



Types of ESG Framework




Overview

General rule for what each framework reports on:

1. Reporting and Disclosure - GRI, CDP, SASB
1. Climate Related - TCFD, CDSB
1. Workforce Related - WDI
1. Broad Range - WEF

Note: there are many more that exist, but these are the typical ones that most industries use.



What are frameworks and why are they used in ESG?

Frameworks are a useful tool for companies to measure and report on their sustainability performance by providing a set of standardised metrics.

The metrics which an organisation uses will differ between industry, however, it will usually be shown/listed within their report - **for transparency sakes**.

As said before, these frameworks as used in ESG to provide a more standardised judgement about an institution so that it is easier to compare with its competitors (and in the future potentially cross analyse 2 firms from different industries).

The frameworks also allow for quantitative analysis to be performed :)



Reporting and Disclosure Frameworks

GRI (Global Reporting Initiative)

This provides guidance for organisations to report their ESG performance and impact.

General structure of framework is as follows:

1. Reporting Principles
2. Frameworks
3. Reporting standards

CDP (Carbon Disclosure Project)

This is used for managing, measuring & reporting environmental impact.

Consists of a questionnaire which is compulsory for orgs to answer.

Covers questions about climate change, water security and deforestation.

Uses an A-D-[F] scale to assess an organisation

SASB (Sustainability Accounting Standards Board)

This is a set of standardised sustainability accounting standards that companies use to show ESG performance to stakeholders.

The standards (following) will vary between industry as they are specific:

1. Environmental
2. Social Capital
3. Human Capital
4. Business model + innovation
5. Leadership + governance

A good framework is when the company makes it easy for their results to be compared against other organisations



Climate Related Frameworks

TCFD (Taskforce on Climate-related Financial Disclosure)

This focuses on climate related financial disclosures/aims

Framework contains:

1. Governance
2. Strategy (climate roadmap)
3. Risk management
4. Metrics + targets (to measure risk)

Framework helps to inform investors about the risks that companies have which could impact business performance (in SR and potentially some hysteresis which may occur)

Some companies may turn away using this framework as it is too transparent since it requires businesses to provide sensitive information which gives the opportunity for competitors to replicate their model.

CDSB (Climate Disclosure Standards Board)

This encourages organisations to report on how climate change risks and opportunities are being integrated into their business strategy, financial and business decision making process.

The framework contains information on:

1. Governance
2. Strategy Risk Management
3. Metric + Targets
4. Transparency

This is a very clear and concise framework to communicate their climate risk to consumers & investors



Workforce related Frameworks

WDI (Workforce Disclosure Initiative)

This focuses primarily on the social pillar of ESG and it aims to improve the quality of jobs and worker engagement globally by encouraging firms to disclose workforce policies and practices (in other words: incentivises them to shut down sweatshops and stop child labouring, etc).

It provides a consistent framework which can be very valuable for investors and stakeholders and typically most companies can use this as most products have a form of supply chain production, thus using human K.

Overall, it creates greater transparency and accountability on workforce issues - therefore creating a positive impact or mitigating working conditions globally.



Broad Range (Generalisation) frameworks

WEF (World Economic Forum stakeholder capitalism metrics)

This is an international organisation focussing on world economic development; this is sometimes known as macro-ESG.

The framework helps to ensure companies measure and report on progress which stakeholders desire to see

The four 'pillars' it covers are:

1. Governance - metrics related to broad oversight and anti-corruption policies
2. Planet - anything environmental issues (ofc)
3. People - worker diversity, wage diversity, health + safety
4. Prosperity - covers anything that 'E' and 'G' doesn't cover (i.e. social issues, such as supply chain practices)

Useful framework which companies can use to measure + report sustainability performance with stakeholder preferred metrics.

You'll be glad to hear
that's it for the
frameworks!!!

