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ESG Standards Overview

Accelerating the ESG reporting journey in Asia

April 2024

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Background

In the ever-evolving landscape of corporate governance and sustainability, Environmental, Social, and Governance (ESG) reporting has emerged as a crucial facet of transparency and accountability for public companies. This whitepaper delves into the dynamics of ESG reporting standards, emphasizing its significance not only for large corporations but also for small to mid-sized companies, particularly in Asia, which encounter their unique set of challenges in this realm.

ESG reporting, an acronym for Environmental, Social, and Governance reporting, represents a holistic approach to evaluating a company's performance in non-financial areas. This encompasses an array of factors that gauge the company's impact on the environment, its relationship with society, and the quality of its governance practices. As corporations worldwide increasingly acknowledge their roles as responsible global citizens, ESG reporting has gained traction as a means to measure and communicate their commitment to sustainable and ethical business practices.

ESG reporting has transformed from a voluntary practice to a fundamental requirement for public companies. Stakeholders, including investors, consumers, regulators, and employees, are showing a growing interest in a company's ESG performance. Investors, in particular, are recognizing the materiality of ESG factors in shaping the long-term financial sustainability of a business. Public companies now have a vested interest in adopting robust ESG reporting standards to enhance their reputations, attract responsible investors, and maintain compliance with regulatory frameworks.

While large corporations often possess substantial resources and specialized teams to facilitate ESG reporting, small to mid-sized companies confront a distinct set of challenges. These include limited financial and human resources, potential data gaps, and the need to strike a balance between ESG compliance and day-to-day operations. In this whitepaper, we explore these challenges in detail and provide insights into how companies can navigate the ESG reporting landscape effectively, leveraging it as a tool for sustainable growth and competitive advantage.

Through this whitepaper, we aim to shed light on the intricacies of ESG reporting standards, demonstrating its relevance and benefits for all public companies, irrespective of their size, and offering practical guidance on addressing the challenges that companies encounter in their ESG reporting endeavors.

ESG Standards Overview

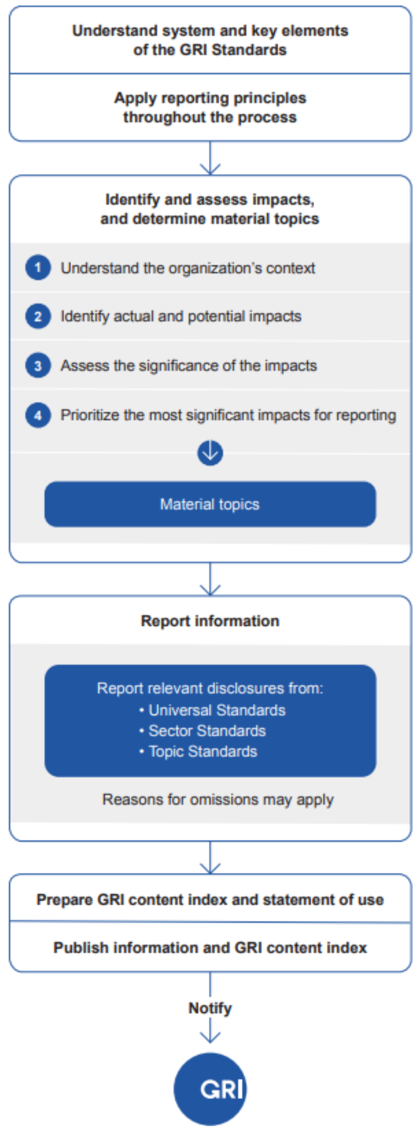
Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI)[1] Standards are a modular system of interconnected standards designed to allow organizations to report their impacts on the economy, environment, and society transparently and in a structured manner. These standards enable credible and comparable reporting to stakeholders and other interested parties.

Application of GRI

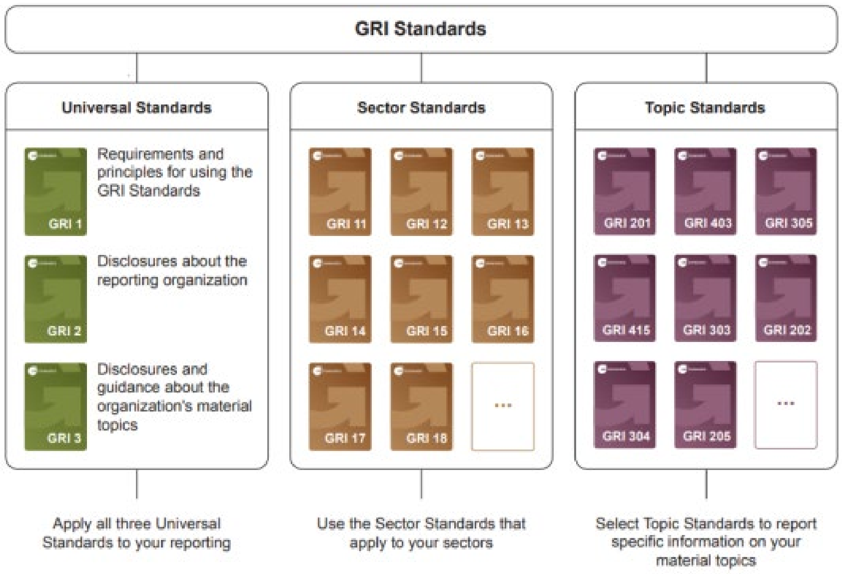
The GRI Standards are utilized by a wide range of organizations, both large and small, public or private, across various sectors and locations. They are used by reporters within organizations to report on the organization's impacts in a credible and comparable way. These standards also aid stakeholders and other information users understand what is expected from an organization's report. The disclosed information is used by organizations to assess their policies and strategies, set goals, and guide decision-making. Additionally, stakeholders like investors use this information to assess how an organization integrates sustainable development into its strategy, identify financial risks, and evaluate long-term success. Other users, such as analysts, policymakers, and academics, also benefit from this information for benchmarking, policy formation, and research.

Process of GRI Reporting



[1] "A Short Introduction to the GRI Standards." PDF file. www.globalreporting.org.

Classification of GRI Standards[2]



GRI Standards and Requirements

1. GRI Universal Standards: These apply to all organizations and consist of:

   a) GRI 1: Foundation 2021: Outlines the purpose of the GRI Standards, clarifies critical concepts, and explains how to use the Standards. It lists requirements for compliance and specifies principles fundamental to quality reporting.

   b) GRI 2: General Disclosures 2021: Contains disclosures related to the organization's structure, activities, workers, governance, strategy, policies, practices, and stakeholder engagement.

   c) GRI 3: Material Topics 2021: Explains how to determine the topics most relevant to an organization's impacts and contains disclosures for reporting material topics.

2. GRI Sector Standards:

   These aim to increase the quality, completeness, and consistency of reporting by organizations in specific sectors, such as oil and gas, agriculture, aquaculture, and fishing. They list topics likely to be material for most organizations in a given sector and indicate relevant disclosures.

3. GRI Topic Standards:

   Contains disclosures for providing information on specific topics, such as waste, occupational health and safety, and tax. They include an overview of the topic and disclosures specific to it.

[2] Ibid

SASB - Sustainability Accounting Standards Board

The SASB Standards[3] are designed to enable organizations to provide industry-based disclosures about sustainability-related risks and opportunities. These disclosures focus on factors that could reasonably be expected to impact the entity's financial performance, such as cash flows, access to finance, or cost of capital, over short, medium, or long-term periods. The Standards are aimed at identifying sustainability issues most relevant to investor decision-making across 77 industries and were developed through a rigorous and transparent process.

SASB Standard-setting Process[4]

Applications of SASB

SASB Standards are recognized globally by investors as essential for companies that aim to make consistent and comparable sustainability disclosures. These standards are particularly significant for entities seeking to communicate how sustainability issues affect their financial performance and condition. As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation has assumed responsibility for the SASB Standards, committing to maintaining, enhancing, and evolving them. The SASB Standards are instrumental in the application of the first two IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2), which focus on general requirements for sustainability-related disclosures and climate-related disclosures, respectively.

SASB Standards and Requirements

The SASB Standards were published in 2018 after extensive research and market input. These standards are maintained and updated through a process that involves engagement with corporate professionals, investors, and subject matter experts. This process is characterized by evidence-based research, broad and balanced stakeholder participation, public transparency, and independent oversight. The approach to updating the Standards is project-based, allowing for focused standard-setting to address key issues effectively. This model enables the addressing of broad themes, regulatory changes, and trends affecting multiple sectors while also retaining the capability to tackle targeted industry-specific issues.
For further details on the specific standards and their applications, the SASB Standards and their maintenance processes can be explored in-depth on the SASB website or in the documentation of their standard-setting activities.

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[3] "How Companies Can Use SASB - ESG Reporting." SASB, August 15, 2023. https://sasb.org/company-use/.
[4] Ibid

TCFD - Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD)[5] was established by the Financial Stability Board to develop voluntary, consistent climate-related financial disclosures. These disclosures are intended to be useful for investors, lenders, and insurance underwriters to assess and price climate-related risks and opportunities. The Task Force is a global, industry-led group consisting of 32 members.

Applications of TCFD

TCFD developed four key recommendations on climate-related financial disclosures that are applicable across different sectors and jurisdictions. These recommendations are designed to be widely adoptable and provide useful information for a broad range of stakeholders.

TCFD Standards and Requirements

The TCFD structured its recommendations around four core elements of organizational operation:

1. Governance:
   Disclosures concerning the organization’s governance around climate-related risks and opportunities, including the roles of the board and management.
2. Strategy:
   Disclosures on the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. This includes the resilience of the organization’s strategy taking into consideration different climate-related scenarios.
3. Risk Management:
   Disclosures about how the organization identifies, assesses, and manages climate-related risks.
4. Metrics and Targets:
   Disclosures on the metrics and targets used to assess and manage relevant climate-related risks and opportunities. This includes the organization’s greenhouse gas emissions, targets for reducing emissions, and progress against these targets.

These recommendations are supported by disclosures that help investors and others understand how organizations assess climate-related risks and opportunities. The guidance provided supports all organizations in developing climate-related financial disclosures consistent with these recommendations.

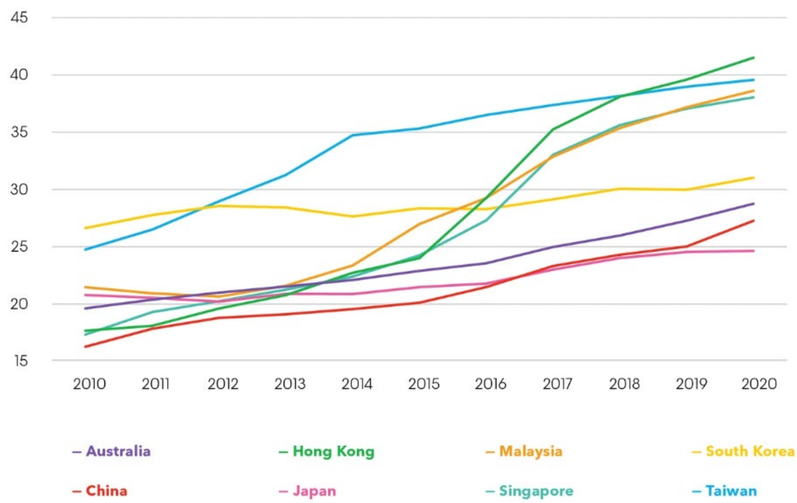
[5] Task Force on Climate-related Financial Disclosures Overview. PDF file. 2022.

Comparative Analysis

When looking at the Global Landscape of ESG reporting, it is crucial to analyze the Asian market. Generally immature compared to the global market, Asia's ESG reporting market consists of both opportunities and challenges. According to Baker McKenzie's Asia Pacific Business Renewal Series, ESG and environmental issues rank seventh out of the top 14 concerns facing businesses in APAC.[6] This demonstrates the increasing attention ESG gets from APAC countries and the huge potential for growth in the ESG domain. However, underneath the apparent development, underlying problems are also related to regulatory enforcement, changing buyer behavior, etc. In this part of the report, we will give an Overview of ESG Disclosure Trends in Asia, a detailed analysis of China's ESG Reporting process, and a comparison of Asian countries with the global ESG leaders.

1. Asian Countries are striding ambitiously toward ESG goals

ESG Disclosure Trends by Location in Asia (2010-2020)[7]



Starting with an overview of the scope of Asian ESG, the figure above represents the growth trend of average ESG disclosure scores in eight different Asian countries from 2010 to 2020. It is clear from the chart that Disclosure of ESG data has increased in all countries and regions in APAC over the past ten years, with Hong Kong seeing the most growth. Such growth is the consequence of drastic regulatory changes over the past decade, and now most markets have some form of governance-related code on a comply or explain basis, for example:

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[6] "ESG Trends in Asia Pacific: Disputes, Reporting and beyond: Insight." Baker McKenzie, October 25, 2022.

[7] "ESG Disclosures Gain Traction in APAC | Insights | Bloomberg Professional Services." Bloomberg.com, November 9, 2021.

- In January 2021, South Korea announced a plan to introduce mandatory ESG disclosures for listed companies with assets exceeding KRW 2 trn (USD 1.5 bn) from 2025.[8]
- In December 2022, The Japan Financial Services Agency proposed a hard law amendment that will provide an additional ESG information source for asset managers investing in Japanese listed companies.
- In May 2020, Hong Kong established a “Green and Sustainable Finance Cross-Agency Steering Group” to coordinate the ESG regulatory framework for the finance sector.

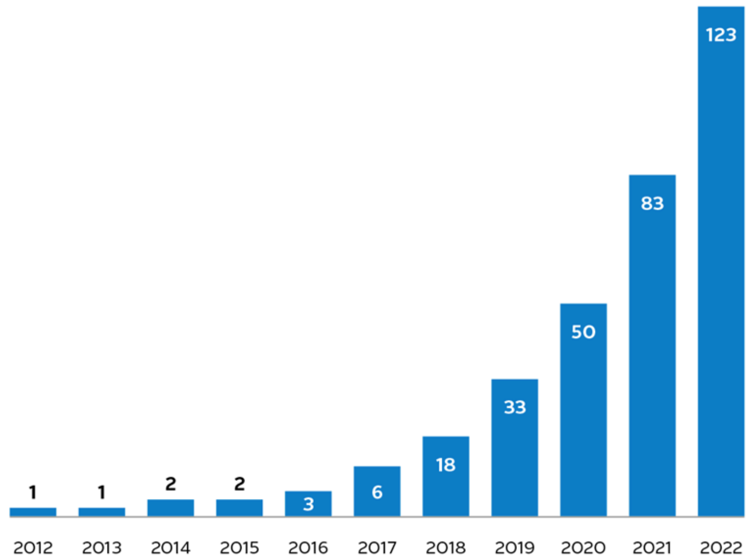
Despite all these ambitious policies, Asian countries are still lagging behind the global standard in various aspects. The 2023 Corporate Governance and ESG Survey by AON found that while 58% of companies in Asia-Pacific say that ESG is critical to their long-term success, only 29% have developed KPIs for ESG performance. Factors like economic uncertainty and socio-economic disparities across regions contributed to the insufficient ESG practice. For instance, human rights and social-related norms vary considerably across APAC, and the standards against which companies will be measured are currently uncertain. As a result, the social aspect still remains largely voluntary for companies implementing ESG actions.

2. China is progressing rapidly but still lacks behind from global peers

Ever since the 1980s, China’s economic landscape has been marked by robust growth, making it a global economic powerhouse. However, a side-product of China’s economic development is environmental concern. In the third quarter of 2023, China’s CO2 emission reached 3217 million metric tons, being the single largest source of carbon emissions in the world.[9] In response to this, the Chinese government set targets to achieve carbon peaking by 2030 and carbon neutrality by 2060. To achieve the targets and alleviate other problems like corporate bureaucracy and rural poverty, China has issued its first ESG disclosure standard - “Guidance for Enterprise ESG Disclosure,” to take effect on 1 June 2022. It covers disclosure principles, requirements, and metrics for different types and sizes of companies to be used to deliver an official ESG report.[10] Since then, China has seen an explosion of ESG funds targeting retail investors.

[8] Roohi Ghelani, and Richard Allen. “ESG Trends in Asia Pacific: Disputes, Reporting and Beyond.” Ndevr Environmental Consulting, June 23, 2023.
[9] Myllyvirta, Lauri. “Analysis: China’s Emissions Set to Fall in 2024 after Record Growth in Clean Energy.” Carbon Brief, November 14, 2023.
[10] “China Gets ESG Disclosure Framework.” XBRL.

Number of PRI Signatories in China at Year-End[11]



The figure above demonstrates the rocketing growth of Chinese companies focusing on ESG disclosure ever since the Chinese government declared the carbon neutrality target in 2020. As of the end of 2022, 123 Chinese companies have committed to the UN's Principles for Responsible Investment (PRI). Individually, Alibaba has begun disclosing more information about its ESG practices, including steps to reduce carbon emissions by optimizing its logistics through digitalization and investment in renewable energy while launching various programs and initiatives to assist small and medium-sized enterprises in adopting sustainable business practices. Also, China's BYD Company, one of the world's largest manufacturers of electric vehicles, has made significant investments in renewable energy and sustainable transportation.[12]

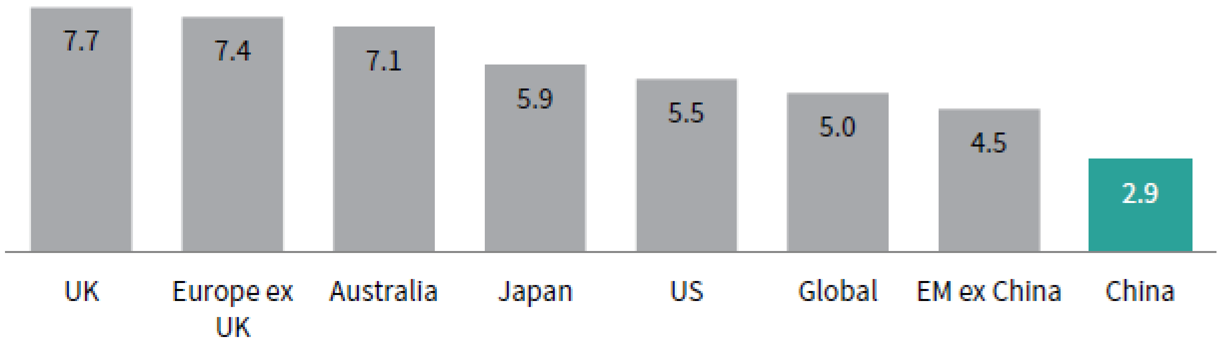
Although the prospect of China's ESG development seems bright, underlying threats and drawbacks exist. MSCI (Morgan Stanley Capital International) ESG Research data show that China ranks 47 out of the 50 countries in the MSCI All Country World Index (ACWI), with a median Industry-Adjusted Score of 2.9, out of a scale of 0 to 10.[13] The low score is attributable mainly to the availability and quality of ESG data provided by Chinese companies. The ESG disclosure standards of China only mandate five types of enterprises to disclose environmental information, with a lack of focus on the social and governance side of ESG. Without a strict and complete guideline for companies outside these five types of enterprises, the ESG practices of common companies become largely voluntary, incomplete, or not credible.

[11] "Responsible Investment and Sustainability Outcomes in China: Current Practice and Policy Recommendations." PRI, July 31, 2023.

[12] Bernstein, Drew. "How Asia Stacks up on ESG." Forbes, May 5, 2023.

[13] Phan, Michelle. "ESG Challenges and Opportunities in Chinese Equities." October 24, 2023.

MSCI Median ESG Score Across Countries[14]



Specific to the sector, under the environment pillar, Chinese companies rank lower than their global peers across a broad range of issues, such as carbon emissions and toxic emissions & waste. However, stricter environmental policies have seen incremental positive developments in terms of climate change. Under the social pillar, Chinese companies have some of the lowest social-pillar ratings relative to global peers. One area in which Chinese companies received a heavier penalty is privacy & data, indicating lower privacy and internal data security management systems and higher occurrence of data breaches and/or privacy-related controversies. In addition, lower health & safety scores reflect a higher risk of health and safety accidents that can lead to production disruptions, litigation, and liabilities.

Lastly, under the governance pillar, Chinese companies generally scored lower in terms of board and pay. One of the concerns relating to board performance is independence, as many companies lack an independent majority of board members (55% for the MSCI China Index versus 33% for the MSCI ACWI constituents). This issue is compounded if the company has a controlling shareholder, which is the case for many of the state-owned companies and founder-led firms in China, as it reduces the influence of minority shareholders. In addition to corporate governance concerns, Chinese companies also score lower on the corporate behavior front, indicating higher risks surrounding items such as fraud, executive misconduct, antitrust violations, or tax-related controversies.

However, it is important to recognize that these standards are designed and probably more suited to evaluating United States companies and may lack consideration of different circumstances firms face in China. Therefore, it may not accurately reflect the actual ESG level of Chinese firms.

Although China's ESG disclosure and scores remain low, with the government rapidly incorporating green initiatives and ESG practice, there's ample space for growth in China's ESG Disclosure front. In order to catch up with global trends, it is important to learn from a case study of Patagonia, global leaders in ESG reporting below.

[14] Ibid

Case Study: Patagonia

While it is crucial to reflect on the shortcomings of Asian countries in ESG Reporting, it is more important to learn from the global leaders and have companies build up their own ESG profile. As an example, we analyzed the ESG strategies of the top-ranked corporate sustainability leader, Patagonia[15], to dig deeper into their secret of success on the ESG front.

Patagonia, Inc. is an American retailer of outdoor recreation clothing, an industry that is conventionally synonymous with high pollution. However, the company successfully branded itself so that when you hear “Patagonia", you don’t just envision the outdoor clothing line; you envision social goodness. In achieving this level of recognition, Patagonia put in enormous effort to continuously enforce ESG policy, spanning past, present, and future.

Below are lists of environmental Responsibility programs extracted from Patagonia’s website.

1. Past & Present

In 1996, we switched to using only organically grown cotton in all our products made from virgin cotton and are continuing to increase our use of preferred materials—from 43% across our whole product line in 2016 to 88% in 2022. (Preferred materials include organic and Regenerative Organic cotton, hemp, recycled polyester, and recycled nylon, among others.)

Since 1985, Patagonia has pledged 1% of sales to preserve and restore the natural environment. We've awarded over $140 million in cash and in-kind donations to domestic and international grassroots environmental groups making a difference in their local communities.

Over the years, we have confounded or joined numerous progressive coalitions to change the industry, including the Fair Labor Association, the Sustainable Apparel Coalition and B Lab. In doing so, we’ve collectively focused on improving the lives and workplaces for people across the globe, used data to identify the industry’s most pressing challenges, and ensured that we balance the needs of our business with those of society.

2. Future

- By 2025, we will eliminate virgin petroleum fiber in our products and only use preferred materials.
- By 2025, our packaging will be 100% reusable, home-compostable, renewable, or easily recyclable.
- By 2040, we will be net zero across our entire business.

[15] globescan1. “2023 Sustainability Leaders: Report & Webinar.” GlobeScan, September 6, 2023.

Though all of these programs more or less impacted Patagonia's profits, they reached significant results on the consumer end. To this day, the company sells more than $1 billion worth of outdoor apparel each year, valuing the company at around $3 billion. Moreover, Patagonia maintains a 10% profit margin that beats publicly traded apparel companies like Abercrombie & Fitch.[16]

To summarize, while it might be hard to achieve Patagonia's level of social responsibility, its continuous, well-advocated, and impactful ESG strategies are certainly a role model for other companies. Therefore, aside from standardizing ESG requirements and enforcing stricter regulations, it is equally important for Asian companies to persist in their ESG policies, thus making an impact big enough to attract more investors and earn the reputation of a socially responsible corporation.

[16] Shek, Katia. “Patagonia: ESG’s Golden Child.” Global Research and Consulting Group Insights, April 23, 2023.

Main Challenges

In this section, we will address the main challenges companies face trying to incorporate ESG reporting into their system. First, we will look at the global issues faced by public companies when it comes to benchmarking and then shift our lens to more specific problems faced by Asian companies, as well as various standards of key rating agencies, posing obstacles to companies in meeting ESG requirements.

A. Benchmarking Against Industry Peers

1. Identifying Relevant Peer Groups

Diverse Business Models
Different business models within the same industry can lead to varying ESG priorities and outcomes. For instance, even within the same manufacturing industry, tech-concentrated companies might emphasize cybersecurity and data privacy under their social governance criteria. In contrast, production-concentrated companies could focus more on minimizing their environmental footprint and ensuring worker safety.

Geographical Variations
Companies operating in different regions face distinct ESG challenges and opportunities based on local regulations, environmental conditions, and social norms. Firms in Europe, for example, often have to adhere to stricter environmental standards than those in other regions, influencing their ESG strategies and reporting.

Size and Scale
The scale of operations significantly impacts a company's approach to ESG initiatives. Larger corporations might focus on wide-reaching sustainability projects and have more resources for comprehensive ESG reporting. At the same time, smaller firms can be more agile in implementing innovative ESG solutions but might lack the resources for extensive initiatives.

2. Data Collection and Analysis Challenges

Inconsistency in reporting
Variability in ESG reporting arises from differing interpretations of what should be measured and reported. Some companies may report detailed carbon emissions data, while others might focus on workforce diversity or community engagement, reflecting a lack of uniformity in ESG reporting standards.

Lack of standardization
The ESG landscape is characterized by a variety of reporting frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). This diversity leads to

challenges in directly comparing ESG performance across different companies.

Data gaps

Many companies encounter difficulties in reporting certain ESG metrics due to the complexity of data collection, especially in areas like supply chain management or indirect environmental impacts. These gaps can hinder a comprehensive understanding of a company's full ESG impact.

B. Reporting to Rating Agencies and Certification Bodies

1. Key Agencies and Their Methodologies

Refinitiv (LSEG)

Refinitiv, now named LSEG, is a major provider of financial markets data and infrastructure operating in over 190 countries and offers standardized ESG data points (630+) and analytics (70+). It aspires to be the industry standard database reflecting official company disclosure on environmental, social, and governance (ESG) metrics. Data collection involves annual reports, NGO websites, CSR reports, company websites, stock exchange filings, and news sources. The 150+ content research analysts compile this data to create a reliable ESG database covering 80% of global market cap and 76 countries across 630 metrics.[17]

GRESB

GRESB is an independent organization that provides validated ESG performance data and peer benchmarks to enhance business intelligence, industry engagement, and decision-making for investors and managers. It operates with a mission-driven and investor-led approach, collecting, validating, scoring, and independently benchmarking ESG data. The resulting benchmark scores follow a rigorous methodology, as detailed in their assessments available at https://documents.gresb.com/[18]. A sample reference by GRESB is shown below:

Score weighting by the E, S, and G dimensions within each component, by GRESB Reference[19]

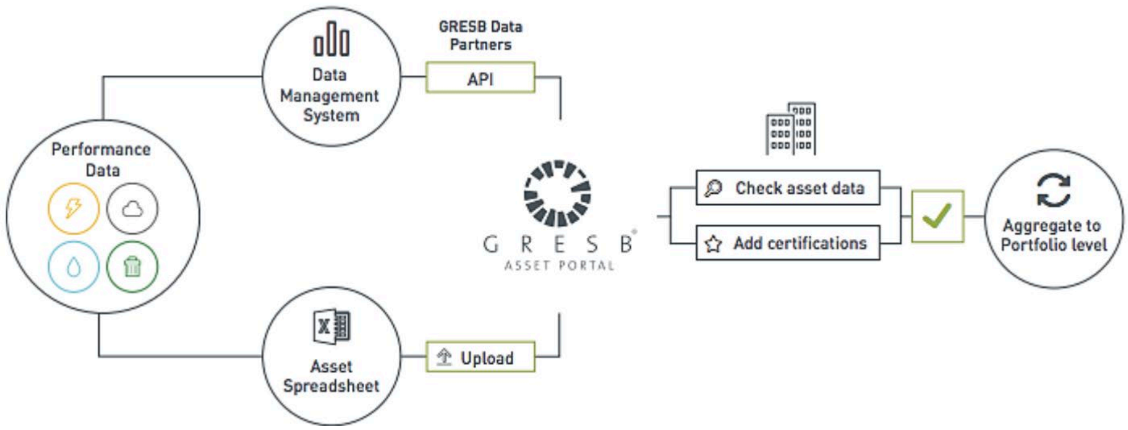
	E	S	G
Management	0%	35%	65%
Performance	89%	11%	0%
Development	73%	21%	6%

[17] LSEG, "LSEG Data & Analytics", https://www.lseg.com/en/data-analytics

[18] GRESB, Home Page, https://www.gresb.com/nl-en/

[19] GRESB, "2021 Real Estate Reference Guide", 2021

Flowchart of GRESB Asset Portal, by GRESB Reference[20]



Figure

MSCI

MSCI offers over 3,900 equity and fixed-income ESG indexes designed for institutional investors to integrate ESG or climate considerations into their investment process. The indexes aim to help investors benchmark ESG investment performance effectively and manage, measure, and report on ESG mandates. MSCI leverages ESG criteria to include, re-weight, or exclude companies, representing the performance of common ESG investment approaches.[21]

Moody's

Moody's provides transparent methodologies for rigorous ESG risk solutions addressing various business needs, including underwriting, lending, disclosure and regulation, investing, supply chain, and foundation analysis. Their approach involves enhancing disclosure and compliance with ESG regulatory reporting requirements, identifying and managing ESG risks in portfolio management, and integrating ESG factors into credit analysis and sustainable finance[22].

[20] Ibid

[21] MSCI, Home Page, https://www.msci.com

[22] Moody, "ESG at Moody's — ESG Risk Assessment"

C. Challenges of ESG Reporting in the Asian Market

Measuring & Quantifying ESG Factors

- Lack of unified standard: One prominent obstacle is the lack of standardized ESG disclosure requirements across Asian countries. The absence of a uniform framework makes it difficult for companies to consistently report ESG metrics, leading to a fragmented and less comparable landscape for investors and stakeholders. Harmonizing these disparate standards poses a substantial challenge, requiring collaboration among regulatory bodies to establish a cohesive and standardized approach to ESG reporting.
- Identifying material topics: Companies face difficulties in determining relevant ESG factors without regular materiality assessments, hindering alignment with stakeholder interests and rapid changes in reporting frameworks.
- Subjectivity and complexity: Qualitative aspects of ESG factors, such as employee satisfaction, brand reputation, and community engagement, pose challenges in measurement and quantification due to their inherent subjectivity. It involves developing metrics and indices that can accurately reflect these aspects for comparative analysis.

Data Collection

- Fragmentation and silos: Gathering sustainability data from dispersed sources within organizations, often stored in silos, results in complexity, error-prone spreadsheets, and difficulties in integration.
- Inefficient workflows: Traditional siloing of ESG data leads to inefficient and convoluted workflows, especially as sustainability involves cross-functional efforts across various departments.
- Data complexity and scope: ESG reporting covers a wide range of issues, each with unique indicators and data requirements, making data collection complex and resource-intensive.

Verification Issues

- Inconsistency in verification methods: Limited resources and expertise in data collection and analysis can lead to inaccuracies and inconsistencies in reported ESG metrics. Robust verification processes are essential to ensure the reliability of the disclosed information, but the lack of standardized verification methodologies across the region complicates this task. Establishing consistent and credible verification practices is crucial for building trust in ESG reporting and facilitating informed decision-making by investors and other stakeholders in Asian markets.
- Gap with the globe: The rapidly evolving nature of ESG reporting standards further compounds the verification challenges in the Asian market. As global best practices and reporting frameworks continue to evolve, companies may struggle to keep pace with the latest requirements. This

dynamic landscape can result in inconsistencies and gaps in ESG reporting, requiring thorough verification processes to ensure accuracy and adherence to emerging standards.

Stakeholder Engagement and Communication

- Varying levels of knowledge: The Asian region's rich tapestry of cultures contributes to varying perceptions of environmental and social responsibility. Companies may face difficulties in aligning their ESG reporting practices with cultural expectations, impacting the consistency and comparability of reported data. Bridging these cultural gaps necessitates not only regulatory efforts but also increased awareness and education on the importance of standardized ESG reporting practices.
- Transparency and trust concerns: Transparency remains a persistent challenge in ESG reporting across the Asian market. Some companies may be reluctant to disclose comprehensive data, fearing potential negative impacts on their competitiveness or reputation. As a result, stakeholders face challenges in obtaining accurate and complete information for assessing a company's ESG performance. Encouraging a culture of openness and incentivizing transparent reporting practices are critical steps in overcoming this hurdle[23].

Internal Communication and Collaboration

Besides the main challenges, key obstacles in management, internal communication, and integrating ESG with financial reporting are crucial elements to consider[24].

Challenge	Solution
Stakeholder Engagement: Complexities arise when diverse stakeholders within the organization are engaged.	Develop clear strategies and communication channels for stakeholder engagement.
Talent and Expertise: Building a team with ESG expertise is challenging.	Provide ESG training and consider hiring experienced professionals.
Internal Alignment: Consistency in integrating ESG across the organization is crucial.	Develop a clear ESG policy that aligns with organizational values.
Performance Measurement: Effectively defining and measuring ESG performance poses difficulties.	Establish ESG KPIs and regular assessment mechanisms.
Financial Reporting: lack of standardization, quantification difficulties, misaligned time horizons, data quality issues, and complexity in integrating ESG factors.	Foster top leadership commitment and strategic alignment and adopt recognized reporting standards.

[23] Novisto, "Four Challenges of ESG Reporting and Strategies for Overcoming Them", Jun 30, 2023

[24] "Harmony in Numbers and Nature: The Synergy of ESG and Financial Reporting." Grant Thornton Saudi Arabia. Home.

Conclusion

The landscape of Environmental, Social, and Governance (ESG) reporting is evolving globally, and the Asian market has shown notable progress in the past decade. However, challenges persist, especially in the context of benchmarking against peers, data collection and verification, and aligning reporting practices with cultural expectations. The adoption of global standards like the GRI Framework, SASB Industry Standards, and TCFD Recommendations has been instrumental in guiding transparent reporting, influencing decision-making, and communicating sustainability efforts to stakeholders.

While the Asian market has made strides in ESG reporting, there is room for improvement. A comparative analysis indicates that only 29% of Asian companies develop Key Performance Indicators (KPIs) for ESG performance, highlighting the need for more comprehensive strategies. China's rapid advancement in ESG post its first disclosure standard is commendable, but challenges with data availability and quality are evident. Learning from global ESG leaders, such as Patagonia, can provide valuable insights for Asian companies looking to enhance their impact.

The main challenges faced by Asian companies include the diversity of business models, geographical variations, and varying scales of operations within industries, leading to diverse ESG priorities. Collection and verification of ESG data pose difficulties, especially when measuring subjective factors and dealing with fragmented data collection. The lack of uniformity in reporting to rating agencies, influenced by diverse ESG agencies, contributes to the challenges faced by companies in the Asian ESG landscape. Cultural expectations also play a role, impacting the consistency and comparability of reported data.

Operational challenges, such as internal communication, engaging diverse stakeholders, building teams with ESG expertise, and integrating ESG factors into financial reports, further compound the difficulties faced by companies. Examples like Etsy Inc. underscore the effectiveness of strong leadership commitment and strategic alignment of ESG goals with business strategies. These cases emphasize the need for comprehensive stakeholder engagement and adherence to recognized reporting standards for enhanced ESG performance.

For mid-to-small-size companies in Asia, the call to action is clear. Embrace ESG reporting as a strategic imperative for long-term success. Develop clear Key Performance Indicators (KPIs) aligned with global standards, ensuring consistency and comparability. Invest in robust data collection and verification processes, acknowledging the challenges and seeking innovative solutions. Cultivate internal expertise and engage diverse stakeholders to build a unified approach to ESG. Align ESG goals with business strategies, follow the lead of global leaders, and emphasize adherence to recognized reporting standards. By doing so, companies can not only enhance their ESG performance but also contribute to the overall sustainability and resilience of the Asian business landscape.

About the Authors

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The UCLA Financial Investment and Technology Club (FIT) is a nonprofit student club at the University of California, Los Angeles (UCLA) that focuses on investment and technology. We furnish a platform to comprehend financial theories and market dynamics, aspiring to equip students with the prowess for triumphant forays into finance and technology. Our mission is to cultivate adeptness in investment strategies, fostering a seamless meld of theoretical mastery and pragmatic skill sets.