Environmental, Social and Governance (ESG) Strategies for Climate Change

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The term 'Environmental, Social and Governance' or 'ESG' refers to the assessment and disclosure of environmental effects and risks associated with business practices. It is a process used to describe a variety of factors that are likely to impact an organization's long-term performance. In the present dynamic and changing business environment, ESG policy plays a significant role in managing operations in an organisation. Although the basic elements of an ESG policy will vary depending on a company's unique operations, activities and needs, some key components, can be kept in view while preparing EGC framework (Emerick, n.d.): (a) environmental goals that align with company's long-term goals, (b) social responsibility, that is, clear guidelines for how the company will work with different stakeholders, (c) governance structure for effective and efficient implementation of policies and (d) reporting and auditing to ascertain if the company is meeting its goals.

ESG disclosure communicates a company's environmental, social and governance policies and performance to its stakeholders. This contributes to increased transparency and trust among the stakeholders which are likely to contribute to business results. Besides, it helps the company in identifying potential risks and opportunities associated with those areas, including climate change and its mitigation. Research yields that companies with robust sustainability policies are more competitive and give better returns to shareholders and stakeholders (Dorobantu et al., 2014). Also, a favourable ESG reputation protects companies from a substantial decline in the stock market (Edmans, 2011). It also leads to improved relations with external stakeholders and customers and results in loyalty and engagement with customers and employees. ESG can influence consumer preference as well. McKinsey research has revealed that customers say they are willing to pay to 'go green' (Henisz et al., 2019). It is observed that ESG disclosure has been adopted by a number of countries in recent years due to regulatory pressure, industry and sector and availability of information.

India aims to reach net zero by 2070. India's Long Term Low Emissions Development Strategy (LTS), submitted to the UNFCCC in November 2022, details India's vision and plan of action for achieving its target to become a net zero emitter by 2070.[1] In the LTS, India outlines sector-specific action areas, targeting the power, industry, transport, building and urban sectors. Although a few companies have reached net zero target and some have committed for it, for the country to reach net zero target, commitment and concerted efforts for decarbonisation of all the industries are needed along with innovations, energy transition and digitalisation where ESG will play a critical role.

Environmental Sustainability Index (ESI) is produced by Honeywell every quarter, in collaboration with Futurum Research, which provides a comparison of sentiment and progress of environmental sustainability (ES) initiatives on various parameters. The index is based on survey of more than 600 professionals involved in planning, strategic development, implementation or oversight of corporate environmental sustainability initiatives. This helps in tracking the progress of companies and assesses potential to reach their environment goals by current and future adoption of technologies (Honeywell, 2022).

Hence, climate urgency calls for companies to focus on their ESG strategy involving policy, practices and metrics that matter the most for the long-term corporate sustainability.

Note

1. https://climateactiontracker.org/countries/india/net-zero-targets/#

References

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Radha R. Sharma
Editor-in-Chief
E-mail: radha.sharma@ndimdelhi.org