ESG reporting

Emergence of ESG and what it means for your business

There have been several impactful events over the years which have shifted or shaped stakeholder interests as far as reporting is concerned. Notable among these events are the global financial crisis of 2008; social inclusion advocacies; carbon emission and climate change awareness; and the recent COVID-19 pandemic. These events have increased awareness of investors, employees, customers and other key stakeholders who in turn look out for certain information about businesses in order to make informed decisions. Companies now have to consider what matters to their key stakeholders and provide useful and credible information in relation to that.

ESG – What is it?

ESG stands for Environment, Social and Governance. With the ever-changing global environment, value creation is gradually shifting from solely shareholder value to increasing focus on other stakeholders. ESG summarises the areas of focus to which value creation is shifting. The environmental pillar borders on emissions; waste; pollution; water and resource scarcity; deforestation; land protection and so on. Social concerns include community engagement; social acceptance; land rights; fair work conditions; equality and diversity; supply chain oversight; and safeguarding of employees and customers interests. The Governance aspect considers ethical behaviour, anti-corruption, risk and opportunity oversight disclosures; and whistleblowing.

Strong ESG metrics in a business can be considered a good indicator of sustainability. A strong ESG position can lead to increased access to funding as a result of enhanced investor assurance and attractiveness, regulatory endorsement, expanded customer base, reduced carbon footprints, and talent optimisation with effective diversity and equality practices.

A weak ESG position however could cause difficulties in accessing funds from investors, shrinkage in customer base, constrained external relations, vulnerability to investigation and censure, supply chain risk and reputational damage.

How is ESG driving reporting today?

Incorporating ESG into strategy and transformation is a prerequisite for effective ESG reporting. In order to appropriately incorporate ESG into strategy, companies need to identify which ESG metrics matter most to the business. This is in turn driven by the metrics which matter most to the key stakeholders of the business.

In the evolving ESG era, brief mention of a few social indicators in the annual report will just not do anymore; ESG metrics would need to move from the periphery in reporting, to core reporting. Companies therefore need to increase their focus on sustainability and sustainable reporting using appropriate ESG metrics in order to stay relevant to key stakeholders in the years to come.

ESG considerations for your business and where you can start from

Several years ago, Milton Friedman argued that, the business of a business is to maximise returns (profits) to investors. This statement arguably holds true in the drive to sustainability in doing business. Businesses need to remain in existence in order to maximise returns to investors. To ensure continued existence, companies need to be able to regularly renew all licenses and permits as they fall due, secure appropriate debt and equity funding where required, grow their markets, attract and retain the best talent for the business, just to name a few. The appropriate ESG metrics would assist businesses to give the right information to the key stakeholders they are accountable to. More importantly, non-financial metrics are increasingly playing a pivotal role in investment decisions. Sustainability reporting, underpinned by sustainable business practices, enhances the credibility of companies and increases investor confidence in the business.

The type of operations and interest of stakeholders play a key role in the ESG metrics. In the mining and oil and gas industries for instance, there is a drive to align strategy with the move to Net Zero. Additionally, ESG pressures are influencing the supply chain and mergers and acquisitions decisions in these industries. In Ghana, most of the big mining and upstream oil and gas companies are significant subsidiaries of companies elsewhere. Hence, the pressure on the parents to report on ESG metrics will ultimately fall on these subsidiaries which drive the operations of the group.

ESG considerations are therefore essential in developing a strategic framework followed by standardised processes which will enable the business to carry out activities in line with the strategic framework. ESG considerations also need to be incorporated into the risk framework of businesses and appropriate controls designed and implemented. This will enable businesses to undertake effective monitoring which will help them generate the right information to report. Achieving ESG strategic priorities requires a viable operating model, coupled with suitable standards and policies.

Challenges and going forward

ESG reporting is an evolving aspect of reporting. In this regard, businesses have a lot of room to decide on which metrics to report and how to report. However, standardisation and comparability are fundamental to effective reporting. In the absence of regulations regarding ESG reporting, it may be challenging to compare businesses in the same industry based on ESG metrics. This could render ESG metrics less effective to decision-making in the short-term. Furthermore, businesses may only focus on metrics that appeal to stakeholders with the biggest influence on the business and ignore other key metrics. There is also the overarching challenge of having in place the appropriate systems to capture the right data and processes to ensure accurate reporting.

These challenges, however, by no means undermine the importance of ESG reporting. Businesses need to manage emerging sustainability opportunities and risks across the value chain; build trust by understanding, managing and communicating key ESG metrics and create value by making better informed decisions with the information gathered. With two thirds of global institutional investors in the oil and gas industry believing that ESG will become “industry standard” within five years, and increasing commitments by top global brands to science-based net zero targets, ESG reporting has come to stay.

Want to know more? Let’s talk.

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