BoardRoom
Smart Business Solutions

Beyond Compliance: How ESG Factors Impact Corporate Sustainability

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The spotlight is on ESG, as it transitions and transforms with the constantly evolving landscape. Investors are increasingly holding businesses accountable for their environmental and social impact, while corporations and ESG insiders are shifting resources and looking for insights on how to meet the needs of ESG, or potentially be left behind.

There is a definite shift in the environment, around the world. Weather changes, lack of resources, advancements in technology, and social issues being some of the causes. The world is more aware of the impact human activity has on the environment and companies are under increasing pressure to act. ESG initiatives are one way that businesses can do more to address these issues.

2024 is set to be a big year for ESG as the progress and challenges from previous years, are setting the tone for the future. We look at how several significant factors can impact the world of ESG, and your corporate sustainability.

#1 Extreme Weather Conditions 

News of extreme weather disasters are becoming more constant. From heat waves to extreme floods, droughts, and wildfires. These weather devastations have a greater impact on the countries, as it affects trade, produce, and health care. Erratic weather has an adverse effect on agriculture. Countries who rely on agriculture to boost their economy have reported that with these terrible weather conditions, they are getting a lowered crop yield. Some other problems that arise with extreme weather conditions include:

Burden on healthcare
A limited supply of high-quality water and food will impact the health of those communities that are already most vulnerable, such as those living in poverty and have limited access to quality health systems. This causes an increase in diseases and other healthcare problems which then leads to a strain on the healthcare systems.

Increase in cost for insurance
With more healthcare problems, coupled with the devastation to properties from floods, hurricanes, and wildfires, insurance companies have had to relook their policies and make changes that are not as comprehensive as before. In America, major insurers like State Farm and AllState, have retreated from Florida and California's homeowner insurance markets as the cost of covering damages to the home form these weather extremities are becoming too high.

Unfavourable working conditions
The extraordinary heat waves of recent summers have sparked complaints and threats of industrial action from workers at firms such as UPS, Fed Ex, and Amazon as they struggled to cope with the global rise in temperatures. Rising levels of heat and humidity make work more difficult and hold back productivity, even without disruption caused by walkouts.

#2 Driving Efficiency & Productivity with AI

AI has found its way into many industries, and ESG is no exception. The use of AI in sustainability is expected to expand exponentially as it brings plenty of benefits.

Data-Driven Insights
AI has simplified the collection of data where in the past, it would have been a difficult task. Data analytics have made it easier to study, measure, and track a company's impact on ESG factors. This transparency allows for more informed decisions by consumers, investors, and other stakeholders.

Leveraging Technology for Sustainability
Countries and companies are using technology to improve efficiency, reduce waste, and create sustainable solutions. This innovation is a key driver in the shift towards more sustainable business practices. The Monetary Authority of Singapore (MAS) is planning to launch Project Nova, which will use AI to access data on buildings across Singapore, to curb any cases of greenwashing. Similarly, London Stock Exchange Group (LSEG) plans to launch a platform that will combine financial market datasets to capture real time ESG data for their users.

AI-driven tools are not just for making informed decisions, but it also provides a transparency for investors to engage with ESG data. The information available through AI provides a more holistic and accurate view of a company’s ESG performance, thereby allowing a better understanding of the sustainability landscape. There will be more examples of how AI and technology are incorporated into the process of how companies and investors approach ESG.

#3 Supply Chain Due Diligence 

A seamless supply chain can help improve your corporate sustainability. 2024 will see an increase in regulations that set mandatory requirements for supply and value chain due diligence. Companies which are or will be subjected to these requirements will need to conduct more extensive due diligence into their supply chains to ensure that they comply.

Several recent laws mandating Scope 3 reporting have been enacted around the world, combined with the evolving expectations of stakeholders, companies are prioritising ethical material sourcing, adherence to fair labour standards, and initiatives aimed at reducing environmental damage across the entire supply chain. As an example, the EU's Corporate Sustainability Due Diligence Directive (CSDDD) which will be adopted in 2024, will lead the way. The CSDDD expects companies to monitor adverse human rights and environmental impacts not only by them and their subsidiaries, but also by entities that are part of their value chain. Thus, although enacted in Europe, the due diligence expected from the CSDDD will inadvertently affect businesses, globally.

What we can expect to see in 2024, is the environmental and social parts of ESG converging in relation to both upstream and downstream supply chains.

#4 Rise of Global Regulations

The regulatory drive behind mandatory reporting is substantial, and there have been many regulations introduced to the corporate world in the last few years and will continue to be introduced. The most critical corporate climate disclosure standards introduced in 2023 were:

- the sustainability disclosure standards published by the International Sustainability Standards Board (ISSB) in June;
- the first set of European Sustainability Reporting Standards (ESRS) published by the European Commission in July (against which companies must report under the EU Corporate Sustainability Reporting Directive (CSRD));
- the final supporting additional guidance published by the Taskforce on Nature-related Financial Disclosures (TNFD) in September; and
- the final disclosure framework published by the UK Transition Plan Taskforce (TPT) in November.

It is important to note that not all ESG reporting, and disclosure frameworks are mandatory. Many are being phased in gradually, whether through new regulations, or reporting standards. With these disclosure standards available, businesses will be under increasing scrutiny from regulators, investors and wider stakeholders to ensure that they are conducting business ethically and playing a crucial role to improve their corporate sustainability.

About BoardRoom

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- ESG Services
- Share Registry
- Employee Share Plans

Clients have put their trust in us for years because we remain committed to the highest levels of compliance and service excellence. The awards and certifications we've received in recent years are testament to our promise to help clients comply and thrive.

Let us help you

As an experienced corporate services provider, we welcome any opportunity to discuss your business needs to see where we may be able to support you on your growth journey.

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