The ESG Framework for Sustainable Development

Dr. S K Gupta
Chief Executive Officer
ICMAI Social Auditors Organization

The Perspective

Our world faces a number of global challenges: climate change, transitioning from a linear economy to a circular one, increasing inequality, balancing economic needs with societal needs. Investors, regulators, as well as consumers and employees are now increasingly demanding that companies should not only be good stewards of capital but also of natural and social capital and have the necessary governance framework in place to support this. More and more investors are incorporating ESG elements into their investment decision making process, making ESG increasingly important from the perspective of securing capital, both debt and equity. Nowadays, Environmental Social and Governance (ESG) invaded all talks in businesses and was found at the core of every new strategy in many organizations in various industries. Embarking the journey with an ESG strategy will allow companies to achieve the SDGs set by the UN and the 2030 aim. Therefore, transforming companies' activities and operations to become sustainable is crucial nowadays, as this approach became essential for customer satisfaction. In a new age where ESG has become the essence of every business strategy.

What is ESG?

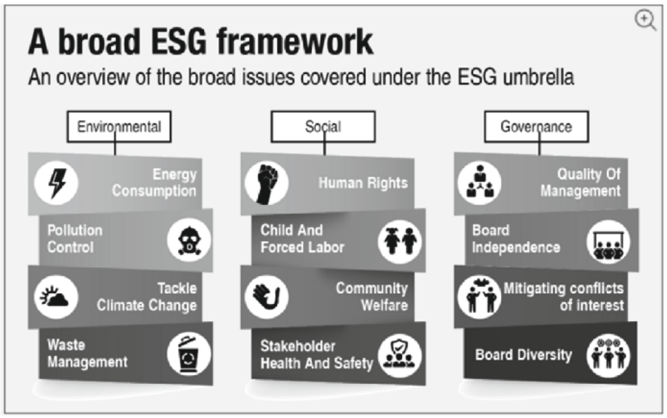
ESG stands for Environmental, Social and Governance which takes a comprehensive approach to monitoring the impact of a business based on these three factors. This involves meeting relevant regulations, as well as implementing diversity and inclusivity within an organisation.

Environmental – How well does the venture protect the environment? : This takes variables such as climate change, greenhouse emissions, waste, pollution, biodiversity, and the like into consideration. Measuring environmental data encourages a business owner to start thinking of ways to cut energy, water and waste usage which becomes a cost saving exercise. A strong environmental score indicates that the company is more efficient.

Social – How well does the venture protect people? : This not only includes the safety and equality of employees, but also how actively institutions engage with the community for society's betterment. A high social score implies a safe working environment for employees. It also shows their growing initiative in creating a safe, and environmentally friendly planet for the ecosystem. Such organisations tend to build a more attractive business culture. This in turn helps them maintain a lower staff turnover, and better cost structure.

Governance – How equitably does the venture govern itself? : This aspect of ESG takes issues related to business ethics, corruption, compliance into account. A high governance score indicates that an organisation is compliant, and ethical in its business and decisions. Good risk management has a strong appeal to investors, customers, and the supply chain.

Climate change, the shift from a linear to a circular economy, rising inequality, and balancing societal and economic requirements are just a few of the major issues facing our world today. The requirement that businesses are not just effective stewards of financial capital but also of ecological and social capital and have the proper governance structure in place to enable this is one that investors, regulators, customers, and workers are increasingly demanding. ESG is becoming more and more significant from the standpoint of acquiring debt and equity financing as more and more investors include ESG factors in their investment decision-making process.



How ESG Creates Value

The increasing engagement of ESG is creating value for both companies and investors alike. This trending initiative is profiting businesses through cost reduction and revenue generation while leaving a positive footprint on the society at large. Likewise, investors benefit from greater financial returns by better allocating capital through sustainable investing. It's a typical misunderstanding that ESG has a negative impact on an organization's financial success, yet studies have linked ESG investment to resilience and improved long-term economic performance. Due to a more thorough examination of data and trends, businesses that integrate ESG into their value-creation framework can lower risk and/or increase profitability. Similarly, analysts and investors may quickly ascertain whether firms are acting and how these activities affect financial results.

There are still several areas where the traditional ESG framework needs to be improved as it continues to mature and evolve. Companies that advocate ESG policies—such as diverse hiring, sustainable business operations, and charitable giving—but do not adhere to them run the danger of coming under public criticism and will be chastised as a result. Therefore, Value Based Management (VBM), which unifies all organizational operations around sustainable and long-term value development, is a crucial instrument for an efficient implementation of ESG. To define strategy, essential direct procedures, and activities, and define KPIs that are aligned with the development of long-term benefits for all involved parties, including shareholders, VBM enables a 360° view of a business, its peers, and the environment.

Lastly, it can be said that ESG is used to evaluate an organization's environmental, social, and governance standards. Organizations may succeed by utilizing ESG elements, which will eventually combine with SDGs, by embedding practices for sustainable development into regular company operations, goods, and services. Embedding nature into business practices is also an opportunity. Leading companies have now realized that acting on nature is a chance to win trust with customers and civil society; The United Nations' Sustainable Development Goals (SDGs) are increasingly being recognized as a beneficial foundation for responsible investment as the world shifts its focus more intently on ESG (Environment, Social, Governance).

What is sustainability?

Sustainability is the practice of operating a business in a way that meets the economic, social and environmental needs of the present without compromising the ability of future generations to meet their own needs. Sustainability is more than ticking boxes. It's about making a difference - for your business and our world. Creating sustained outcomes that drive value and fuel growth, whilst strengthening our environment and societies. Sustainability is more than good intentions. It's about creating a tangible, practical plan that achieves real results. Success is not about climate change, diversity and disclosures alone. It's about embedding these principles- and more across your business- from investment to sustainable innovation. Bringing together your best people and smartest technology so you can see more, go deeper and act swiftly. Enabling you to tackle the biggest challenges of today – and capture the best opportunities of tomorrow.

There is a natural fit with the SDGs, which were founded on globally shared values, social expectations, and a sustainable and inclusive approach to economic growth and well-being. SDGs are global goals set out by the United Nations, whereas ESG is a rating system used by companies to measure their environmental and social credentials. ESG factors can be roughly translated to SDGs on the corporate level as unique parts of ESG considerations can be assigned to all 17 goals. Businesses can utilize multiple strategies to align with the SDGs, including assessing, mapping, and setting goals, strategic integration and collaboration, and reporting and communication. The SDGs provide a wide range of chances for businesses to make a difference, with 169 specific aims. Ultimately, organizations and investors who proactively focus on the SDG Agenda 2030 are likely to improve their ESG score and uncover new growth and development opportunities.

To meet increasing stakeholder demand, some businesses are moving beyond the standard ESG approach and are based on the SDGs which offer a realistic framework for ESG mapping at a higher level and can help to increase the adoption of sustainable investing, encourage responsible corporate behaviour, and integrate sector and business specific ESG factors with broader social issues and global environmental goals. Long-term value development for business and society is the goal of ESG-based investment decisions. To achieve these sustainable development goals, business leaders will need to step up. Boards of directors need to understand the relevance of the SDGs for their company and incorporate them into their environmental, social, and governance (ESG) policies and objectives. They can lay the groundwork by setting a robust sustainability strategy that takes into consideration the positive and negative impacts of their business on the SDGs. This includes assessing ESG risks and opportunities, setting up short and long-term environmental and social goals that are aligned with the SDGs, overseeing the progress on them, reporting to investors, and engaging with stakeholders. Improvements have been made in this regard.

The emerging trend

Following the unprecedented market and policy momentum behind ESG in 2023, investors, corporate boards, and government leaders have raised expectations for progress on climate pledges in 2023.

- Alongside climate, biodiversity, and other environmental concerns, social issues — like diversity, equity, and inclusion and worker wellbeing — appear poised to remain in the spotlight, particularly as they are increasingly woven into broader ESG discussions.
- Corporate boards and government leaders will face rising pressure to demonstrate that they are adequately equipped to understand and oversee ESG issues — from climate change to human rights to social unrest. The broadened scope of corporate board responsibilities also requires more focus and time commitment from board members to meet their fiduciary duties. Pressure on boards to shore up their ESG credentials is set to grow as investors demand better accountability from the top and heightened focus on sustainability.
- Government and corporate leaders are under pressure to strengthen their ESG skills and integrate sustainability into their policy and planning strategies. In particular, they will add adaptation and resilience measures to their investment plans amid the growing economic impact of climate change.

- New global ESG-related standards will continue to evolve in 2022, while global standard-setting bodies such as the newly formed International Sustainability Standards Board can help address what may be the largest obstacle to accountability: the lack of a common baseline for disclosure standards consistent across jurisdictions and industries.
- Beyond the resilience of supply chains, we also think that social issues in supply chains will garner greater attention, particularly as efforts grow to curb human rights abuses and improve labour conditions.
- Increasingly, based on the work of the Network for Greening the Financial System (NGFS), central banks are beginning to incorporate climate risk as a stress testing feature for banks and insurers.

Cost and Management Accountants and ESG

Cost and Management accountants play a crucial role in business in three important ways. First, they are the financial analysis experts. This means they are trained to decipher complex data and not only report on it but also derive what it means for the organization. Management accountants do not stop at documenting costs, losses, and profits. They go “beyond the numbers” to find out the underlying reasons for those outcomes, which entails an intricate knowledge of operations and processes. When it comes to climate issues, this expertise is essential. Management accountants can use data analysis to not just determine the relevant facts but also help identify which activities and operations are most at risk or most contribute to carbon emissions, and how the company can shift towards better management and practices.

Cost and Management accountants are typically trained and required by the needs of business to be keenly aware of the operations of all departments across a business. The benefits of this expertise and approach to addressing climate issues are clear. Climate risks and carbon emissions occur across an organization, and a holistic view is necessary to create an accurate picture and make the right decisions. Management accountants, with their multifaceted and cross-functional outlook, will be the primary drivers of insights that lead to informed, decisive, and farsighted decision making on ESG.

Cost and management accountants are participating in strategic planning and decision making a fundamental shift in expectations over the past couple decades. As more routine accounting tasks have been automated, the Cost and management accountant has been called upon to use the insights they derive from data and their broad knowledge of the organization to be a strategic business partner and drive strategic planning and embedding ESG into the overall business plan.

Management accounting aids in an organisation's strategic planning and monitoring of its ESG activities and initiatives. Management accounting tools such as strategic risk assessment, life cycle analysis, and performance measurement systems, integrated with the financial reporting chain, help provide the ESG data for setting targets and matrices. CMAs need to embrace the ESG agenda, skill ourselves sufficiently to be competent and honour our profession's call to act in the public interest. We can be architects of the future, building on our heritage and developing a new accounting language so that new knowledge will emerge to secure both reward and survival. We should, and we must, enhance and share our unique and important skills to help decision-makers understand and act on this new reality.

Conclusion

Good environmental, social and corporate governance practices are on the rise in the economy and have triggered a movement of change in companies worldwide. The movement is growing and initiates a collective conscience in business for more responsible and sustainable production, relationship, and management practices. The objective is to create businesses that only take what they need while leaving economic, environmental, and societal systems capable of indefinite existence. Hence, it's crucial that a complete understanding of ESG and sustainability in all their different aspects is achieved, without which, businesses will just be groping in the dark. Value Based Management (VBM), which unifies all organizational operations around sustainable and long-term value development, is a crucial instrument for an efficient implementation of ESG. To define strategy, essential direct procedures, and activities, and define KPIs that are aligned with the development of long-term benefits for all involved parties, including shareholders, VBM enables a 360° view of a business, its peers, and the environment.

No company can prosper nowadays if it is not involved in the community and the people around it. Companies need to take an active role in the community, beyond just making a profit. The positive benefits of this strategy include the company's expansion and durability of its success. While directly serving their customers, companies should indirectly serve the interests of society by taking responsibility for the holistic impact of their activities. Its simply a more broad view of value creation. This is what ESG is all about. We should all be concerned about the future because we will have to spend the rest of our lives there.

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