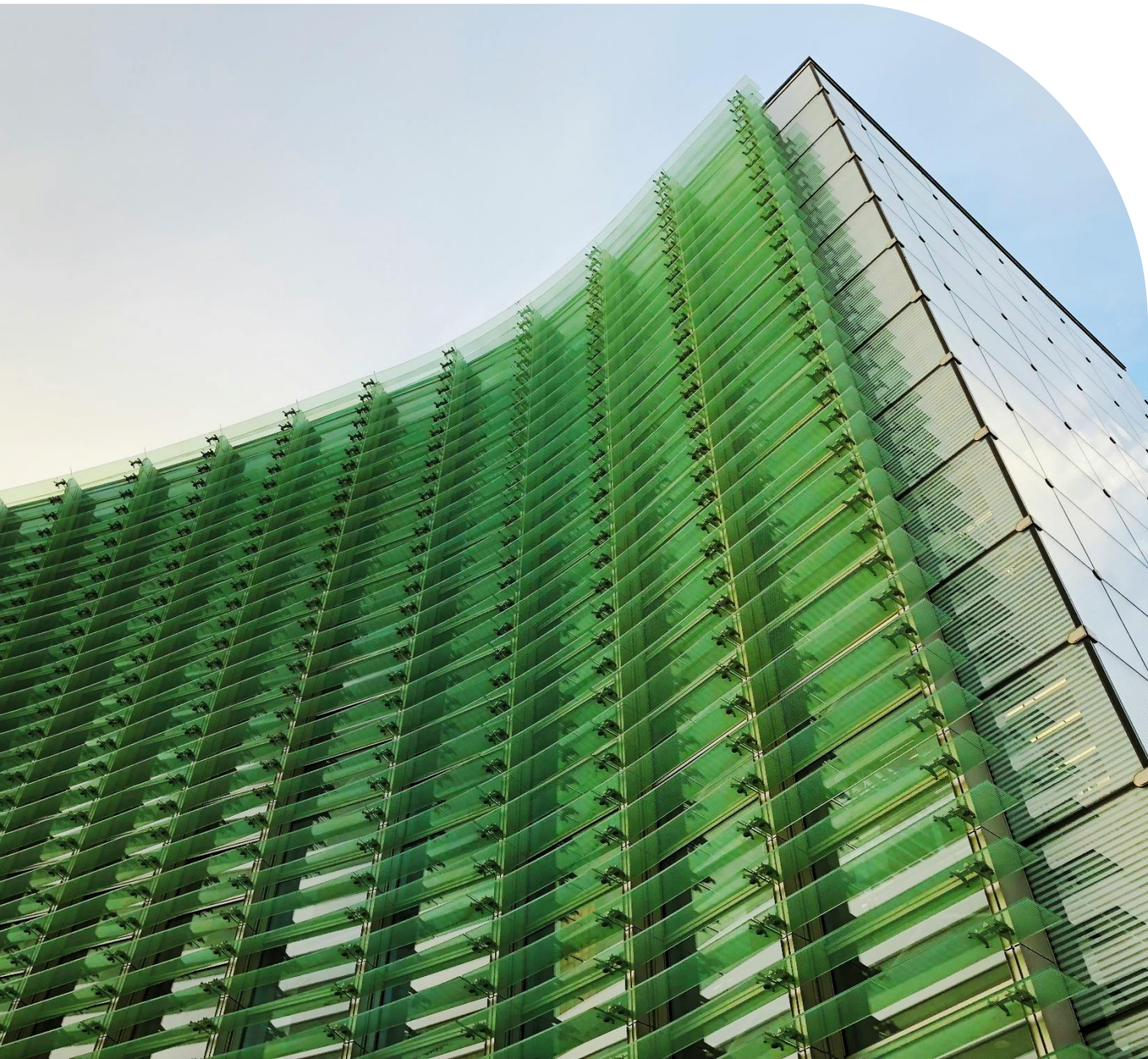


Beyond COP28: Navigating the net-zero journey

Key Insights from Grant Thornton UAE's Panel Discussion

2023



Introduction

In today's dynamic landscape, **Environmental, Social, and Governance (ESG)** are no longer mere afterthoughts, but core pillars driving business and economic success.

Organisations are rapidly embracing this shift, integrating ESG practices into their strategies to mitigate risks, build resilience, and unlock sustainable growth. Meanwhile, regulators and policymakers recognise the need for a supportive ecosystem that empowers businesses on this journey while fostering sustainable economic development.

Reflecting on **Grant Thornton UAE's COP28 panel discussion**, focusing on the journey towards a net zero economy, industry leaders from professional services, regulatory bodies, retail and finance sectors shared insights on the complexities and profound opportunities in the realm of sustainability.

To successfully navigate this transformative landscape, an organisation needs to deploy two essential levers:

1. Understand how to strategically choose the right frameworks and standards to adhere to, and
2. Integrate appropriate solutions to move towards quantitative tracking of progress towards a sustainable and net zero future.



Current Sustainability Landscape

With **global, regional, country-specific,** and **industry-specific** standards and regulations, navigating this complexity requires dedicated attention and strategic prioritisation.

Global Standards & Frameworks

Regional Standards & Frameworks

Industry \ Sector Specific

Non-UAE Region

UAE Region

Note: This is a non-exhaustive list of sustainability standards, frameworks or guidelines.

To ensure effective reporting and stakeholder management, organisations should strategically select from various types of frameworks, including:

- Government-mandated
- Geographic
- Sector-specific
- Voluntary

By carefully choosing the appropriate framework(s), such as UN Global Compact, GRI, TCFD, etc., and considering regional regulatory requirements, companies can establish a robust foundation for their ESG agenda, thereby meeting reporting needs and stakeholder expectations.

A targeted approach ensures consistent structured reporting aligns with data expectations and streamlines processes. As regulations mature and stakeholder expectations evolve, however, companies must remain agile and adaptable, prepared to integrate multiple frameworks into their strategy as well as reporting practices.

Building awareness and empowerment

While robust **ESG strategies** built upon a foundation of frameworks and regulations are the cornerstone of an organisation's sustainability agenda, the journey invariably commences by fostering company-wide awareness aligned with their overall strategy and operations. Unlocking your true sustainability potential involves identifying key focus areas and formulating a strategy with realistic and attainable sustainability goals.

Sustainable practices are a collective responsibility that involves the entire ecosystem, requiring continuous training and empowerment to regularly assess and monitor KPIs internally and externally. While establishing a dedicated sustainability team is a common practice, entities have considered an alternative approach through identifying department champions with an ESG mindset. This can facilitate smooth coordination and information exchange while bringing sustainability significance across the organisation.



The shift from qualitative to quantitative data

Measuring and monitoring progress is fundamental to highlighting advancement, and this is not different for ESG. As the panel highlighted, each of the three **ESG pillars** presents unique challenges and opportunities in this critical area.

Governance, being the most straightforward, boils down to a binary approach: are the necessary structures, policies or frameworks in place? Do they meet the obligatory statutory requirements?

Implementing and embedding the right governance leads to informed and improved management decision-making.

Environmental reporting, which is broadly quantitative in nature, has several challenges in data collection for carbon emissions, particularly within Scope 3 as organisations grapple with data across their supply chain. Establishing a baseline is crucial, serving as a launchpad for identifying emissions hotspots to support any carbon reduction and Net Zero journey.

Once a baseline is set and reductions are underway, the return on carbon investments becomes a measurable reality.

Social reporting, however, is the most intricate,

relying heavily on qualitative measures. While metrics like **Net Promoter Score (NPS)** and **Return On Social Investments (SROI)** can be quantified, they necessitate qualitative feedback from employees, clients, and the community. Offering a promising solution to this challenge, new analytical tools and databases are emerging that incorporate social factors into assessments and assign appropriate weightages, offering a promising solution to this challenge.

In recent times, organisations have been able to highlight ESG progress year on year through broadly qualitative measures. As the shift begins to tracking and monitoring of carbon reduction targets, however, the panel stressed the need for entities to shift to quantitative measures. As per a recent survey report issued by LSE¹, it was noted that **more than 80% of the surveyed global asset owners have integrated ESG into their investment strategies**. However, at the same time, when asked about the key issues faced in the last five years, **more than 50% of such participants mentioned 'lack of data' as the biggest challenge in implementing ESG strategies**.



1. Based on 'Sustainable Investment Asset Owner Survey 2023 Report' issued by London Stock Exchange (LSE)

Role of technology

While data is critical for providing insights and driving decision-making, **technology also plays a pivotal role by simplifying and automating activities** which, today, are broadly manual. Once a robust ESG framework has been established, identifying opportunities for streamlining sustainable practices and automating monitoring, and reporting becomes the key to ESG advancement. Therefore, investing in the right technology, tools and systems enables a successful ESG journey.

A critical enabler to ESG is the utilization of data visualization and storytelling techniques. These approaches transform dry data into compelling narratives, fostering deeper stakeholder engagement, and enhancing understanding of an organisation's ESG commitments, contributions and carbon emissions. **Leveraging digitisation** for automated data collection systems also offers significant advantages. By seamlessly gathering data from internal databases, external sources, and even IoT devices, these systems streamline data collection, mitigate errors, and ensure consistency, creating a robust and reliable data foundation.

The potential of digitization extends further through the deployment of machine learning algorithms which can analyze data to develop predictive models anticipating future climate risks and opportunities. These empowers organisations to **proactively manage their ESG performance**, prioritise resources effectively, and make data-driven decisions for a sustainable future.

By embracing data and technology, organisations gain a significant advantage in navigating the dynamic **ESG landscape**. They can identify and mitigate risks proactively, track and enhance their ESG performance, and provide stakeholders with transparent and engaging insights beyond traditional annual reports. This ultimately contributes to building trust, strengthening relationships, and demonstrating leadership in the evolving world of ESG.

As the panel discussed some of the available tools and technologies, one such example highlighted was **SME Climate Hub**, a global initiative of the **We Mean Business Coalition**, the **Exponential Roadmap Initiative** and the **United Nations Race to Zero** campaign. The platform supports smaller business entities by providing educational resources on how to start an ESG journey, extending ESG tools such as **Business Carbon Calculator**, facilitating collaboration amongst organisations and encouraging voluntary climate pledges.



Integrating & operationalizing ESG to the core

Beyond the crucial role of data and technology in an organisation's ESG journey, the panel emphasised the significant impact of integrating ESG into core operations by empowering teams, embracing diversity and optimising operations.

Building a dedicated team to spearhead the organisation's ESG journey is important. This team should be equipped with the necessary skills and knowledge to collect and assess key performance indicators (KPIs), collaborate with external stakeholders, and implement best practices into the organisation's operations.

Diversity, Equity, and Inclusion (DEI) is another integral part of a successful ESG strategy. While actively diversifying the talent pipeline to reflect the communities served is essential, companies must go beyond representation to foster an inclusive culture where every voice is heard and valued. Robust policies and procedures safeguarding employee rights and providing avenues for redressal are fundamental.

A dedicated team and strong DEI practices establish a robust foundation and people culture. In tandem, optimizing operations becomes a powerful amplifier of the ESG agenda. Streamlined processes can lead to minimized waste, optimized energy usage, and other environmental benefits.

Such efforts of ESG integration often translates into tangible cost savings, while attracting and retaining top talent as well as enhancing customer and investor appeal. This was further re-affirmed by the panel through one of the recent observations in LSE performance data which reflects that companies and funds with **LSE Green Economy Mark** i.e. organisations having 50% or more of their revenues generated through activities with positive climate impact, reported the least losses during the pandemic. Hence, proving that integrating ESG as a core agenda provides resiliency and long-term benefits.



The growing emphasis for assurance

As more and more organisations advance their ESG agenda and navigate through this transformative journey, the need for external assurance is a topic of great deliberation. The panel explored various perspectives, advocating for an adaptable approach rather than a one-size-fits-all solution. A phased approach, starting with **awareness and building robust internal processes before considering external controls**, was recommended. While external assurance can provide insights and credibility, achieving internal independence through strong governance structures remains a practical and pragmatic reality for most entities.

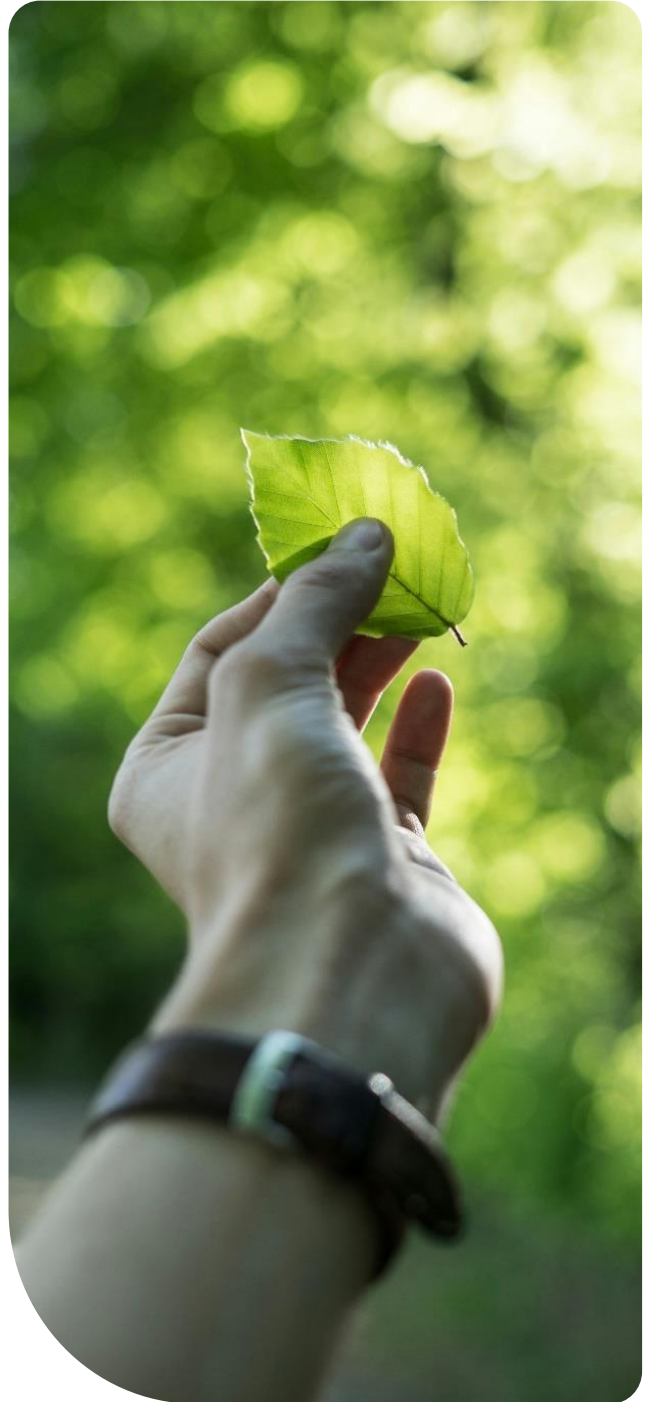
As per leading industry experts, the pressure to obtain third-party assurance for their ESG reporting is greater for larger organisations. However, for smaller and private entities, the necessity for such external oversight remains unclear. Ultimately, the best approach will depend on the specific context and circumstances of each organisation.



Conclusion

While navigating the topical yet complex terrain of ESG, it's important for businesses to recognise the strategic advantage in today's dynamic environment. Implementing robust ESG practices is not just about ticking boxes for regulators; it's about **unlocking long-term value and gaining a competitive edge**. The panel emphasised several benefits of integrating ESG into core business strategies:

- **Enhanced risk management:** Proactive ESG practices can mitigate risks associated with environmental and social factors, leading to greater resilience and long-term stability.
- **Improved employee engagement:** A strong commitment to ESG attracts and retains top talent by fostering a purpose-driven work environment and promoting employee well-being.
- **Brand differentiation and customer loyalty:** Consumers are increasingly seeking brands that align with their values. Ethical business practices and a commitment to sustainability create a competitive advantage and build customer loyalty.
- **Operational efficiency and cost savings:** Resource optimisation, waste reduction, and responsible sourcing practices can lead to significant cost savings.
- **Access to capital:** ESG-focused investors are increasingly seeking opportunities to invest in sustainable businesses. Companies with a strong ESG track record are more likely to attract these investors and secure funding.



Investing in ESG paves the way for sustainable growth and long-term success. By embracing agility, transparency and collaboration, organisations can integrate ESG into their core strategy, emerging as leaders in the ongoing evolutionary journey towards a net-zero future.

Contact our Experts

For more information on starting or accelerating your organisation’s sustainability journey, contact our team of experts.



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