5 ESG trends that should be on your radar

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Short Details

ESG will be a priority for boards across the region. In this article, we explore 5 areas of particular importance, and advise how boards can capitalize on these trends.

Details

ESG issues are rising to a new level of prominence across the globe, as investors look to mitigate the type of risks posed by the 2020 global pandemic, and the increasingly visible effects of climate change on the natural environment.

It’s vital that boards, executives, investors, and shareholders alike maintain a comprehensive understanding of ESG priorities, initiatives, and trends in order to remain effective and competitive. In this article, we’ll explore 5 key areas which should be top of mind in the boardroom as we move through 2022.

ESG integration at the board level is critical

In order to oversee effective integration of environmental, social, and governance issues with overall strategy, it’s crucial that board members have full knowledge of the ESG ecosystem.

This includes understanding the importance of those external parties which shape how the company is viewed within the context of its ESG provision. At a formal level, these may include governmental and regulatory bodies, but perhaps more immediately boards should focus on their social stakeholders, e.g. their workforce, their local communities, and their customer base.

Depending on the specific priorities and/or activities of their organization, boards need to identify firstly how their company is perceived by some or all of these groups, and secondly how best to engage and communicate with them in order to improve that perception.

Increased focus on biodiversity in environmental discussions

While the “E” in ESG has traditionally been mostly concerned with an organization’s carbon footprint, increasingly investors are moving to a more holistic view of environmental impact, recognizing the importance of related issues such as biodiversity.

The importance of healthy ecosystems in reducing the incidence of animal-to-human disease transmission has been brought into particular focus following the COVID-19 pandemic, but equally, investors see biodiversity as a core dependency for a range of industries including agriculture, horticulture, construction, and food/beverage.

Through 2022 we expect to see much greater stakeholder demand for nature-focused strategies, with investors looking at the longer-term stability of sustainable and environmentally sound business models. Boards need to respond to this by diversifying their environmental strategy, going beyond carbon reduction to encompass environmental impact as a whole.

A demand for greater depth and transparency in ESG reporting

With increased requirements for climate impact or climate risk disclosure at a governmental level, we're seeing this higher level of scrutiny mirrored by asset managers and investors.

Organizations are expected to be able to demonstrate their long-term strategy with regard to ESG issues, not simply their ongoing activities or 12-month plan. Currently, the response to this demand has been inconsistent - while roughly 90% of S&P 500 companies report on sustainability, less than one in five are currently including specific reporting on ESG.

Regulators across the globe are under increasing pressure to bridge the gap between what companies are required to disclose and what is reported voluntarily. It's in the best interests of the board to preempt this, by making reporting as transparent as possible in order to enhance investor and stakeholder confidence.

> ***Boards who wish to capitalize on this paradigm shift must be well prepared and educated on all aspects of ESG issues***

Greater prominence of social issues including workforce diversity and safety

In terms of social issues, the coronavirus pandemic has highlighted wealth inequality, with a stark contrast between the economic hardship suffered by the majority of businesses and individuals and the financial rewards reaped by the global 1%.

We've seen a reaction from socially responsible investors, who are looking to redress the balance by prioritizing investment targets where the human factor is central to organizational strategy.

This takes a variety of forms, but some of the most common factors include worker safety, provision of professional development opportunities, employee physical and mental health care, and promoting diversity of representation, in the workforce, the executive team, and at the board level.

Boards should move to ensure that their strategy, actions, and reporting in the context of these issues are person-centered, and proactively engage with stakeholders at all levels in a process of continual evaluation and improvement.

A shift from climate protection to climate resilience

Large-scale climate change has wider implications than simply disruption to supply chains, impact on physical infrastructure, or reductions in production capacity. It endangers growth by directly affecting human networks - employees, investors, and customers.

A key topic of discussion in the aftermath of the global pandemic has been "how can we build back better?" and in addressing this, organizations and investors alike are shifting their focus from mitigation to adaptation.

In 2022, the demand for sustainable and "green" investments is expected to continue to grow at pace, with S&P Global Ratings predicting over $700 billion of global sustainable debt issuance by the end of the year, a projected increase of more than 40% on 2020. Government funding is similarly targeting sustainability, for example, of the 750 million euro recovery fund proposed by the EU in response to the pandemic, just under a third is earmarked for sustainable investment.

Forward-thinking boards, rather than simply trying to limit the causal factors associated with climate change, are looking to integrate climate risk into their decision-making, adapt their strategy to meet these new challenges, and thereby build organizational resilience.

Summary

2022 is set to be a year of recovery, but rather than looking forward to a return to previous norms, the global business community is, instead, viewing the events of 2020 as a watershed moment, prioritizing resiliency, sustainability, and environmental protection.

Boards who wish to capitalize on this paradigm shift must be well prepared and educated on all aspects of ESG issues, and the wider networks which shape how these issues affect policy, performance, and investment.

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