ESG Reporting and Disclosure

Background of ESG

Focus on Environmental, Social, and Governance (ESG) Reporting emerged as a response to the rapid economic growth after 2000 driven by mass production. The large quantity of Greenhouse Gases (GHGs) emitted due to mass production has contributed to severe climate change, which ultimately undermines economic growth. This was not a significant issue before the 1970s, when industrialization and production were limited due to lower demand for goods and services. Between the 1970s and 2000, industrialization expanded rapidly through industrial, export processing, and Special Economic Zones, along with road network infrastructure development. Such economic activities produce both positive and negative externalities for surrounding areas or regions. Most governments implemented Corporate Social Responsibility (CSR) to mitigate negative externalities and foster a positive relationship between industrialists and suburban communities through philanthropic activities. After 2000, growing climate challenges led to CSR being replaced by the ESG framework, shifting its focus from regional to global and expanding its scope from philanthropy to ESG performance (including governance performance in protecting stakeholders' rights, seizing emerging opportunities, and managing environmental risks).

The main objective of ESG reporting is to strengthen stakeholders' and investors' confidence in an organization's strategy to address Environmental, Social, and Governance impacts and ensure long-term sustainability. Disclosures explain and support specific information in reports through comparative data presented in metrics, tables, KPIs, and notes.

Sustainability Reporting

Sustainability reports include a combination of general and specific/mandatory information intended for stakeholders, particularly investors, to guide their investment decisions. General information covers an overview of the company, similar to a traditional financial report, commitment to sustainability reporting and ongoing improvements, business model, connection with financial reporting and comparative data, financial results, materiality assessment, and other company-specific areas. Compliance with disclosures required by IFRS S1 & IFRS S2, issued by the International Sustainability Standards Board (ISSB), is mandatory for all organizations.

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1) Sustainability Standard (IFRS S1)

IFRS S1 deals with four general requirements for the disclosure of sustainability-related financial information, which include Governance, Strategy, Risk management, and Metrics & targets.

a) Governance: A company has to show that sustainability is embedded in its planning and operational activities. Its approach to sustainability is reflected in how capital is raised, internal operations are managed, financial products are deployed, and how the company engages with the economies and societies in which it operates.

Major Governance Disclosures

- **Governance Structure:** Structure of Board of Governors (BoG), Board of Directors (BoD), and committees for first, second, and third levels of defense, and their roles in informing stakeholders about the activities mentioned below.
- **Business**: Processes, controls, and procedures to enable stakeholders to make prudent investment decisions.
- **Policies, Rules & Procedures**: Anti-corruption measures, code of business ethics, human rights, due care of all stakeholders (employees, investors, suppliers, and customers), and fair competition practices.
- **Transparency & Reporting Standards**: Commitment to global frameworks like GRI, ISSB, SASB, SDGs, and TCFD, with third-party assurance of ESG data to enhance credibility, and ESG KPIs, including the percentage of independent directors.
- **Stakeholder Engagement:** A mandatory part of governance, identifying stakeholders according to Mendelow's Matrix (Power & Interest).
- **Metrics & Targets of Governance:** Metrics for targets and progress. For example, a target for board independence may be 70%, but the actual achievement is 65%. Similarly, for anti-corruption seminars/trainings, the budgeted number is 10, but 11 were actually held, achieving 110% of the target.

Sr.	Governance Area	Metric	Unit / Indicator	Baseline (Current)	Target (Future)	Target Year	Remarks / Action Plan
1	**Board Composition & Diversity**	% of independent directors on the board	%	55%	≥ 60%	2025	Strengthen governance independence
		% of female board members	%	25%	40%	2026	Implement board diversity policy
		Average board tenure	Years	8	≤ 6	2027	Replenishment board membership regularly
2	**Ethics & Anti-Corruption**	% of employees trained on Code of Conduct	%	80%	95%	2025	Annual ethics training
		Number of corruption cases reported	Count	2	0	2025	Zero-tolerance policy
		Whistleblower mechanism in place	Yes/No	No	Yes	2025	Launch and monitor hotline
3	**Risk Management & Compliance**	% of business units with ERM system	%	50%	100%	2025	Full ERM integration
		Number of compliance audits conducted	Count	4	6	2026	Strengthen compliance monitoring
		Major compliance breaches	Count	1	0	2025	Regular internal reviews
4	**Transparency & Reporting**	Sustainability report published	Yes/No	Yes	Annual	Ongoing	Aligned with GRI/ISSB
		% of ESG disclosures externally assured	%	0%	100%	2027	Third-party verification
		Stakeholder complaints resolved	%	70%	100%	2026	Improve grievance handling
		Data breaches reported	Count	1	0	2025	Upgrade IT security
5	**Data Privacy & Cybersecurity**	Employees trained in data privacy	%	60%	100%	2025	Mandatory cybersecurity training
		% of IT budget for cybersecurity	%	10%	20%	2026	Increase cybersecurity investment
6	**Executive Compensation & ESG Integration**	% of executive bonuses tied to ESG	%	10%	30%	2025	Link incentives to ESG KPIs
		CEO-to-employee pay ratio	Ratio	70:01:00	≤ 50:1	2027	Ensure equitable pay structure
7	**Legal & Regulatory Compliance**	Regulatory fines incurred	Count / $	$20,000	$0	2025	Strengthen compliance training
		Operations compliant with ISO standards	%	80%	100%	2026	Maintain certifications

b) Strategy: A comprehensive Action Plan to achieve specific long-term goals or a set of objectives through clear direction, by setting priorities and effectively allocating resources. The company develops its strategy using a range of tools, including Vision, Mission, Goals, SWOT analysis, resource allocation, implementation of the Action Plan, monitoring and control, and adjustments toward the final goal. The company may adopt one or more strategies, such as avoiding, mitigation, transfer, acceptance, compliance and governance.

Let us discuss the Avoiding strategy in detail, while the other strategies are addressed within specific limits. Avoiding Strategies for sustainability are approaches where an organization, business, or individual intentionally chooses not to engage in certain practices, activities, or investments such as:

- **Environmental Avoidance –** e.g. avoiding investment in a coal-fired power plants or other highly polluted industries; avoiding purchase of bricks-manufactured at traditional kilns instead shifting to cemented blocks; and avoiding construction in environmentally sensitive areas (wetlands, forests, habitats).
- **Social Avoidance –** e.g. not sourcing raw materials from suppliers that use child labour or forced labour; avoiding partnerships with businesses that have a record of human rights violations; and choosing not to operate in regions with unstable social or political systems where community harm is likely.
- **Governance Avoidance –** e.g. avoiding involvement with companies that lack transparency or ethical governance; not participating in markets with corruption risks or weak legal protections; and choosing not to engage in tax evasion practices, even if legally permissible in some jurisdictions.
- **Operational Avoidance –** e.g. avoiding over-extraction of natural resources to prevent future scarcity; not engaging in projects with high carbon footprints when low-carbon alternatives exist; and refusing to use hazardous chemicals in manufacturing processes.
- **Financial / Investment Avoidance –** e.g. divesting from fossil fuels, tobacco or arms industries; avoiding investments in companies that do not meet ESG standards; and avoiding investment in business doing MLM – Pyramids like schemes.

Metrics & Targets

Avoid; Investment, purchase, loan, funding or any type of agreement (Especially Banks for funding)					
Entity / Business to avoid	**Risk**	**Current/Avoiding Strategy**	**Actual**	**Target**	**Achieved**
			2025	**2026**	**Next FY**
Coal Fired Power Plant	E -Risk - Carbon emission	Electricity produced in Coal fired plant	100%	X	
		Electricity to be used-Alternate energy	X	100%	
Steel Mill not Adapting Human Rights Policy	S-Risk-Human rights Violation.	Shifting to another supplier	12	X	
Bricks Kiln - With bonded labour & carbon emission	S- Risk, Child labour & bonded labours	Klein bricks used bonded labour	250,000	X	
		Cemented blocks used	X	125,000	
XYZ Steel Mill- Tax Evasion & Environment Rules Violation	G-Risk, Tax evasion & Non-compliance of ESG standards	Purchases from XYZ Steel Mill	400 ton	X	
		ABC Steel Mill	X	400 ton	
Diesel-Powered Transport	Operational Risk-Climate Change	No. of diesel operated fleet	15	X	
		No. of electric operated fleet	X	17	
XYZ Company has not adopted the ESG framework	S-Climate Change	Invest in XYZ Company	50 m	X	
		Invest in XYZ Company	X	50 m	

c) **Risk Management:** Generally, it means a situation where actual results are not in accordance with expectations or planning; in sustainability reporting, it refers to the process of identifying risk factors that make a universal or tailor-made ecosystem unsustainable. Industrial, agriculture, and household waste in the form of GHG, liquid, and solid waste damage the natural ecosystem and lead to adverse climate changes, resulting in heavy rains, cloud bursts, drought, global warming, thunder storms, earthquake, and rising sea level etc., which pose significant risks to the three Ps namely Planet, People, and Profit (Business). Similarly, for example, drought or flood hamper agricultural output and seriously affect the value of supply chain, which represents a man-made tailored system. There are four major sustainability related risk factors affecting the three Ps, including Environmental, Social, Governance, and Economic along with financial, as a company is bound to report the measures adopted in future plans through clearly defined metrics and targets to reduce or eliminate these risk factors, as they pose serious threats to sustainable operations, financial viability, and legal exposure; therefore, this discussion focuses on two of the four risks namely Social Risk and Economic & Financial Risk along with their respective metrics and targets.

- **Social Risk:** Social risks include child labour, forced labour, and bonded labour at kilns or other manufacturing or business concerns. Unsafe working conditions such as building issues, environmental problems, or outsider intervention and human rights violations as defined under labour laws are key concerns. Community conflicts over land and resources including ethnic, sectarian, or racial riots, income inequality and discrimination between those who have and those who do not, and health and safety risks for workers and local communities due to absence of industrial SOPs or DRAP SOPs are significant. Lack of access to basic needs such as clean water, healthcare, education, and housing, population growth and rapid urbanization creating pressure on shared resources, and migration, displacement, and loss of cultural heritage due to natural havoc, riots, or chaotic situations are also important social risk factors.

Metric & Targets:

LTIFR = Lost Time Injury Frequency Rate &

SMART = Smart, measurable, achievable, relevant & Time-bound.

- **Economic and Financial Risk:** These include supply chain disruptions caused by natural havoc such as floods, earthquakes, and pandemics, rising operational costs from sustainability regulations for example, carbon taxes, and rising overall costs if unsustainability prevails due to reduced production or sales volume. Market volatility from ESG noncompliance, use of fossil fuels and outdated technology where new technology may displace products made with old technology, and resource price fluctuations including oil, gas, food, and minerals are additional economic and financial risks.
- **Metrics and Targets:** Metrics and targets are presented at the end of all risk and opportunity related factors. A metric is a unit used to measure a factor or variable, mostly to quantify changes compared with the preceding year or defined target. For example, tCO_2e measures greenhouse gas emissions, employee turnover in percentage, liquidity in ratios, amount in Rupees, and number of accidents and riots in absolute numbers. Targets are linked to a specific time period, mostly a financial year, to observe whether changes are positive or otherwise for further decision making.

Metric & Targets – Financial Risk

Risk Type	Metric	Target (2026)
Liquidity Risk	Current ratio	Maintain ≥1.5 by 2026
Debt Risk	Debt-to-equity ratio	Keep below 0.8
Credit Risk	% of overdue receivables	Keep <5% of total receivables
Investment Risk	ROI on green investments	Minimum 10% return
Climate Risk	% of assets assessed for climate risk	100% by 2025
Compliance Risk	Number of financial non-compliance cases	Zero incidents
Supply Chain Risk	% of suppliers financially stable (audited)	≥90% by 2026

Metric & Targets – Economic Risk

Aspect / Area	Metric	Target (2026)
Economic Value Generated	Total revenue, value added	Rs. 30 million
Economic Value Distributed	Salaries + Taxes + Community investments	Rs. 65 million
Operating Profit Margin	(Operating profit ÷ revenue) × 100	8%
Return on Investment (ROI)	(Net profit ÷ investment) × 100	6%
Local Procurement	% of spending on local suppliers	35%
Supplier Financial Stability	% of suppliers with financial audit clearance	95%
Inflation Resilience	Cost increase vs. inflation rate (Industry specific)	3%
Financial Sustainability Ratio	Current ratio / debt-to-equity ratio	CR>1.5 & DER< 75%
Community Investment	% of profit allocated to community programs	4%
Climate-Resilient Investment	% of capital allocated to climate adaptation or green projects	20%

2) Sustainability Standard (IFRS S2)

The same four core factors affecting sustainability are discussed in IFRS S2, as introduced in IFRS S1. The difference lies in scope. IFRS S1 informs stakeholders about the general requirements for disclosures of sustainability, including climate-related information, while IFRS S2 requires the company to disclose specifically climate-related information for investors and other stakeholders, explaining how climate- related risks and opportunities affect the financial position and performance, and how the Board of Governors responds to manage risks and seize opportunities.

Materiality and Risk

The scope for assessing materiality differs between financial reporting and sustainability reporting. Material misstatement is particularly significant when it occurs near the profit and loss threshold or the break-even point.

There are three key methods used to assess risk while preparing the sustainability report i.e. materiality method, through stakeholders' engagement and scenario and sensitivity method.

1. Materiality Method of Risk Assessment: In the first step, risks are identified, prioritized, and a strategy is developed to avoid, mitigate, transfer, or otherwise manage them. Reporting such information is highly valuable for stakeholders.

Topic	Formwork (ESG)	Frequency	Business Impact (Likely)	Risk Materiality	Identified Risk	Transitional Cost
Carbon emissions	E	High	High	Yes	Transition risk (regulations, costs)	**1. Direct Cost:** CO_2 Tax, compliance cost & Technology Cost etc. **2. Indirect Cost:** due to change in fashion, Reputational cost due to brand anti campaign
Data privacy	G	Medium	Medium	Yes	Legal and reputational risk	Legal exposure to data privacy that damages the reputation like Banks.
Employee TO (Tech)	S	Low	High	Yes	Operational risk	Operational cost will increase due to learning curves of new high technical employees.
Employee TO (Labours)	S	High	Low	No	Operational risk	Insignificant cost increase due low level no technical employees TO.
Rain Fall	E	High	Medium	Yes	Financial risk	Significant reduction in production.
Drought	E	Medium	High	Yes	Financial risk	Significant reduction in production.
Single risk may impact different areas or different risks may impact single area and also may impact in different areas. All the possible risks are tested on E, S and G to see the impact.						

2. Risk Assessment through Stakeholder Engagement:

This approach is effective because all risks are addressed through plausible and actionable measures, ensuring that stakeholders are involved in managing potential impacts.

Stakeholder		Methodology	Risk Identified	Concern		Action
Category	Status			Stakeholder	Company	
Local Community	External	Complaints	Environment (E)	Smoke badly hitting health	Reputational loss	Shifting on alternate energy.
Employees TO	Internal	Records (Data)	Work place issue(S)	Incidents, injuries	Operation Loss	Work & motion study
Employees	Internal	Audit	Governance (G)	Fraud & Misappropriation	Financial Loss	Strengthen Internal Controls
Customers	External	Survey	Delay in supply (s)	Stock out cost	Financial Loss	Increased vehicles
Supplier	External	Newspapers	Strike of transport Union/ Supply Chain (S)	Imposed CO2 tax by the Govt.	Financial / Rep	Shifting to certified Suppliers.
Shareholders	Internal	Meeting	Delay in dividend payment (G)	Loosing value of money	Reputational loss	Bank loan for timely payment
End user of product	External	Online survey	Quality depressed (S)	Value of money loss	Reputational loss	BMR to use sophisticated technology

3. Scenario and Sensitivity Method of Risk Assessment:

Scenario Analysis: Different scenarios may affect multiple variables or a single variable, and a single scenario may impact several variables. All final outcomes are then tested in sensitivity analyses to identify the most vulnerable variables that should be addressed first.

Sensitivity Analyses: Labour costs are controlled first, followed by material costs, and then administration costs.

Scenario			
Framework	**Multiple Scenario**	**Multiple Outcomes**	**Out Come**
Climate -E	1. Govt. imposes USD 20/ ton CO_2. 2. Extreme weather disrupts the supply chain of Raw Material.	1. Cost of production increased (OH). 2. Cost of RM increased. 3. Sales volume decreased	1. Prime cost 2. Conversion cost 3. Sales Volume
Social- S	1. Labor demand increased in the market. 2. No change in rate of incidents in production deptt.	1. Wages to be increased to maintain labours 2. Insurance cost	Labor cost (Wages) will increase
Governance- G	1. Appointed consultant for audit /assurance quarterly. 2. Commitment to adopt GRI - standards	1. Slight increase in cost. 2. Reputation would increase but cannot be quantified.	Administration Cost
Sensitivity			**Decease in ROI**
	1.Prime cost. 2.Coversion cost. 3. Sales Volume	1. PC by 9 % 2.CC by 6% 3. SV by 8%	When CC & Sv constant is **-9%**
	Labor cost (Wages)	Labor wages by 2% (No need for further test).	When PC & SV constant is **-12%**
	Administration Cost	Admin cost by 1% (No need for further test).	When PC & CC constant is **-8%**

About the Author: *The writer is a Fellow Member of ICMA and CEO at Mazhar Mahmood & Company in Rawalpindi. He is an Official Trainer of SMEDA for Business Development and also Consultant at PIPS (Parliament House) for commentary on performance of outgoing year & Annual Budget. He served as a GM (Finance) in a business group and also Zonal Head of Accounts at Muller & Phipps Pakistan (Pvt) Ltd.*