ESG Reporting: How To Use It to Track Business Sustainability

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Supporting climate, social justice, and governance issues has transformed from a nice-to-have to a nonnegotiable aspect of any organization. In fact, over half of Americans rank companies implementing sustainable practices as "important."

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necessary tool for organizations tr ır

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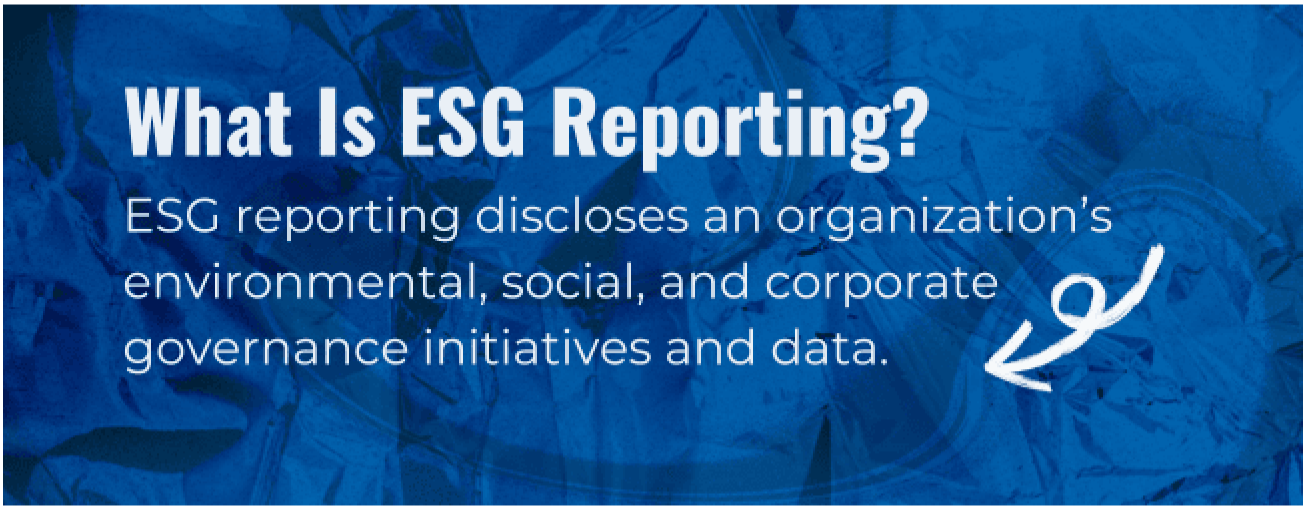
What Is ESG Reporting?



ESG reporting discloses an organization’s environmental, social, and corporate governance initiatives and data. An ESG report provides a snapshot of the sustainability and social responsibility of a company’s operations and practices.

ESG reports include qualitative and quantitative data about its three key topics:

1. **Environmental:** What actions does your business take to help the environment?
2. **Social:** What is your company doing to improve lives?
3. **Governance:** What is your organization doing to stay ahead of corruption and ensure its investments remain sustainable in the future?

Environmental

Your company's overall environmental impact and responsibility can include any aspect of your business that has an effect on the climate, including how the firm:

- Combats climate change
- Reduces carbon emissions
- Preserves biodiversity, improves air and water quality, combats deforestation, or responsibly manages its waste
- Responsibly uses natural resources in its supply chain
- Handles animals in product testing

"The 'E' in ESG is where you get the most bang for your buck and is the most critical metric," says Mark Stout, CEO of energy efficiency consultancy Apollo Energies. While many aspects of ESG reporting can benefit a company, Stout explains that "none of these efforts affect revenue generation as directly as reducing carbon emissions" or tackling other environmental concerns.

While customers may feel powerless against climate change themselves, they can feel like they're contributing to positive change by shopping at climate-concerned companies.

Social

The social aspect of ESG reporting deals with how companies manage and interact with people, other businesses, and cultures, including:

- Your company's treatment of its employees and workplace
- Your business's gender, BIPOC, and LGBTQ+ inclusivity initiatives
- Your company's employee engagement

- Your company's human rights and labor standards

To address the social part of ESG reporting, your business needs to take responsibility to show it cares about its local community and engages in furthering positive social causes.

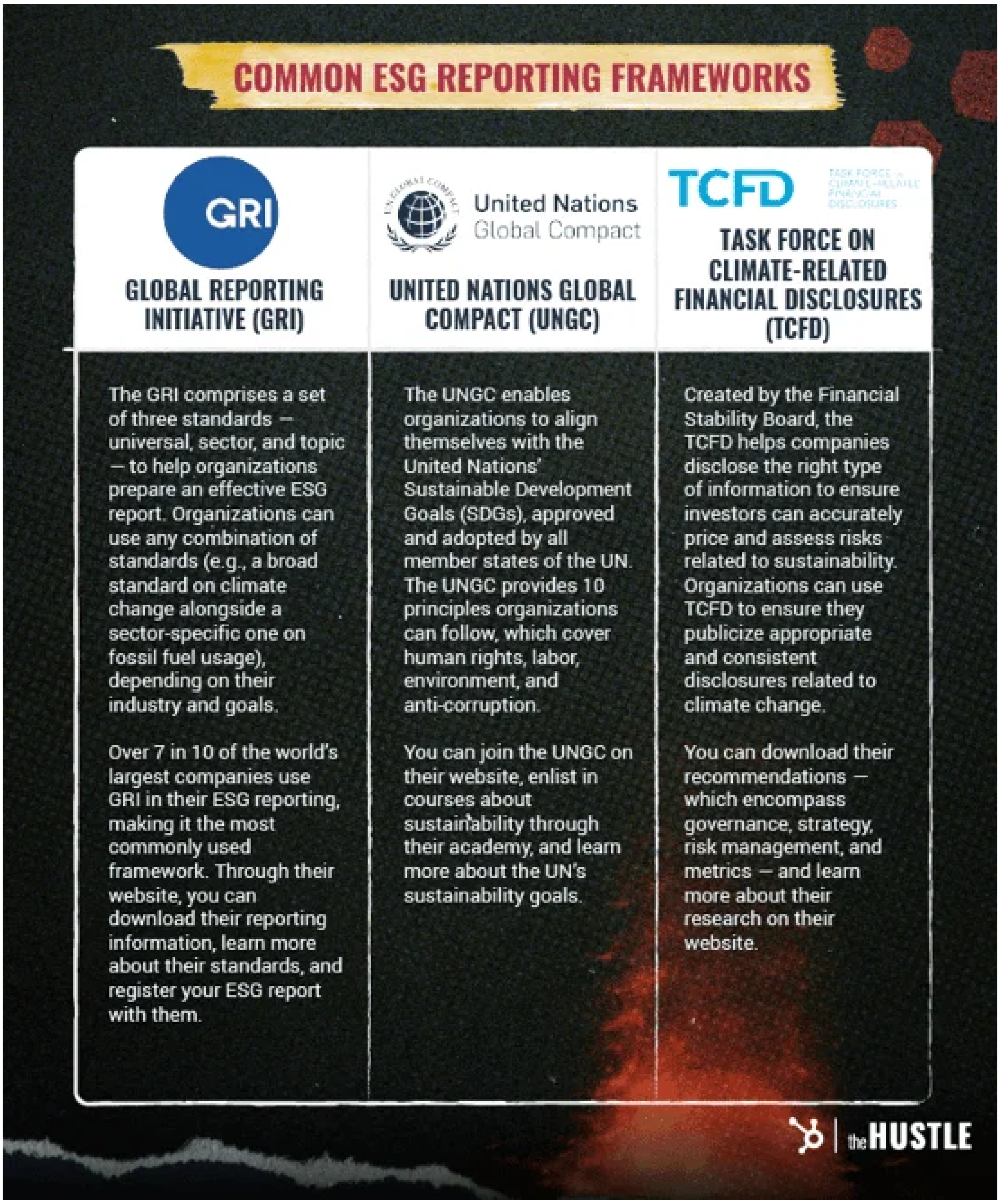
Governance

Governance revolves around how your company operates internally. Investors want to see that your company uses accurate and transparent accounting methods and democratic practices when making significant decisions.

Additionally, investors want to see your company follow industry best practices and stay on top of any potential violations of local regulations or internal rules. In other words, your business must govern responsibly.

In summary, this criterion covers your company's:

- Internal controls
- Policies, principles, and procedures
- Leadership
- Board composition
- Executive compensation
- Audit committee structure
- Shareholder rights
- Bribery
- Lobbying
- Political contributions
- Whistleblower programs



An ESG reporting framework provides a broad, principle-focused guideline that an organization can use to implement sustainable and ethical business practices. Frameworks enable companies to improve their ESG reporting by helping them narrow down what information to disclose, how to publicize it, and what they can do to verify their sustainability.

An organization can select any number of frameworks, depending on their:

Audience: Who will view the information disclosed in the report? What frameworks would they find most helpful?

Though organizations can select many different frameworks, the most commonly used ones include:

- Global Reporting Initiative (GRI)
- United Nations Global Compact (UNGC)
- Task Force on Climate-related Financial Disclosures (TCFD)

Global Reporting Initiative (GRI)

The GRI comprises a set of three standards — universal, sector, and topic — to help organizations prepare an effective ESG report. Organizations can use any combination of standards (e.g., a broad standard on climate change alongside a sector-specific one on fossil fuel usage), depending on their industry and goals.

Over 7 in 10 of the world's largest companies use GRI in their ESG reporting, making it the most commonly used framework. Through their website, you can download their reporting information, learn more about their standards, and register your ESG report with them.

United Nations Global Compact (UNGC)

The UNGC enables organizations to align themselves with the United Nations' Sustainable Development Goals (SDGs), approved and adopted by all member states of the UN. The UNGC provides 10 principles organizations can follow, which cover human rights, labor, environment, and anti-corruption.

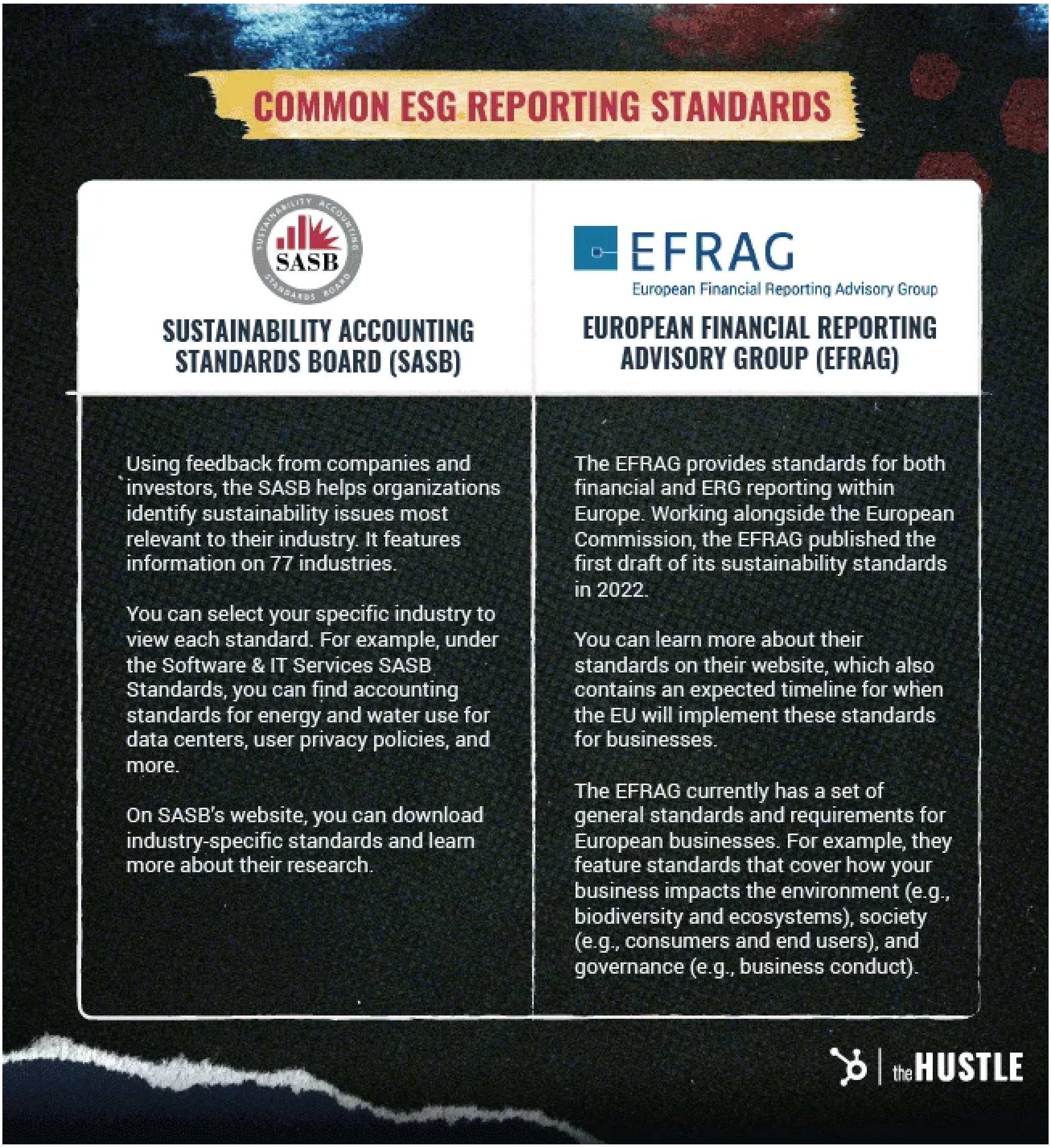
You can join the UNGC on their website, enlist in courses about sustainability through their academy, and learn more about the UN's sustainability goals.

Task Force on Climate-related Financial Disclosures (TCFD)

risks related to sustainability. Organizations can use TCFD to ensure they publicize appropriate and consistent disclosures related to climate change.

You can download their recommendations — which encompass governance, strategy, risk management, and metrics — and learn more about their research on their website.

ESG Reporting Standards



with the former offering broad guidelines and the latter providing specific methods (e.g., energy measured in gigajoules).

There are currently no universal standards when it comes to ESG reporting, though many organizations aspire to establish those standards.

That said, some of the most well-known ESG reporting standards include:

- Sustainability Accounting Standards Board (SASB)
- European Financial Reporting Advisory Group (EFRAG)

Sustainability Accounting Standards Board (SASB)

Using feedback from companies and investors, the SASB helps organizations identify sustainability issues most relevant to their industry. It features information on 77 industries.

You can select your specific industry to view each standard. For example, under the Software & IT Services SASB Standards, you can find accounting standards for energy and water use for data centers, user privacy policies, and more.

On SASB's **website**, you can **download** industry-specific standards and **learn more** about their research.

European Financial Reporting Advisory Group (EFRAG)

The EFRAG provides standards for both financial and ERG reporting within Europe. Working alongside the European Commission, the EFRAG published the first draft of its sustainability standards in 2022.

You can learn more about their standards on their **website**, which also contains an expected timeline for when the EU will implement these standards for businesses.

business impacts the environment (e.g., biodiversity and ecosystems), society (e.g., consumers and end users), and governance (e.g., business conduct).

Why Is ESG Reporting Important?

In most countries, ESG reporting is a voluntary endeavor aimed at helping businesses prove that they care about people and the community. However, the ESG reporting landscape is quickly evolving, with increasing demands for global regulations.

The SEC recently **proposed** new rules to standardize disclosures companies make about climate-related risks. Registrants would be required to quantify the effects of some climate-related events and initiatives in their audited financial statements.

Forward-looking organizations are offering up ESG data voluntarily as a part of their annual report. According to the **Governance & Accountability Institute**, 92% of the S&P 500 companies published sustainability reports in 2020.

Here are the three main benefits of ESG reporting:

Greater transparency

ESG reporting shows investors the company's environmental, social, and corporate governance goals, and how it's handling potential issues in these areas.

Take diversity and inclusion hiring, for example. Setting up consistent metrics to track and report on your D&I initiatives lets investors and customers see that the company is committed to having a fair and equitable workplace.

Since having a diverse workforce can drive better outcomes and enhance business growth, reporting on it gives investors a chance to make an informed decision on whether they want to invest in your company.

ESG reporting is also critical for many businesses because it holds board members and stakeholders accountable for their behaviors. It's become in vogue for businesses to say they care about environmental issues or social justice causes because they think that's what the public wants to hear.

However, ESG reporting ensures that your company is backing up its words with real action.

Cultivates confidence

Publishing your ESG reports gives customers confidence that they're supporting the right brand. A recent **study by Shopify** revealed that consumers are 4x more likely to purchase from a company with strong brand values. And 77% are concerned about the environmental impact of the products they buy.

"Consumers and employees are increasingly interested in working with companies firmly committed to sustainability in today's business environment. ESG reporting can communicate your company's dedication to this issue," noted Kate Zhang, founder of photo backdrop business Kate Backdrop.

How To Get Started With ESG Reporting

When it comes to implementing ESG reporting in your business, Zhang recommends keeping in mind the following five things:

1. **Define what you want to measure:** There are several different aspects of social and environmental performance that you can measure, such as your company's carbon footprint, water usage, and number of new hires across diverse demographics.

   To determine which disclosures are material to your business, consider what metrics you're currently monitoring and what additional information could be helpful to include. Ask yourself why your chosen metrics are important for advancing your company's strategic objectives and how they could help you mitigate risks.

2. **Choose a reporting standard:** There are a few different reporting standards, so choose the one that makes the most sense for your company.

through a third-party service provider.

4. **Report the data:** This usually involves creating a report that details your company's performance on various ESG indicators. This work can be done internally or through a third-party provider that specializes in ESG reporting.

   You can also take the extra step of putting your ESG data through independent verification, though not mandatory.

5. **Communicate the results:** After you've prepared the report, it's essential to communicate the results to your stakeholders. This can be done through various channels, such as your website, annual report, or social media.

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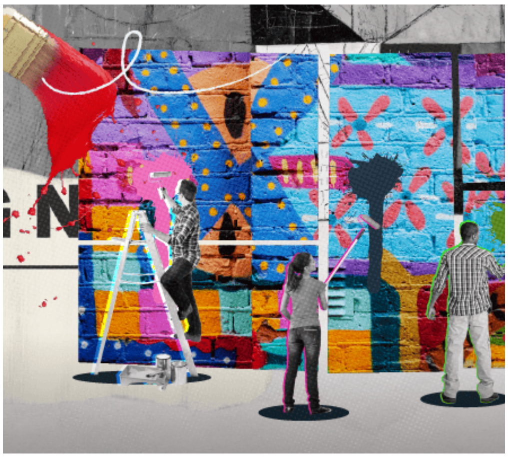

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