An introduction to ESG

Environmental, Social and Governance (ESG) is a framework designed to be embedded into a company's strategy which they can use to measure their sustainability credentials. It is a set of standards by which the functions of business can be measured against.

The framework helps ensure that the organisation's resources are deployed to create sustainability in the value chain for all stakeholders, internal and external. These include employees, customers, suppliers, shareholders and the world at large.

The information needs to be a detailed and verifiable disclosure on their ESG footprint which will normally appear in their annual reports and normal regulatory filings.

Environmental factors relate to a company's stewardship of the environment like waste and pollution, animal welfare, the depletion of resources (including water), deforestation and climate change, and greenhouse gas (GHG) emissions.

GHG emissions are classed as Scope 1 (direct), 2 (indirect, from purchased power) or 3 (indirect, that occur in the supply chain). Scope 3 can account for around 80% of the average company's emissions.

The **Social** aspect covers how a company treats people. It includes employee relations and diversity, working conditions and child labour, impact on local and indigenous communities, and health and safety.

Governance is about how a company is run and managed and comprises tax strategy, executive pay, political donations and lobbying, corruption and bribery, and board diversity and structure.

Stakeholders are increasingly informing their decisions based on the environmental, social and governance credentials of the companies they have involvements in or with.

Customer Insights Surveys consistently show environmental issues as the number one concern by customers making it more likely that poor ESG performance by companies could lead to adverse financial consequences.

All stakeholders favour businesses with robust ESG frameworks predicated on the belief that sustainable growth is the only way to build successful businesses that can have a lasting positive impact on the environment and society.

Consumers choose brands for their record on climate change and ethical behaviour, governments in the areas of equal pay, diversity, carbon emissions and modern slavery are implementing regulations requiring organisations to increase transparency and investors now look for a strong ESG proposition before taking a share in the company.

A strong ESG proposition helps companies tap new markets and expand into existing ones. When governing authorities trust companies with robust ESG frameworks in place, they are more likely to grant them the approvals, access, and government contracts that afford fresh opportunities for growth.