COMPANIES BENEFIT FROM GROWING FOCUS ON ESG

ESG (Environmental, Social, Governance) Reporting

Use of fossil fuel, child labour, overpaid executives and a lack of employee diversity – these are just a few of the non-financial ESG considerations that socially responsible investors are now taking into consideration when making investment decisions.

The last decade has seen a major shift in investor behaviour with factors other than financial performance playing an increasingly important part in investment analysis.

Socially responsible investors are now looking to corporates to provide more transparency on their ESG initiatives and performance, with a growing bank of evidence showing that companies that pay more attention to ESG actually perform better in the long run.

As of 2012, the governments or stock exchanges of 33 countries have required or encouraged some level of sustainability reporting. In New Zealand, Governance reporting is mandatory for Listed Companies, but there is also growing pressure from investors for increased disclosure on Environmental and Social practices and performance.

The NZ Super Fund says on its website: "We believe environmental, social and governance factors are material to long-term investment returns…..In recent years, investors around the world have begun to place a much higher emphasis on responsible investment and the effective management of environmental, social and governance risks."

A growing number of New Zealand companies are now providing some form of ESG reporting, including Fletcher Building, Air New Zealand, Kathmandu, Westpac and more.

Benefits to companies from a focus on ESG include:

- Increased consumer loyalty
- Positive changes in company culture and increased employee loyalty
- Reduction in waste and improved efficiencies
- Monitoring long term risk and improvements in risk management
- Increased access to investor capital
- Improved relationships with the investment market
- Competitive advantages
- Brand and business reputation

The key question for companies is how to ensure reporting and disclosure is achievable, sustainable and useful for investors.

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Larger, global organisations may use external standards such as those developed by the Global Reporting Initiative, but embracing ESG reporting doesn't have to be an expensive or intensive exercise. For many smaller companies, tracking and recording ESG can be incorporated into standard business practices, with regular disclosure and reporting through existing communication channels.

A good starting point is to develop a framework of significant ESG issues that do or may have a material impact on your business or its stakeholders. Companies should then look to provide meaningful information on these matters, how you are dealing with them and how you are performing against targets to reduce any negative effects. The final step is to consider how you will disclose this information to interested parties and to what level of detail.

Ellis and Co can work with you to develop appropriate ESG reporting for your company, from simple website disclosures and shareholder report updates, through to dedicated ESG reports.

EXAMPLES OF ESG ISSUES:

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Perceived impact on climate change Disposal of industrial waste Energy Use – Fossil fuels/Energy efficient power Sustainable use of resources C02 emissions Efficient use of resources Reduction in waste	Diversity of employees and the Board Human rights Working conditions Health and Safety Consumer protection Sin stocks Animal welfare Supply chain ethics	Diversity of management and the Board Management structure and oversight Employee relations Board governance Executive and Board remuneration Ethical behaviour

Further reading for those that are interested:

Value of Sustainability Reporting: A study by EY and Boston College Centre for Corporate Citizenship

GRI Sustainability Reporting Framework