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Standards for ESG Integration

The term "ESG Integration" is a term often used in discussions on responsible investment, but it is totally misunderstood.

ESG integration is the systematic and explicit inclusion of ESG criteria and requirements into strategic decisions and actions for creating long-term sustainable value, both on the sell side of stock issuers (i.e. corporations) and the buy side in the form of investors (i.e. fund managers and institutional investors).

ESG criteria is a set of ESG factors and key performance indicators (KPIs) that are critical for strategic decisions and actions, based on the relevance and materiality of ESG impact on the key financial value drivers.

For the issuers, ESG integration requires the strategic alignment of ESG criteria with the corporate strategy and operations, based on the belief that ESG factors have the risks and opportunities for business value.

For the investors, ESG integration requires the incorporation of ESG criteria with investment strategy, asset allocation and equity evaluation, based on the belief that ESG factors have significant impacts on the risk-adjusted returns of equity investment.

Increasingly, regulators and stock exchanges over the world have been promoting the mandatory reporting of ESG performance for the public listed corporations. Besides, more and more investors have employed ESG criteria and strategies to optimize their equity investments and minimize exposure to ESG risks. Therefore, many companies have to set out the ESG criteria and KPIs to measure and report their ESG performance to the investors and regulators.

Organizations such as the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) are pushing to foster a convergence of ESG and financial performance and disclosure.

While the underlying, concept of ESG integration is not new, it may after the corporate management practices and principles, including the management standards that correlate ESG criteria with the corporate strategy, management systems, auditing and reporting.

Whereas standalone ESG reporting has a very specific focus on the disclosure of ESG performance based on a set of key performance indicators (KPIs), the ESG integrated reporting is the integrated representation of a company's performance in terms of both financial and ESG information.

However, ESG integrated reporting also entails new types of challenges, because corporations need a management standard for ESG integration, measurement, auditing and reporting.

Up to now, CR8001 ESG Management Standard® is the only de facto standard to help corporations develop, implement and maintain a responsible management system to integrate the various partial management standards for ESG integrated reporting and auditing. This will allow investors to consider financial information within the context of ESG performance.