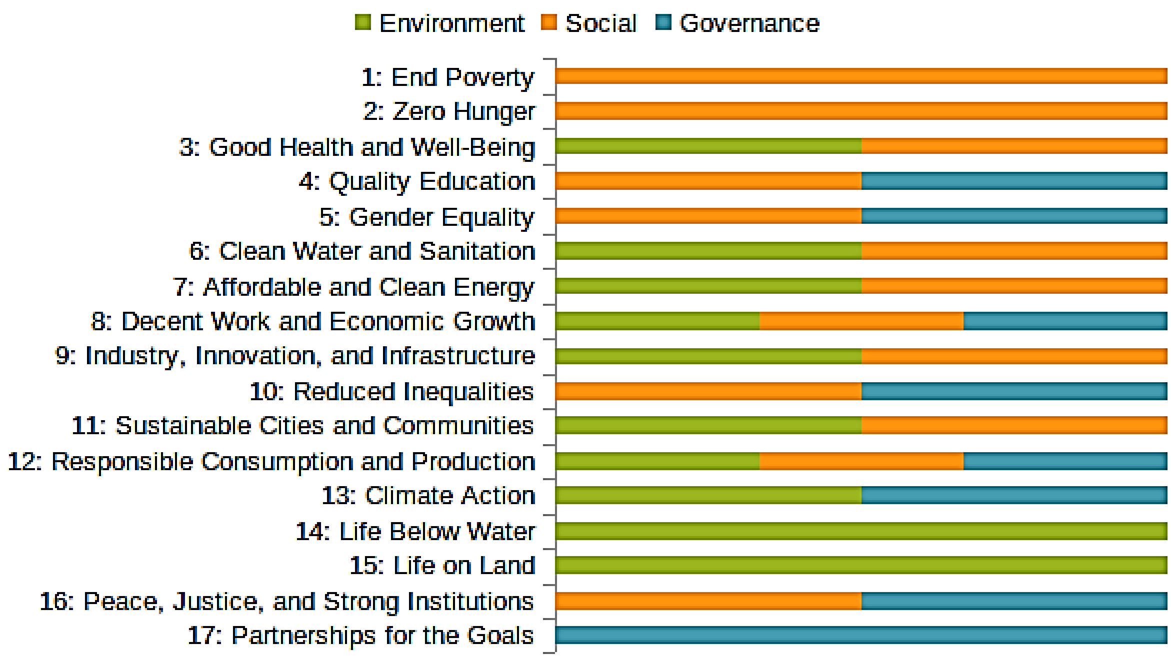
General representation of ESG considerations broadly mapped to the 17 SDGs are as under:



The co-existence and synchronization of ESG considerations with the SDGs can expedite corporate contribution within the broader space of the Global Goals, and that privilege is almost in investors' hands. United Nations' 17 SDGs are an opportunity to usher in a new and refined age of affirmative action through responsible investing, an opportunity certainly not to be missed.

ESG Reporting

ESG reporting is the disclosure of environmental, social and corporate governance data. As with all disclosures, its purpose is to shed light on a company's ESG activities while improving investor transparency and inspiring other organizations to do the same. Reporting is also an effective way to demonstrate that you're meeting goals and that your ESG projects are genuine. Since ESG reports summarize the qualitative and quantitative benefits of a company's ESG activities, investors can screen investments, align investments to their values, and avoid companies with the risk of environmental damage, social missteps or corruption.

Importance of ESG Reporting

Raises Corporate Transparency

- It broadens organisational disclosure beyond traditional financial metrics and raises corporate transparency on environmental and social metrics.
- Sustainability reporting allows a balanced and understandable assessment of the company's performance by stakeholders to facilitate corporate accountability, as promulgated by one of the principles under the Code of Corporate Governance.

Strengthens Risk Management

- Sustainability reporting allows listed companies to consider emerging risk areas and to identify opportunities presented by risks that are overlooked by other analytical and system driven approaches.

- A risk management approach that incorporates sustainability provides management with useful data for identifying emerging issues and developing appropriate responses that help protect corporate reputation and improve shareholder value.

Promotes Stakeholder Engagement

- Identification of and engagement with stakeholders are fundamental to sustainability reporting and are cited as critical steps by various international sustainability frameworks. Listed companies need to identify their stakeholders to effectively engage those that are interested in and affected by the company's sustainability performance. Given the varied nature and interests of stakeholders such as shareholders, employees, customers, suppliers and communities, stakeholder engagement enables the company to take into account the Information needs of various stakeholders with regards to the disclosure of sustainability related information.

Improves Communications with Stakeholders

- By broadening disclosure beyond financial disclosure to include non-financial disclosure of environmental and social interaction and impact, the company provides a framework for measuring non-financial performance. It also gives guidance on the opportunities and threats faced in managing non-financial risks.
- Sustainability reports can be used for benchmarking and assessing sustainability performance with regard to existing frameworks, demonstrating how the organisation influences and is influenced by expectations about sustainable development, and facilitating peer comparison over time and enabling communication with stakeholders.

Information under ESG Report

ESG reports include qualitative and quantitative information pertaining to its three key topics. They are:

Environmental : What is an organization doing to be a steward of the environment? The environmental umbrella covers:

- How a company is combatting climate change
- What a company is doing to reduce carbon emissions
- How the company is preserving biodiversity, improving air and water quality, combatting deforestation, or responsibly managing its waste
- How the company is responsibly using resources and its supply chain
- What the company is doing to reduce its emissions?

Social : What is an organization doing to improve lives? The social umbrella covers

- How a company nurtures its people and workplace
- Gender, BIPOC, and LGBTQ+ inclusivity initiatives
- The company's employee engagement
- Data protection and privacy
- Community involvement
- Human rights and labour standards

Governance : What is an organization doing to stay ahead of corruption and ensure its investments remain sustainable in the future? The governance umbrella covers:

- A company's internal controls
- Policies, principles and procedures governing leadership, board composition, executive compensation, audit committee structure, shareholder rights, bribery, lobbying, political contributions, and whistle-blower policy.

Conclusion:

Corporate sustainability & organization's long-term performance depends on a company's ESG performance. ESG strategy is a key opportunity for companies to ensure their survival and future growth, as well as their adaptation to the new international regulations and best practices. ESG are steps on company's journey to sustainable environmental, social, and governance practices for a better world. Embedding ESG principles in a company, creating a Brand Value that achieves success.

Source:

1. (https://worldtop20.org/global-movement?gclid=Cj0KCQjwzqSWBhDPARIsAK38LY8lbgDD0EpF7vLTijZLVUbeuwjvBzaDepOiKHnV09lmlJM37rEVafgaAli_EALw_wcB)
2. https://sustainometric.com/esg-to-sdgs-connected-paths-to-a-sustainable-future/
3. https://www.bseindia.com/downloads1/BSEs_Guidance_doc_on_ESG.pdf
4. https://www.wolterskluwer.com/en/expert-insights/the-abcs-of-esg-reporting
5. https://www.bse.hu/Issuers/corporate-governance-recommendations/bse-esg

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