By Caroline Holman, Energy and Sustainability Professional

ESG and its Relation to Energy and Carbon Management

ESG stands for Environmental, Social, and Governance. It is a framework that helps stakeholders understand how an organisation manages risks and opportunities relating to the sustainability and ethical impact of their business. ESG and Corporate Social Responsibility (CSR) are two terms that are used when considering how socially conscious a business is. Both are concerned with a company's impact on the environment and the broader community in which businesses operate; whether private, public or regulated.

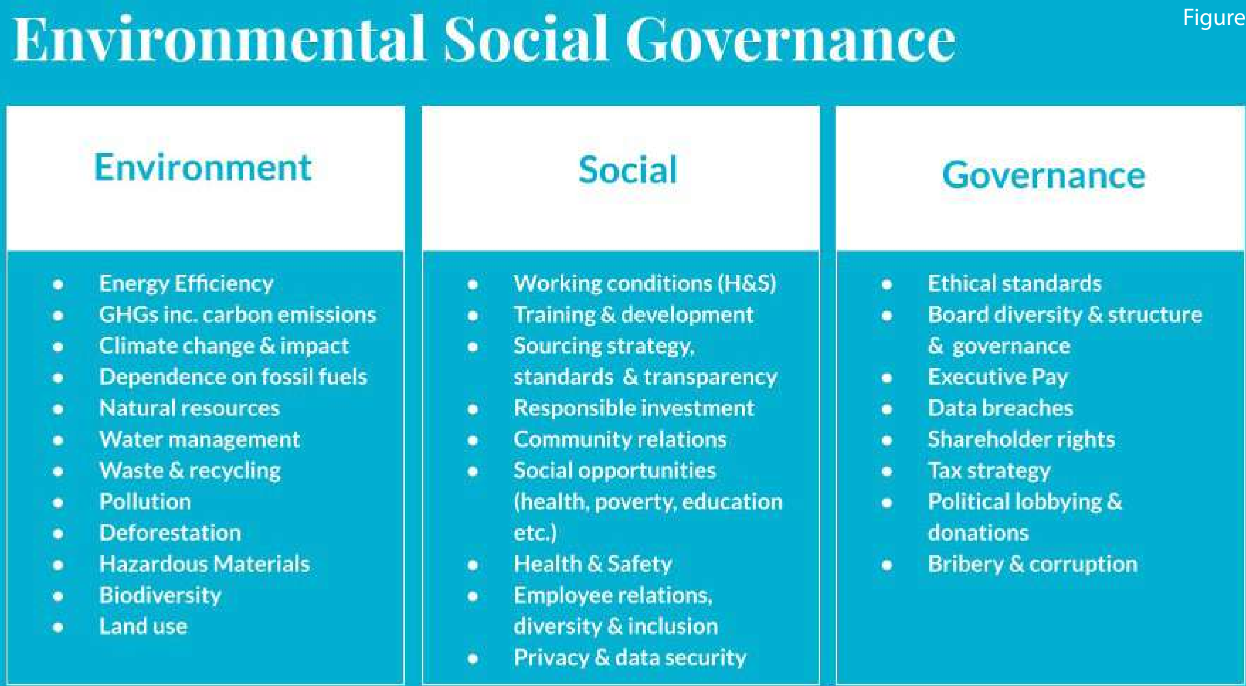
The main difference between them is that CSR tends to be a business model used by individual companies, while ESG is a framework which investors (and customers) can use to assess a company's environmental and social risks, performance and future potential. It could be said that CSR initiatives are determined and demonstrated in an organisation's internal culture and policies, while ESG is an external assessment of an organisation's impact.

CSR is a self-regulating business model where companies are more conscious of the impact they are having on wider society. This includes the environment, the economy and people within society.

ESG is quantitative and is very much focused on transparency of reporting, actions and measurable outcomes.

The role of energy and carbon managers in developing and deploying an ESG strategy is crucial. Even if they are not leading the ESG program, they understand a significant proportion of the data, information, scoping organisational boundaries, performance measurement and reporting protocols. Energy and carbon managers are also essential advocates and collaborators who can support and enable the transition. They will also have established and influential relationships with

Figure 1



ESG - Environmental, Social, and Governance | **CSR** - Corporate Social Responsibility
SDGs - UN Sustainable Development Goals | **IFRS** - International Financial Reporting Standards
ISSB - International Sustainability Standards Board | **GRI** - Global Reporting Initiative
CSRD - Corporate Sustainability Reporting Directive | **TCFD** - Task Force on Climate-Related Financial Disclosures
SASB - Sustainability Accounting Standards Board | **SFDR** - Sustainable Finance Disclosure Regulation

internal stakeholders e.g. Finance, Procurement, Operations, HR, PR/communications, Facilities and Asset Management. With Finance increasingly taking a lead in ESG because of the financial reporting impetus, they do require support, key insights and expertise from colleagues with energy, carbon and sustainability expertise. Another key skill which energy and carbon managers have, which will be invaluable on the ESG journey, is their ability and experience in navigating numerous, complex and ever changing regulations, standards and frameworks.

A summary model for ESG is shown in Figure 1, but it should be noted that this is not exhaustive and one approach to scoping each of the three pillars of ESG is to map against the [1]UN Sustainable Development Goals (SDGs) of which there are 17.

ESG standards

Globally there is no single standard for ESG, however there does appear to be a meeting of minds and some convergence towards a 'vital few'. These include, but are not limited to:

[2]**IFRS & ISSB** - International Financial Reporting Standards (IFRS) Foundation announced the formation of the International Sustainability Standards Board (ISSB) on 3 November 2021 at COP26 in Glasgow. The ISSB is developing standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

[3]**GRI** - Global Reporting Initiative: global standards for sustainability impacts.

[4]**CSRD** - Corporate Sustainability Reporting Directive - adopted by the European commission in July 2023. The standards cover the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. They also take into account discussions with the ISSB and GRI. This is intended to ensure a very high degree of interoperability between EU and global standards and to prevent unnecessary double reporting by companies.

Banks, Insurers and Asset Managers have been reporting on ESG metrics for several years; whether Task Force on Climate-Related Financial Disclosures (TCFD) under listing rules, voluntarily under frameworks such as the GRI, the standards published by the Sustainability Accounting Standards Board (SASB) or EU disclosure requirements like Sustainable Finance Disclosure Regulation (SFDR).

Requirements are still evolving and, in some cases, becoming mandatory, not least in the UK where for financial years starting after 6 April 2022; TCFD based reporting has been mandated for many of the largest UK registered companies and financial institutions. These include many of the UK's largest traded companies, banks and insurers, and some

[1] THE 17 GOALS | Sustainable Development (un.org)
[2] https://www.ifrs.org/groups/international-sustainability-standards-board/
[3] GRI - Standards (globalreporting.org)
[4] The Commission adopts the European Sustainability Reporting Standards - European Commission (europa.eu)

UK SDS - UK Sustainability Disclosure Standards
ESG - Environmental, Social, and Governance | **IFRS** - International Financial Reporting Standards
ISSB - International Sustainability Standards Board | **GRI** - Global Reporting Initiative
DBT - Department for Business and Trade | **GRESB** - Global Real Estate Sustainability Board
SECR - Streamlined Energy and Carbon Reporting | **ESOS** - Energy Savings Opportunity Scheme
CBA - Cost Benefit Analysis

large private companies. However, even where there is no mandatory requirement, expectations of various stakeholders, including investors and customers, is driving the take up of voluntary reporting.

In the UK, the [5]Sustainability Disclosure Standards (UK SDS) will set out corporate disclosures on the sustainability-related risks and opportunities that companies face. They will form the basis of any future requirements in UK legislation or regulation for companies to report on risks and opportunities relating to sustainability; including those arising from climate change. These standards will be published by the Department for Business and Trade (DBT), and based on the IFRS Sustainability Disclosure Standards issued by the ISSB. The anticipated timing for publication of these standards is July 2024.

ESG reporting frameworks

There are once again numerous reporting frameworks, methodologies and benchmarks - and infinitely more acronyms! A key consideration for many businesses is to look at sector standards and benchmarks e.g. [6]GRESB (Global Real Estate Sustainability Board). However, for other organisations a reporting framework which offers a broader, but modular approach with specific sector guidance may be more appropriate; e.g. GRI.

Considerations when embarking on the ESG journey

While it may be tempting to jump straight in, find the most appropriate standard(s) and start 'draft' reporting. Consideration of the following is recommended. This will provide a solid platform upon which to build and accelerate the ESG journey - particularly in terms of engagement, advocacy, prioritisation and informed decision making.

ESG Strategy

Defining the 'Why' - critical for stakeholder interaction and communication. Areas for review include risk, competitive advantage, reputation, regulatory requirements, investor and/or customer expectation, alignment to, and synergies with existing business strategies.

Defining the 'What' - is risk and opportunity within the business - across all interactions within the three ESG pillars understood? What is 'current state' or baseline, and how can the gaps be defined and measured? What does the regulatory horizon look like? How do all these factors align to existing business strategy and stakeholder expectations? Risk versus compliance led?

Commitment and buy-in: board, investors, customers, employees, supply chain, etc.

Defining the 'How'

Frameworks - which frameworks and policies are required to govern ESG reporting - what is the best fit for the business now and going forward?

Data - single source of truth, aligned to defined metrics. Is available data transparent, accurate, validated and accessible? What is already being collected (e.g. SECR, ESOS, financial, annual reports, etc.)? What are the gaps against ESG reporting framework?

Controls - are there robust processes and controls in place to produce and report required information, which will also bear scrutiny from an auditing body? Are underlying technologies (e.g. IT) fit for purpose - are these stakeholders engaged?

People – are there the required skills and experience in the business to deliver this change? Is training required? What and when should businesses communicate and how should different internal and external stakeholder groups be targeted (method, frequency, format, etc.)?

Awareness - does everyone in the value chain understand how their data is being used? This may also include external stakeholders such as the supply chain and clients / customers (e.g. scope 3 emissions where the product / service / asset

[5] UK Sustainability Disclosure Standards - GOV.UK (www.gov.uk)
[6] Welcome - GRESB

in use has an impact).

Stakeholders' expectations - what do the board, audit committee, investors, customers and employees expect of the company in terms of content, timing and level of assurance?

Carbon pricing - methodology, skills and processes to assign a 'true cost of carbon' in total cost benefit analysis (CBA).

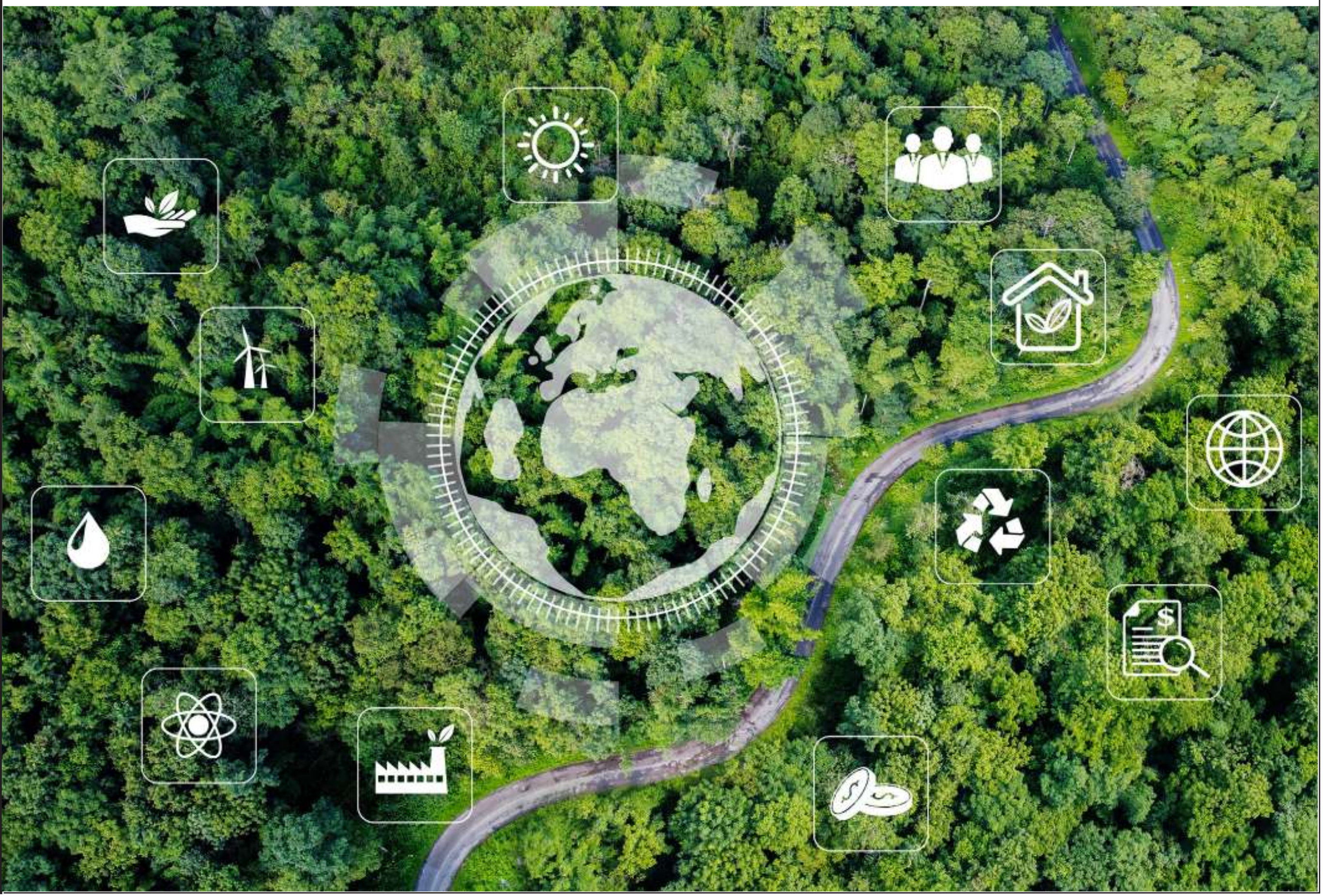
ESG and 'greenwashing'

Perception and accusations of 'ticking boxes', following a 'trend' and ultimately 'green washing' are a risk for any organisation when developing and implementing sustainability strategies including ESG. However clear, transparent and measurable plans underpinned by commitment and evidence can and should mitigate this. Honesty is always the best policy - avoid smoke and mirrors, and swamping stakeholders and clients with data, or jargon! If a claim, report or action cannot be evidenced and validated - do not include it. However, if it is important to the business, its ESG strategy and stakeholders; then include it in the action planning - if only to find data and evidence and establish whether it is a priority. Ultimately, a business must clearly articulate the 'Why' to any stakeholder or audience, and back this up with robust data, processes, reporting and credible, timely actions.

ESG is about risk management and transparency; demonstrating that a business recognises, understands, measures and actions its impact both environmentally and in the wider community. It is also, in my view, a much needed opportunity to leverage talent, skills, commitment and action across an organisation and all its stakeholders. No longer can sustainability be viewed as 'just' or 'mainly' the responsibility of energy, carbon, environmental and community engagement departments!

Author's Profile:

Caroline Holman is an energy and sustainability professional with experience in both the private (automotive), professional institution (IET) and regulated (water) sectors. A Fellow of the Institute of Engineering Technology (IET), Chartered Environmentalist (IEMA) and Member of the EMA Board of Directors. Caroline is a strong advocate of whole systems thinking, and passionate about Continuing Professional Development (CPD), including mentoring engineers at every stage of their career, wishing to achieve chartered status with the IET.



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