PICG

ESG CORPORATE SURVEY 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) SURVEY REPORT

About the Survey

The implementation of Environmental, Social, and Governance (ESG) standards is fast becoming a priority for businesses across the world, making it one of the most impactful transformations in decades. This presents a unique opportunity for companies to reassess and redefine their commitment to all stakeholders, including their corporate purpose, hiring practices, environmental impact, and more. A focus on ESG ensures that organisations operate in an ethical manner, but it also allows them to discover unmet consumer needs and identify new products and services.

The objective of this survey was to gain an insight into the nature of ESG practices related to governance, strategy and reporting within the corporate sector in Pakistan. Through this survey, PICG hopes to facilitate ESG governance, and capacity development within the corporate sector.

From April to May 2023, PICG, in collaboration with PSX, conducted a global survey involving 164 participants. These individuals identified themselves as senior management, corporate social responsibility professionals, or sustainability professionals. The survey sought their perspectives on various ESG topics, including awareness of ESG issues and challenges in reporting, as well as planning and implementation. The respondents were from diverse roles, company sizes, and industries, including financial services, technology, manufacturing, and textile.

Executive Summary

The survey's results highlight the ESG policies and procedures of more than 160 Pakistani respondent businesses. The report offers an overview of the comprehensive analysis conducted in the areas of ESG awareness of risks and opportunities, role of stakeholders, materiality and strategy implementation, ESG reporting and disclosures, and respondents' opinions on ESG practices that are prevalent in the nation and in their individual companies.

One of the goals of this survey was to understand the **awareness of ESG** in Pakistan. Companies are concentrating more on ESG as investors now are more inclined to take information connected to ESG into account when making investment decisions nowadays. Our survey showed 86% of the respondents to be aware of their **risks**. The top three risks were : Energy Management, Waste Management, and Occupational Health and Safety. Companies chose various different risks to be of importance depending on the nature of their industry.

86% of the respondents are aware of ESG risks related to their companies

Top 3 opportunities identified were: Long-term Sustainability, Cost Reductions, and Productivity Upliftment

Additionally, 81% claim to be aware of the **opportunities** related to ESG. The top three opportunities identified were: Long-term sustainability, Cost Reductions, and Productivity Uplift. Industries such as Engineering, Food & Personal Care product, and Commercial Banks are the top three industries which consider these to be of most importance. Moreover, research has shown that companies generate value by prioritizing social capital, and use resources more efficiently.

Furthermore, our survey showed that 55% of organizations that are aware of their ESG related opportunities, and 53% of organisations that have identified ESG related risks, have also identified issues most material to them. Identification of issues that are material to these organizations helps them in working out a documented strategy, which in turn helps them in the implementation stage.

There is a need for organisations to identify issues most material to them so they can formulate a documented strategy

Just 25% of organizations use particular KPIs to monitor performance related to ESG. Nonetheless, 70% have created or are in the process of creating an ESG action plan.

Subsequently, to ensure **ESG strategy** is implemented, it is important for companies to have specific KPIs to monitor their performance. At the moment, only 25% of the respondents have identified and adopted ESG goals with specific KPIs, however more are in the progress of doing so. It is encouraging to note that approximately 70% of our respondents have developed an ESG action plan, or are in the process, and 64% have adopted time based targets. This assists companies in putting their ESG strategy into practice by dividing work into more manageable phases.

Our survey also revealed that the top three **stakeholders** with the greatest influence on ESG planning and strategy are the Board members, Government Regulators, and Customers. However, it has also been noticed that majority of the companies do not have an **ESG board committee**, nor do they have an ESG certified director on board. Having an ESG board committee or an ESG expert can help solve key challenges respondents face in implementing ESG practices. These include clarity in setting goals, lack of human resources and internal expertise, leadership buy-in, and meeting regulations.

Companies need to form ESG board committees so they can help solve issues of goal setting, lack of expertise and meeting regulations.

Furthermore, **reporting and disclosure** of ESG activities is also an important step. While 60% of the organisations understand the benefits of this practices, very few have adopted an ESG reporting standard. Those who do, mostly use SASB or GRI, which are internationally recognized frameworks. Consequently, there is a need for organisations in Pakistan to focus more on using appropriate reporting and disclosure tools, and consider external help if needed.

Majority of the respondents know the benefits of ESG reporting and disclosures, and most frequently used frameworks are SASB and GRI

The top 3 priority issues chosen by various industries are Energy Management, Diversity, Equity, and Inclusion, and Occupational Health and Safety

Lastly, given the growing popularity of ESG practices in Pakistan, companies have determined which issues to focus on as **top priorities** for the following year. These issues vary depending on the nature of their industry, stakeholders, and region. However, the top three priorities include Energy Management, Diversity, Equity, and Inclusion, and Occupational Health and Safety. The fact that businesses are stepping up to strengthen their ESG positions is promising since it enables them to take advantage of opportunities, adapt to shifting market dynamics, and build long-term value.

ESG Awareness

Is ESG Worth it?
The Business Case for ESG

- Research indicates that organizations that look beyond short-term profits and focus on ESG, are more likely to achieve sustainable profits in the long run.

- 53% of revenues of the 500 largest US companies, and 49% of revenues of the 1,200 largest global companies come from business activities that support SDGs (S&P).

- Climate-related weather events are expected to cost businesses $1.3 trillion by 2026 (CDP). By incorporating ESG related principles into their business strategy, firms can mitigate the cost.

- ESG may influence customer choice as well. According to McKinsey study, consumers are willing to pay a premium to "go green." According to research, more than 70% of consumers who were questioned about purchases stated they would be willing to spend an extra 5% for a green product provided it fulfilled the same performance requirements as a non-green counterpart.

- A good ESG strategy enables businesses to enter new markets and grow into current ones. Corporations are more likely to be granted access, to these markets when regulatory bodies have confidence in them.

- Research has shown that over 80% of investors now consider ESG information when deciding where to invest.

ESG Awareness

One of the goals of our survey was to gauge the level of ESG awareness amongst our respondents. We found that the majority of respondents claim to be aware of their organization's ESG related issues which is quite encouraging. More specifically, 86% claim to be aware of the risks their organization faces in relation to ESG, while 81% claim to be aware of their opportunities related to ESG.

86% claim to be aware of their ESG risks

81% claim to be aware of their ESG opportunities

Moreover, the high level of awareness is promising as it suggests that a significant portion of the respondents recognize the importance of addressing ESG risks and opportunities in their organizations. This awareness can be attributed to various factors such as increasing regulatory requirements, stakeholder expectations, and the growing recognition of the business case for sustainable and responsible practices.

Therefore, by acknowledging and understanding the risks and opportunities associated with ESG factors, organizations can take proactive measures to manage and mitigate ESG risks. At the same time, organizations would also be able to leverage opportunities for long-term value creation, innovation and sustainable growth.

Does your organization believe that focusing on ESG makes a business better?

The results showed that **84%** of respondents believe that focusing on ESG makes a business better.

Based on the survey data, it is evident that the majority of organizations, 84%, believe that focusing on ESG makes a business better. This indicates that senior management and board members in the corporate sector in Pakistan recognize the the positive impact that ESG considerations can have on business performance and sustainability.

Overall, the majority of organizations recognizing the positive impact of ESG on business performance highlights the growing understanding of the value of sustainable and responsible business practices. This belief can drive organizations to prioritize ESG considerations or long-term success and positive societal impact.

ESG Risks

Top Five Risks

Figure 1

Energy management, waste management, and occupational health and safety are the top three risks identified by the respondents across industries (Figure 1). This finding suggests that organizations recognize the significance of effectively managing energy resources, waste disposal, and ensuring the well-being of their employees.

Energy management is often a key focus due to factors such as:

- Rising energy costs
- Environmental concerns
- Need for regulatory compliance

Waste management is crucial to minimize:

- Environmental impact
- Inefficiency in operations
- Adherence to waste management regulations.

Occupational health and safety are prioritized to:

- Increase productivity
- Ensure a safe and healthy work environment
- Reduce absenteeism and high turnover

The survey also showed that biodiversity, shareholders' rights, community relations, deforestation, and land use were identified as the bottom five risks which is quite concerning considering the long-term impacts and risks associated with these issues (Figure 2).

Bottom Five Risks

Figure 2

Biodiversity loss can lead to ecological imbalances and negative consequences including financial liabilities for various industries. Pakistan, which has 37% of its labour force employed in agriculture, should start focusing more on such risks. Moreover, deforestation and unsustainable land use practices can contribute to climate change and environmental degradation.

Moreover, neglecting shareholders' rights and community relations can result in reputational damage and strained stakeholder relationships. Therefore, it is crucial for organizations to recognize the importance of these risks and take proactive measures to address them. By doing so, businesses can contribute to environmental sustainability, stakeholder trust, and long-term value creation.

Industry Wise ESG Risks

Figure 3 and 4 show the top 3 priorities of main respondent industries in our survey. Each industry, depending on its nature, has identified different ESG risks. For example, Commercial Banks and Insurance have chosen data privacy and cyber security (31%). In contrast, Engineering industries do not consider it to be a risk at all because they do not deal with sensitive data that might make them wary of cyber risks. For them, it makes more sense to give priority to energy management.

Moreover, Commercial Banks have chosen risks from the perspective of their clients because they have a limited footprint. For example, the highest risk chosen by Commercial Banks was water usage (38%), even though the industry does not have a significant water consumption contribution. Generally, along with cyber security, risks such as compliance with tax laws and labour standards are of greater importance. However, in our survey, only one bank chose compliance with tax laws to be a risk, and no votes for labour standards.

Oil & Gas	Commercial Banks	Engineering
Occupational Health & Safety	Water Usage	Energy Management
Greenhouse Gas Emissions	Greenhouse Gas Emissions	Occupational Health & Safety
Energy Management	Data Privacy & Cyber Security	Diversity, Equity & Inclusion (DEI)

Figure 3

Food & Personal Care	Insurance	Textile
Waste Management	Diversity, Equity & Inclusion (DEI)	Waste Management
Water Usage	Data Privacy and Cyber Security	Water Usage
Energy Management	Occupational Health and Safety	Energy Management

Figure 4

Global Practices : Where does Pakistan stand?

Global companies place high importance on human rights, labor rights, community relations, corporate governance, and business ethics

In Pakistan, there seems to be a discrepancy in the prioritization of certain ESG (Environmental, Social, and Governance) risks compared to the international perspective. While global companies place high importance on human rights, labor rights, community relations, corporate governance, and business ethics, these risks are given relatively less importance in Pakistan. 45% of the respondents said they were unaware of the concept of human rights due diligence, as defined by the UNGPs.

On the other hand, it is noted that Pakistan emphasizes diversity, equity, and inclusion (DEI), and data privacy, as these are also internationally recognized as important ESG risks. However, it is crucial to recognize the significance of human rights, labor rights, community relations, corporate governance, and business ethics in order to ensure sustainable and responsible business practices. These aspects are integral to maintaining ethical standards, financial integrity, and investor trust.

Efforts should be made to raise awareness and understanding about the importance of these ESG risks in Pakistan. This can be done by:

- promoting responsible business practices
- Strenghtening regulations and enforcement mechanisms
- Collaborating between business, government & civil society

By addressing these risks, Pakistan can align its priorities with international standards and enhance its overall sustainability and responsible business practices.

Why are Biodiversity Risks Underestimated in Pakistan?

Biodiversity is declining faster than at any time in human history, as evidenced by the accelerating pace of extinction among wild species. Additionally, soil and land quality is deteriorating rapidly. According to the World Bank, more than 50 percent of global GDP is moderately or highly dependent on nature and the services it provides. Although many industries rely on the natural world, continuing degradation of the environment through unsustainable economic activity reduces the extent of ecosystems and their services (Figure 5). Those services include regulating services, provisioning services, supporting services, and cultural services. The collapse of ecosystem services could lead to significant economic costs.

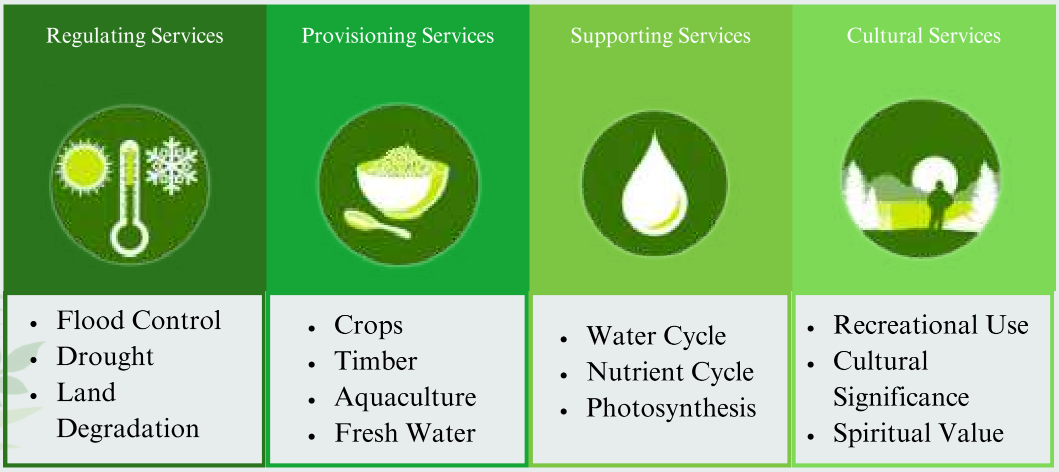

Figure 5

50% of global GDP depends on ecosystem services. Organizations in Pakistan need to understand that loss of biodiversity can have negative, unintended consequences for their business.

In Pakistan, environmental risks, particularly those related to biodiversity and deforestation, are often underestimated due to several factors. Firstly, there is limited understanding of the value of biodiversity and the benefits of ecosystem services. Secondly, businesses often prioritize short-term economic gains over long-term sustainability. Other factors include weak enforcement of environmental regulation, and lack of economic incentives to invest in biodiversity. Consequently, most companies in Pakistan do not consider environmental risks such as biodiversity nor do they report on them.

Very few companies in Pakistan report on sustainability and environmental factors. Unfortunately, there are a few companies that do report on sustainability but even they do not consider biodiversity a material issue. For instance, these organizations do not focus on SDG 14 (life below water) and SDG 15 (life on land). However, a steady decline in biodiversity can have unintended consequences such as increased flooding, erratic weather patterns, soil degradation, and food security issues.

Hence, the corporate sector must realize that it needs to move beyond profit generation and focus on the larger picture for the long run. Climate change is recognized as a significant risk by most organizations globally in Pakistan. However, organizations in Pakistan need to realize that biodiversity is inherently linked to climate change. So, the preservation of biodiversity requires the same attention as the issue of climate change.

ESG Opportunities

We found that businesses in Pakistan recognize the potential benefits of long-term sustainability, cost reductions, and productivity upliftment, since they are identified as the most frequently recognized opportunites. It indicates that businesses are increasingly acknowledging the importance of incorporating sustainable practices into their operations and towards value creation.

Productivity uplift was identified as an important ESG opportunity. Engineering, food & personal care products, automobile assembler & transport, and commercial banks were the top industries which identified productivity uplift as an opportunity. This is a positive sign because it shows that companies in Pakistan understand the connection between ESG and employee productivity. Research has shown that companies generate value by prioritizing social capital. For instance, an inclusive workplace helps organizations recruit top talent. A healthy workplace environment also helps organizations reduce turnover. Consequently, organizations with a better workplace environment are able to achieve higher productivity levels among their workforce. Higher productivity helps the organization remain competitive. Additionally, by nurturing their social capital organizations are able to maintain a strong brand reputation.

Cost reductions to improve business and increase profit margins was also identified as a significant opportunity, suggesting that businesses in Pakistan are recognizing the financial benefits of implementing cost-saving measures, such as energy efficiency, waste reduction, and resource optimization.

Top Three Opportunities

Figure 6

Other Notable Opportunities

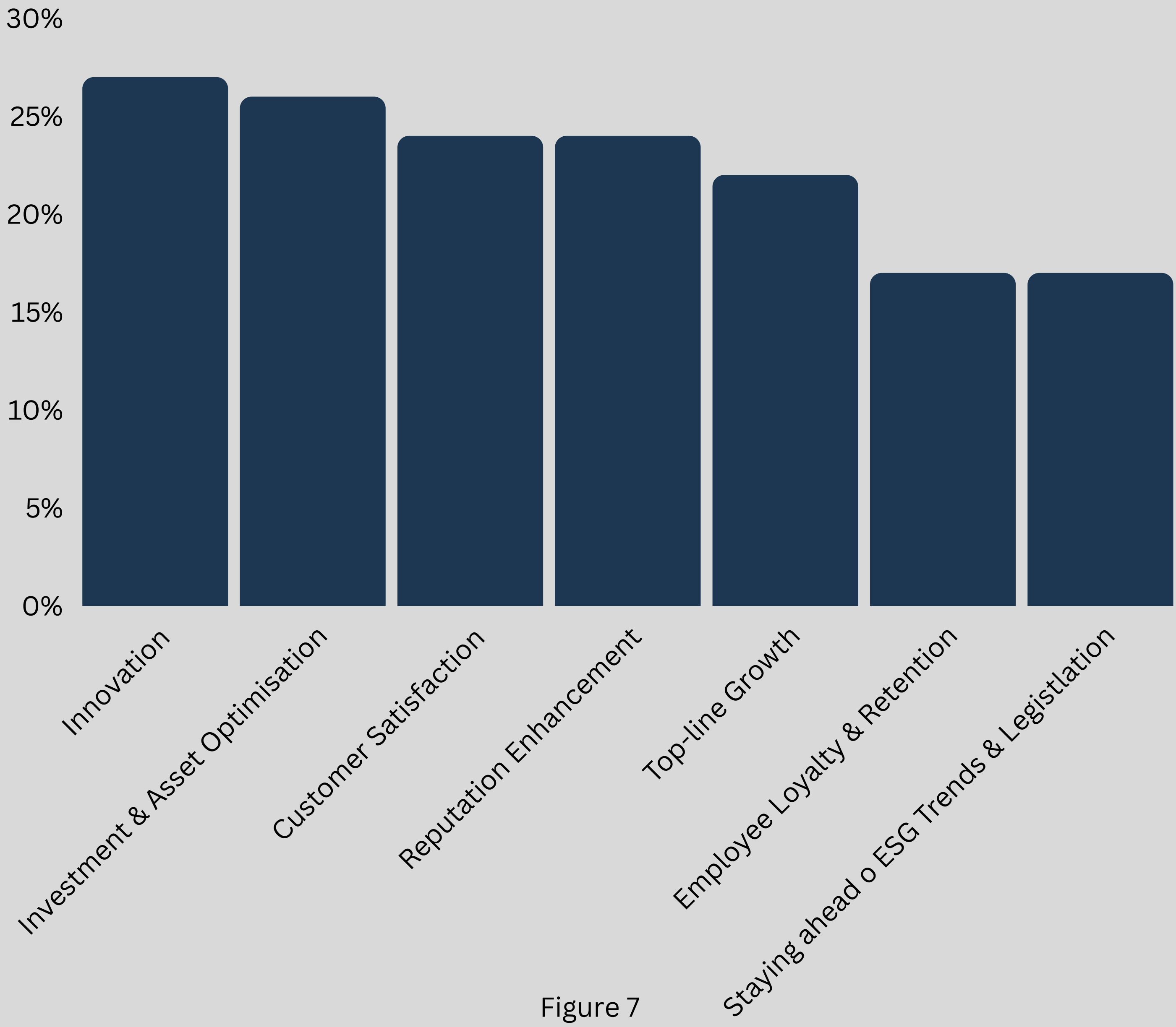

Figure 7

It is encouraging to see that businesses in Pakistan are identifying these opportunities. Moreover, these opportunities also align with international trends and best practices. A strong focus on ESG helps organizations use resources efficiently, and reduce waste. In the long run it helps them stay competitive in the market. Hence, concerted efforts should be made to further promote and support these opportunities through initiatives such as capacity building, knowledge sharing, and incentives. Businesses will not only improve their financial performance but also enhance their reputation, attract socially conscious investors, and contribute to the overall well-being of society and the environment.

Are organizations which are aware of their ESG issues, also aware of the issues that are most material to their organization?

More than half of the organizations which are aware of their ESG risks and opportunities are also able to identify the ESG issues most material to them.

ESG Opportunity Awareness and Identification of Material Issues

Our survey showed that 55% of organizations that are aware of their opportunities related to ESG have also identified the ESG issues most material to them, while another 34% are in the process of identifying the ESG issues most material to them.

ESG Risk Awareness and Identification of Material Issues

We also found that 53% of those who are aware of their ESG risks associated with ESG related issues have also identified the matters that are most material to their organization.

Figure 8 describes the ways in which a materiality assessment can help organizations identify their ESG issues.

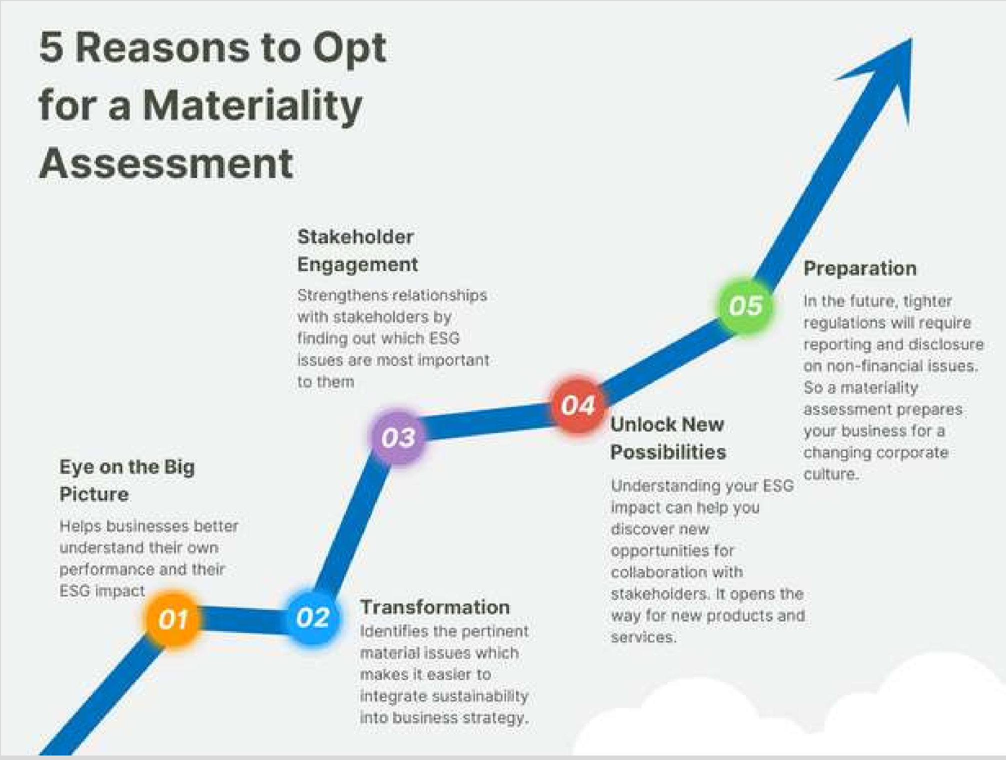

Figure 8

Materiality and Strategy

Have organizations identified the ESG issues that are most material to their organizations?

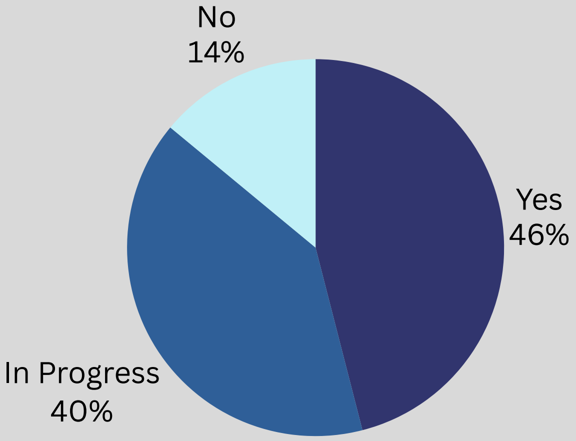

Figure 9

It is encouraging to see that 86% of the respondent companies have identified issues that are most material to their organisation, or are in the process of it (Figure 9). 80% of Power Generaton companies have identified issues most material to them, along with 71% of Textile industries, and 58% Food and Personal Care.

Do organisations have a formal documented ESG strategy?

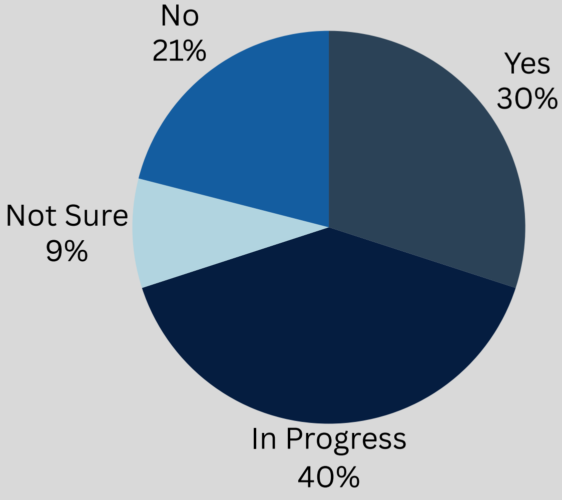

Figure 10

Although only 30% of the companies have a formal documented ESG strategy, 40% more are in the progress of formulating one (Figure 10). 100% of Power Generation companies, 80% of Pharmaceuticals, and 71% of Insurance and Consulting services have a formal documented ESG strategy.

Having a formal documented ESG strategy can help organizations align their goals, communicate their commitments to stakeholders, and establish a framework for measuring and reporting progress. Overall, organizations that have a formal documented ESG strategy are better positioned to integrate ESG considerations into their decision-making processes and drive sustainable practices throughout their operations.

Materiality & Strategy

Does the identification of material issues help organizations formulate an ESG strategy?

We found that 48% of organizations which identified ESG issues most material to them have a formal documented strategy as well. This is a higher percentage than the overall number of respondents who have a formal strategy (30%).

Moreover, 52% do not have a formal strategy in place yet. This shows that there is a lag between identifying material issues, and then using that information to create a an ESG strategy.

Quality of ESG Strategy

Our findings show that 80% of organizations that have a documented ESG strategy have also integrated ESG risks and opportunities into their strategy, which is a positive sign. It speaks of the good quality of strategy being drawn up by companies related to ESG. Figure 13 shows the data of industries that fall within this category.

Percentage of industries which have Integrated ESG Risks & Opportunities into their ESG Strategy

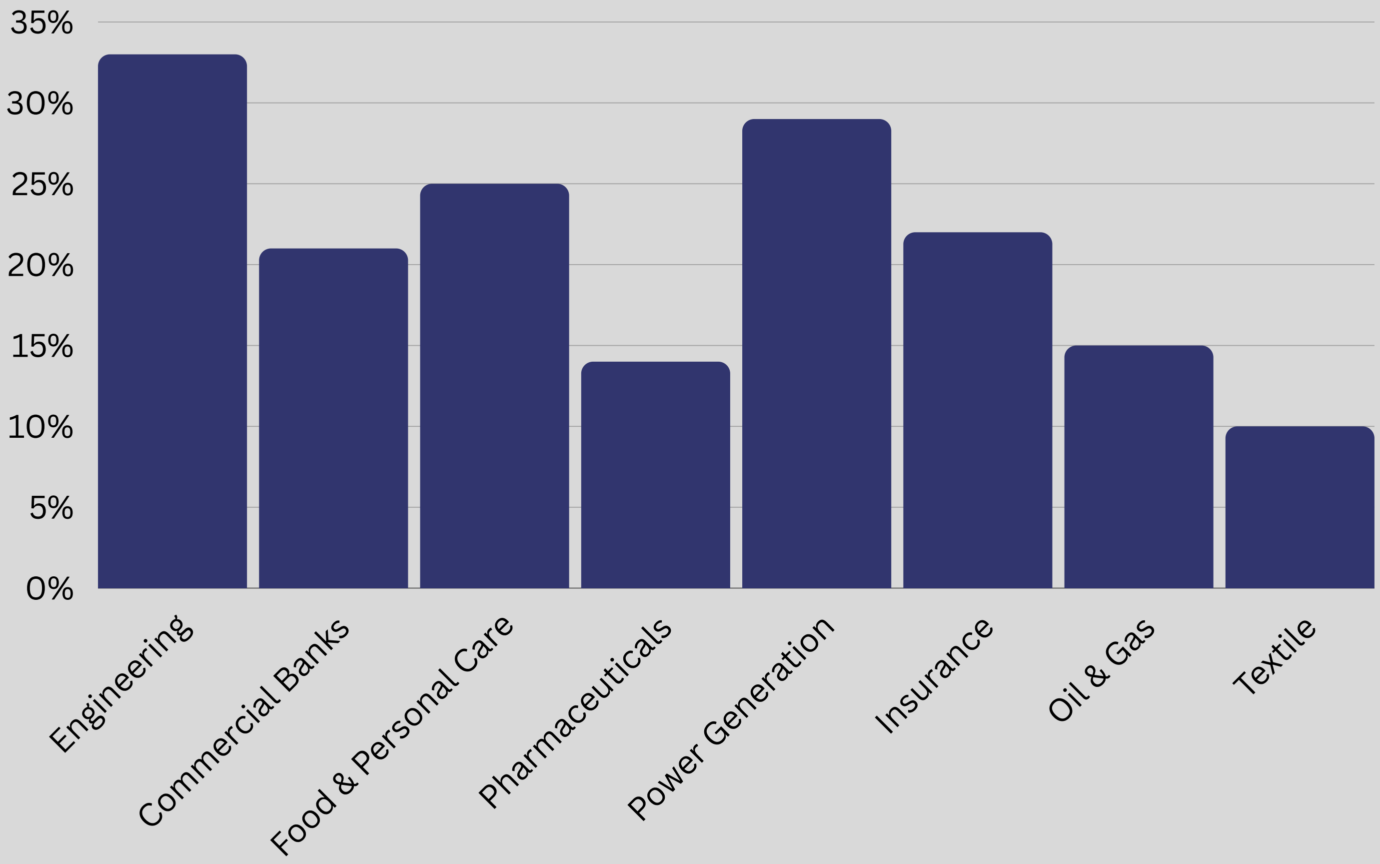

Figure 11

Strategy Implementation

Implementation Readiness

One of the aims of the ESG survey was to find out to what extent organizations in Pakistan are ready to implement their ESG strategies. A good indicator of readiness is the existence of a defined action plan, as well as KPI's and time-based targets.

Does your organization have a defined action plan related to the ESG strategy?

When asked if their organization has a defined action plan only 30% of respondents said yes, while another 40% said they are in the process of developing one. It is encouraging to note that approximately 70% of our respondents have developed an action plan or are in the process of doing so. The top two industries that have worked towards this is Power Generation, and Commercial Banks. Others include Pharmaceuticals, and Food & Personal Care.

The existence of a defined action plan shows that organizations have moved beyond the conceptual phase to strategy implementation. It can help organizations create a roadmap for ESG integration. It helps organizations operationalize their ESG strategy by breaking down tasks into smaller, actionable steps.

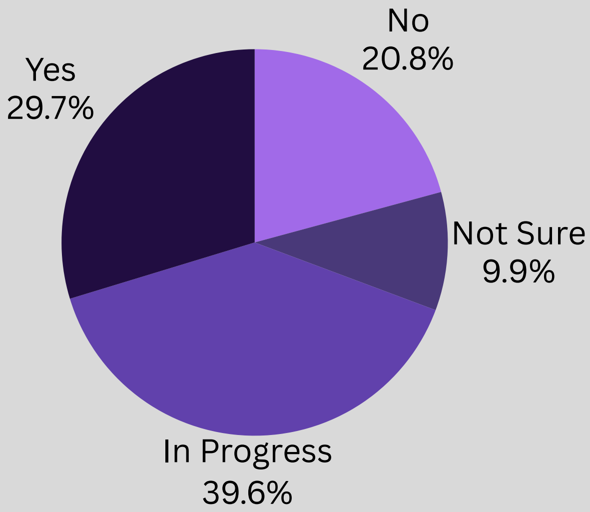

Figure 12

How involved is the management in the execution of the action plan?

When asked about the level of managerial involvement in the execution of the ESG strategy, 33% reported that their management was highly involved, and another 33% reported that their management was only moderately involved. This number is relatively lower as the role of management in execution of an action plan is vital, and their involvement is necessary if the company is to benefit from any strategy put forward.

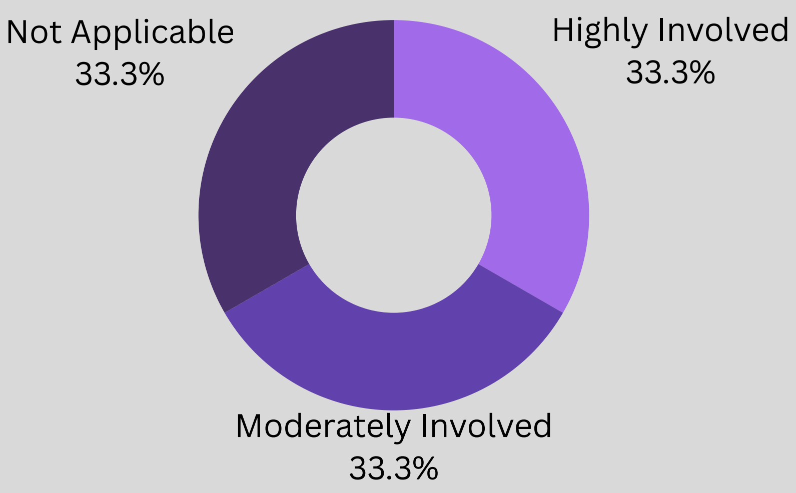

Figure 13

Are organizations that have a defined action plan more likely to adopt ESG goals with specific KPIs?

Our results showed that organizations that have a defined action plan on ESG strategy, are also more likely to have adopted ESG goals with specific KPIs. In this sample, 69% of organizations with a defined action plan also adopted ESG goals with specific KPIs, which is significantly higher than organizations which do not have a defined action plan.

69% of organizations with a defined action plan also adopted ESG goals with specific KPIs

Implementation Readiness

Have organizations identified and adopted ESG goals with specific KPI's?

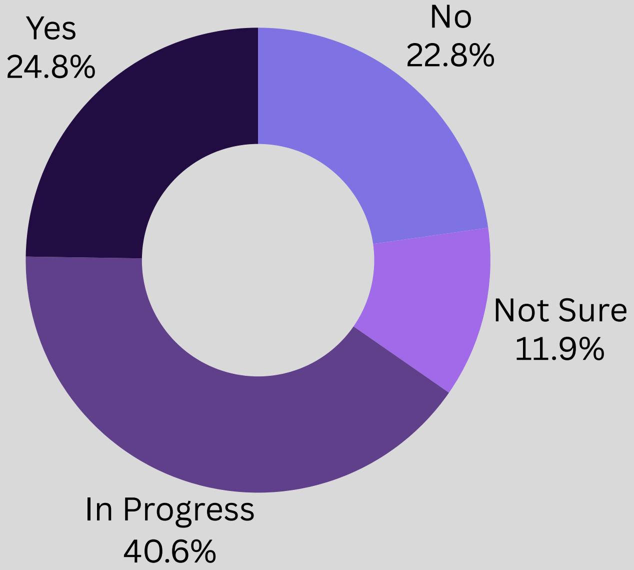

Figure 14

The survey revealed that only 25% of respondents said their organization has identified and adopted ESG goals with specific KPIs. The top two industries were Power Generation (42%), and Food & Personal Care products (33%). However, 41% of respondents said their organization was in the process of doing so. The fact that 66% of organizations in this sample have either identified or adopted ESG goals with specific KPIs is a positive sign. However, there is clearly a need for capacity building so that more organizations in Pakistan are able to design KPIs specific to their own ESG goals and materiality issues. Companies belonging to Engineering, Oil & Gas, Textile, and Insurance are few of the sectors which are low-scoring on ESG KPI’s.

Are organizations with a formal, documented ESG strategy more likely to adopt specific KPIs?

Our survey revealed that 65% of organizations with a formal, documented ESG strategy have also adopted ESG goals with specific KPIs. Moreover, approximately 28% are in the process of developing specific KPIs. This is an encouraging sign because it shows that organizations are making a robust strategy; not only setting ESG strategy but also creating mechanisms to measure the quality of their efforts to achieve their ESG targets.

Implementation Readiness

Does your organization have time based targets for ESG goals?

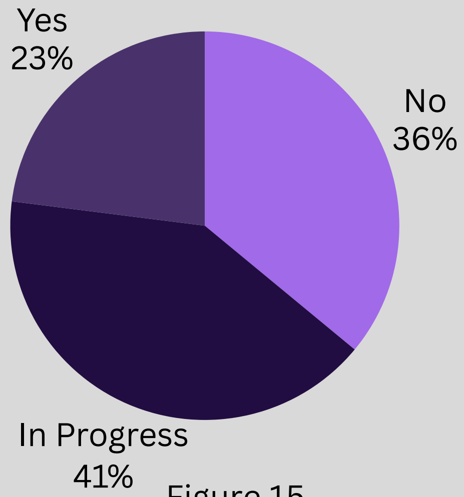

Figure 15

23% of respondents reported that their organizations have adopted time-based targets for ESG goals, and another 41% said they are in the process of doing the same. This is a positive trend because the adoption of time-based targets indicates that organizations intend to follow through on their ESG commitments. Power Generation, and Textile are the top two industries who have adopted time-based ESG goals or are in the process of doing it.

Time-based targets help organizations track their progress on key ESG targets at regular intervals. It is a good way to measure actual progress against set deadlines. Moreover, setting time-based targets can help organizations hold themselves accountable, and any weaknesses in their current action plan can be dealt with.

Industry-wise breakup of Organisations Adopting Time-based Targets

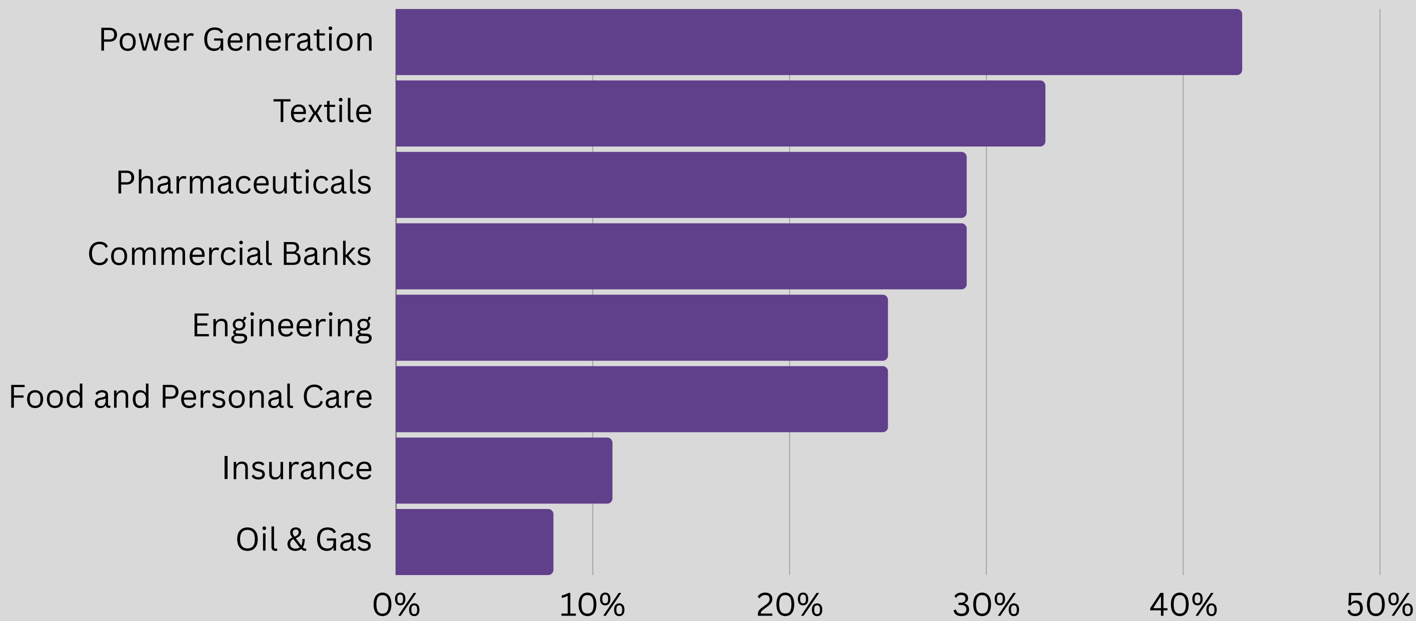

Figure 16

Governance and Influence

Board Influence

Which stakeholders have the greatest influence over ESG planning or strategy in the corporate sector in Pakistan?

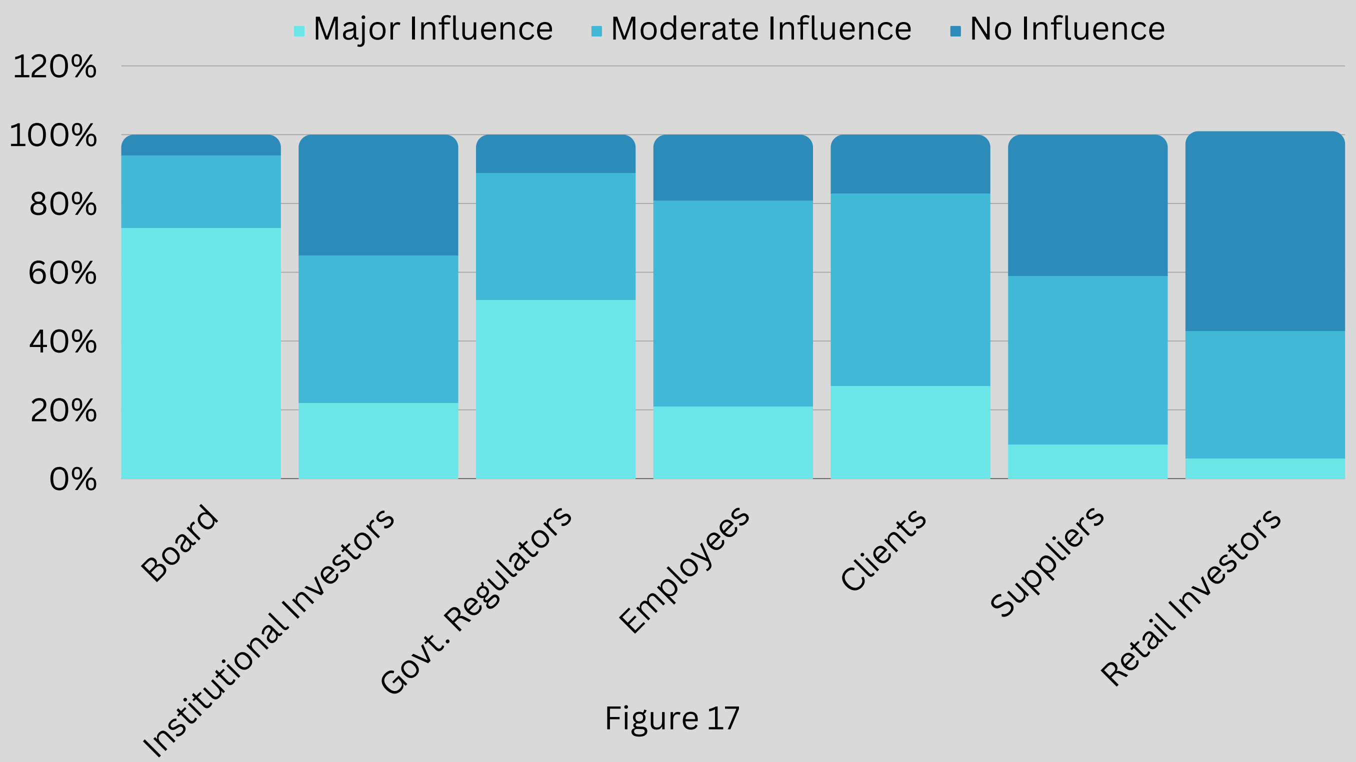

Figure 17

Top three stakeholders with the greatest influence on ESG planning and strategy are:
1. Board
2. Government Regulators
3. Customers

Clearly, the board has the most influence over ESG planning and strategy. Due to its significance, it is necessary for board members to have ESG awareness and competence. Consequently, these members will play a key role in bringing an outside-in perspective to the organization's ESG strategy.

Government Regulators are also important in influencing ESG planning and strategy because they set the standards and guidelines for companies to follow. They also have the authority to hold businesses accountable incase these guidelines are broken, thus encouraging them to work towards building an ESG strategy.

Customers too are now being increasingly concerned about the sustainability of products they are using, and therefore prefer to consume products from companies they know are ethically conscious. As a result. companies have to considering ESG planning if they are to remain relevant in the market.

Does your organization have a formal Board ESG Committee?

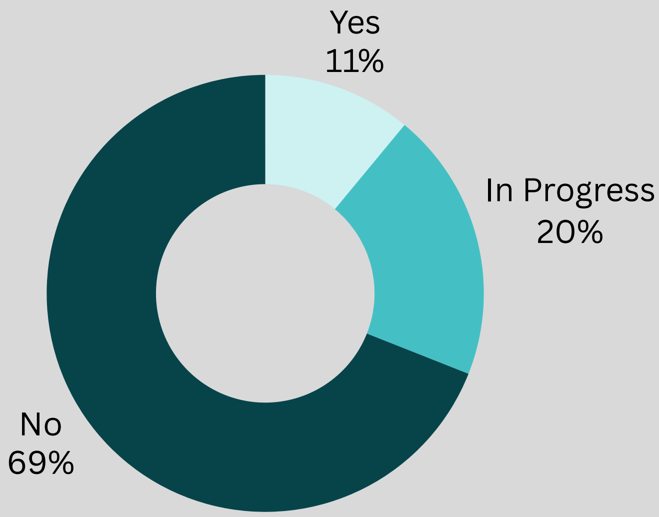

Figure 18

Based on the survey data, it is found that the majority of companies, 69%, do not have a formal Board ESG Committee. This suggests that there is room for improvement in terms of formalizing ESG oversight at the board level.

Does your organization's Board composition include ESG competent/certified director's?

Similarly, having directors with ESG competency or certification can bring valuable expertise and perspectives to the boardroom, enabling effective decision-making and integration of ESG considerations into the organization's strategy. Our survey shows that a majority of our respondents (36%) do not have an ESG competent director on board, while 18% of our respondents do, and 16% are in the process. It is worth noting that globally, the importance of ESG oversight and expertise is increasingly recognized in corporate governance practices. Companies in Pakistan may benefit from actively seeking directors with ESG competency and certification to enhance their ESG governance and performance.

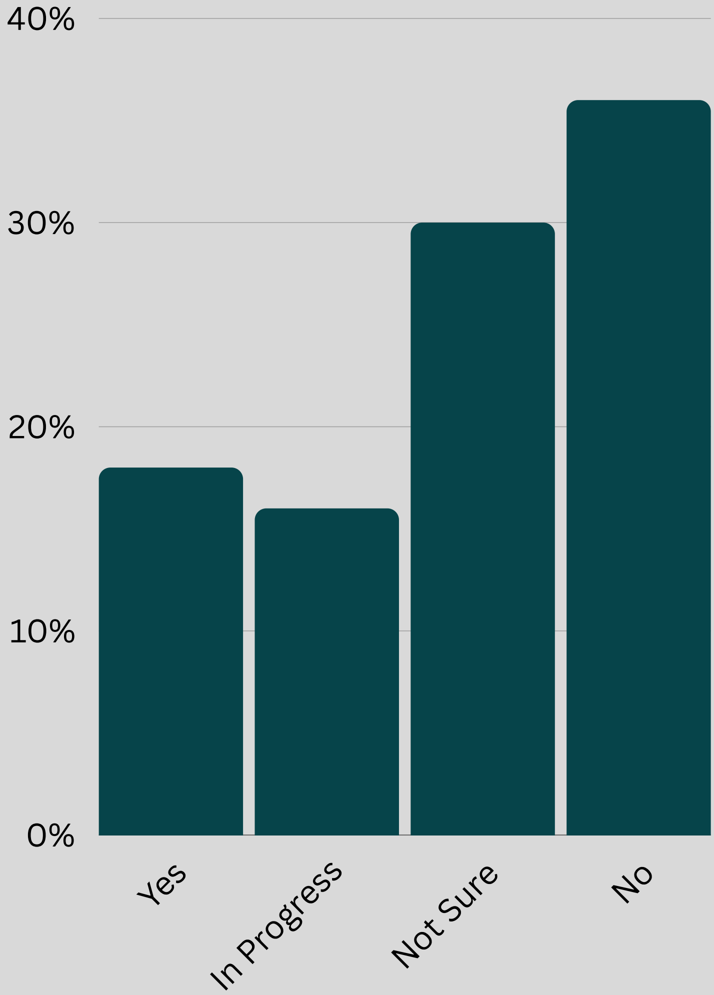

Figure 19

Does having an ESG certified director help organizations prepare an ESG strategy?

Finally, our results showed that organizations with ESG certified directors on their boards were more likely to have a documented ESG strategy as compared to organizations where the board composition did not include ESG certified directors. We found that 48% of organizations that have ESG certified directors also have a formal, documented ESG strategy. This percentage is higher than the overall 30% of respondents who have a formal ESG strategy, thus proving that having an ESG certified director helps in preparing an ESG strategy.

Having an ESG certified director on your board can make a difference when it comes to ESG. We found that organizations with ESG certified directors were better able to prepare an ESG strategy.

Industry Specific Data

While industries believe that ESG practices will improve their businesses, their action on the board level is still very slow. This section looks at where industries stand in terms of having formal ESG committees, or at the very least, an ESG certified director on board.

60% of the Power Generation & Distribution companies have a formal ESG committee. As far as an ESG certified director on board is concerned, 60% of the Power Generation & Distribution companies have one on board or are in the process of appointing one.

Companies in Pakistan need to realise that having ESG board oversight, and ESG certified board members can help them in multiple ways. These include:

Proactively identify ESG opportunities, and manage ESG risks, tackling them in a more effective manner

Showcase commitment to ESG goals, which improves reputation and confidence of investors and other stakeholders

Ensuring organisation stays compliant to ESG regulations, and staying committed to the goals set out

Challenges Faced by Organisations in Pakistan Regarding ESG Practices

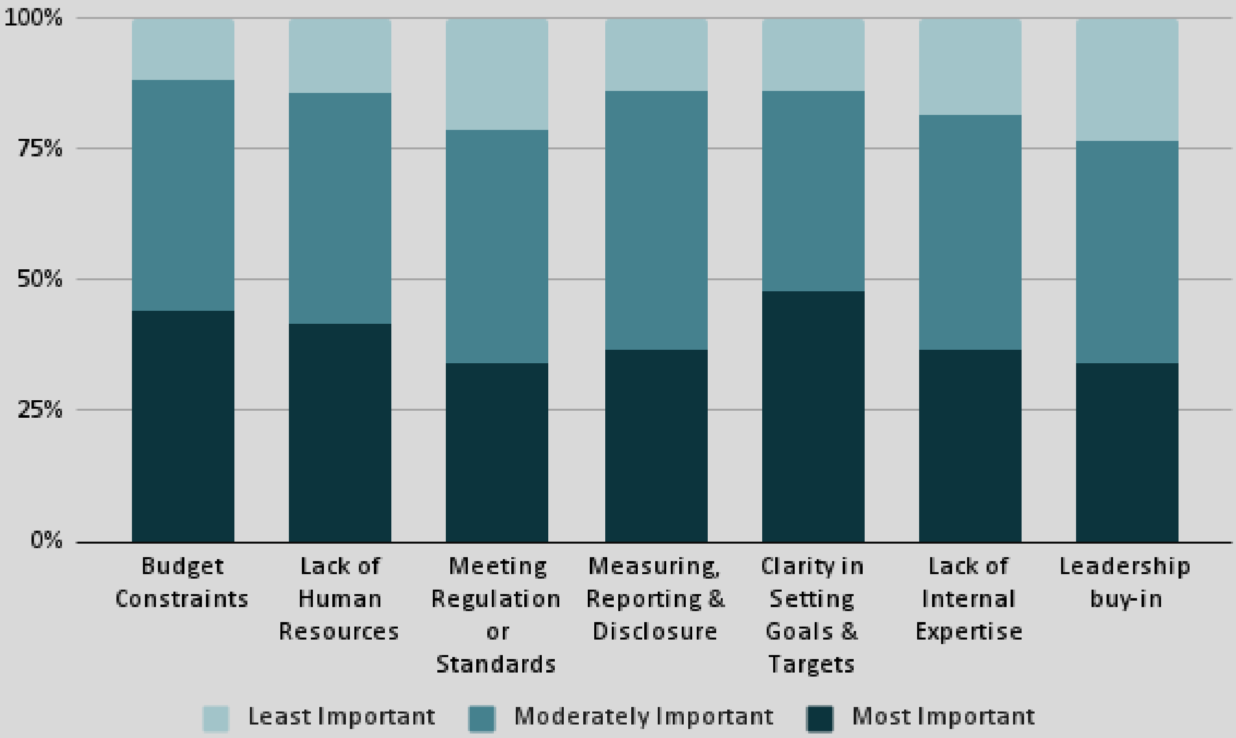

Figure 20

Our results showed that there were various challenges that respondents faced regarding ESG Practices. **Clarity in setting goals and targets** was the most important challenge organizations face in the execution of ESG programs and activities. 83% Textile, and 80% Consulting companies found it to be the most important issue. However, global standards and guidelines are available which can help companies in setting specific goals and targets. These guidelines can also help sectors who consider **Measuring, Reporting & Disclosure (MR&D)** to be a major obstacle such as Engineering (66%), and Textile (60%).

The second biggest obstacle for industries is **budget constraints**. 75% of Consulting Services, and 60% of the Education sector believe it to be the most important issue.

Our findings reveal that approximately 50% of respondents cited a lack of clarity in setting goals and targets as the biggest obstacle to executing an ESG program or activity

The third and fourth most chosen issue was **lack of human resources and lack of internal expertise**. 80% of Education sector, 75% of the Chemical, and 67% of Technology companies found it to be the most important issue. However, most of the respondents chose it to be moderately important. It is interesting to note that 50% of Food and Personal care, and Power Generation & Distribution companies find it to be the least important issue.

Lastly, **Leadership Buy-in** was also considered an important issue, and 66% of Engineering, and 60% of Textile thought it to be most important. Overall, this showcases the need for ESG competence in board and executive members.

Order of Importance

1. Clarity in Setting Goals
2. Budget Constraints
3. Lack of Human Resources
4. Lack of Internal Expertise & Measuring, Reporting & Disclosure
5. Leadership Buy-in & Meeting Regulations

Reporting and Disclosure

Does your organization know the benefits of ESG disclosures?

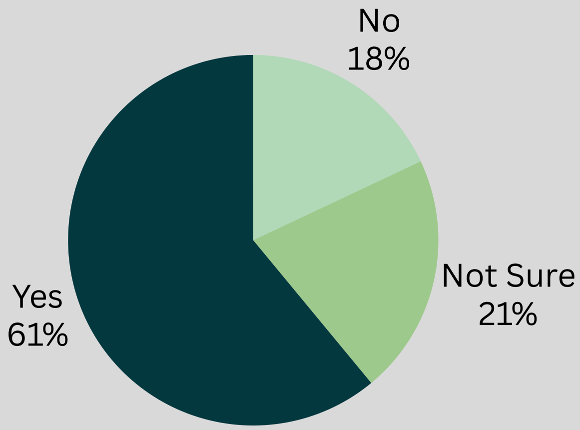

Figure 21

Based on the survey data, it is observed that 61% of organizations are aware of the benefits of ESG disclosures. Most notable who said yes were 71% of Power Distribution, followed by 58% of Engineering and Food & Personal Care product. The lowest recognition was by Oil & Gas companies, with only 23% of them knowing the benefits.

How can organizations in Pakistan benefit from ISSB's S1 & S2?

S1 provides a set of general disclosure requirements designed to help companies inform investors about the sustainability-related risks and opportunities they face over the short, medium and long term. While, S2 sets out specific climate-related disclosures which companies should communicate in their ESG reports.

Companies using the S1 and S2 reporting standards will benefit in the following ways:

- Better equipped to streamline ESG reporting processes
- Help increase the transparency of ESG reporting processes
- Greater transparency results in higher data quality. The company will be in a position to leverage high-quality data from each entity in the company's value chain.
- High-quality data will have a positive effect on areas such as governance, strategy and stakeholder engagement. It will also give the company better access to capital, reduce costs and improve brand reputation.
- Will be able to limit investor disagreements and investment uncertainty as investors will be able to take more informed decisions.

ESG Reporting

How do you report your ESG activity externally?

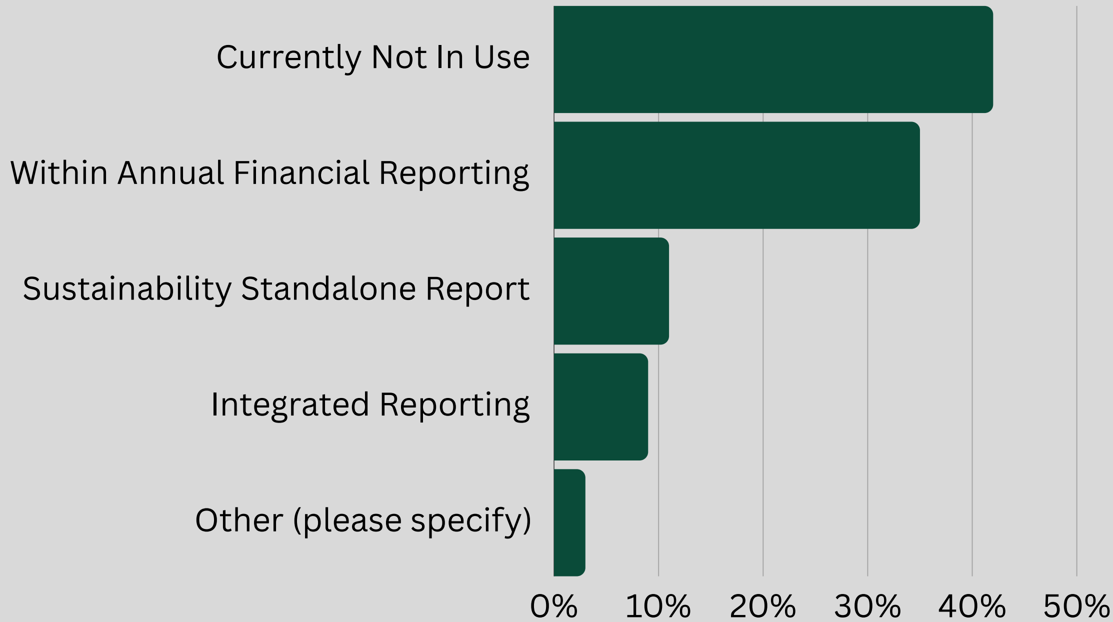

Figure 22

42% of organizations in Pakistan do not report their ESG activity externally. This is true across various industries. Only 11% organizations in our sample were found to issue separate sustainability reports. These organizations belong to the Oil and Gas sector, Food and Personal Care products industry, Engineering, and Textile industries. Moreover, 22% have chosen disclosures to be a priority in the coming years.

Reporting Standards Used by Industries

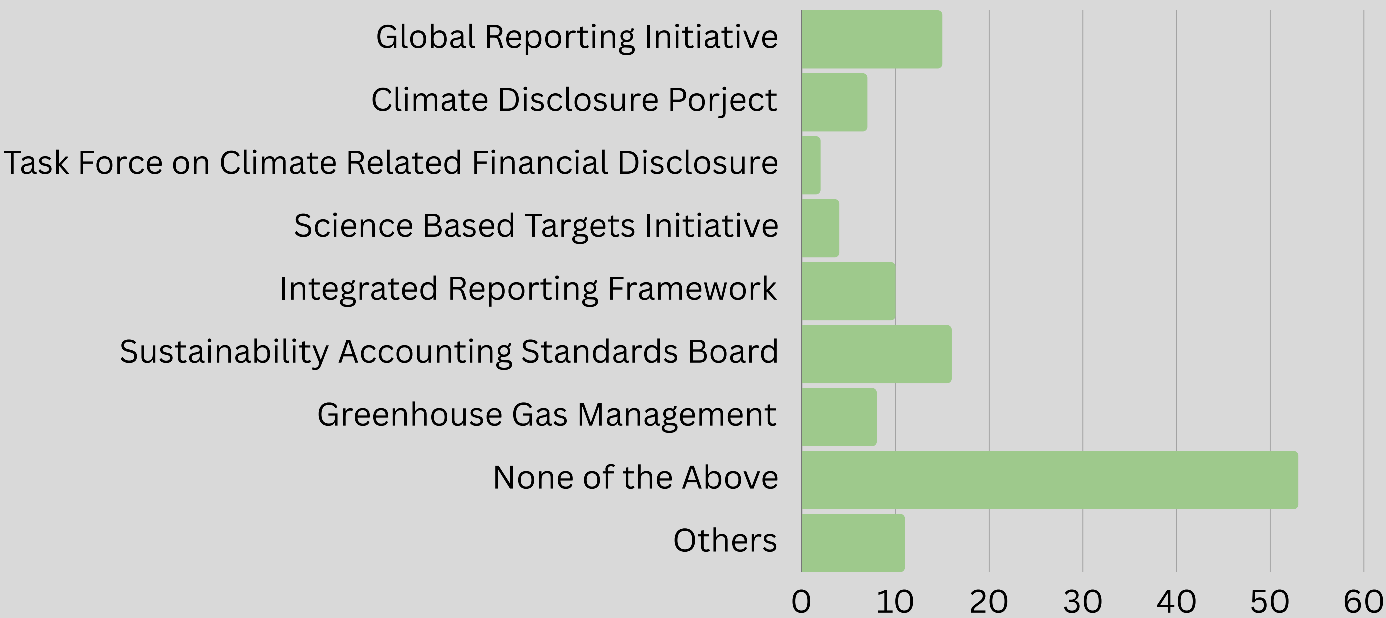

Figure 23

ESG Reporting

Based on the survey data, it is observed that more than half of the companies do not adopt or implement any type of ESG reporting standards or framework. This indicates that a significant portion of companies may not have a structured approach to reporting their environmental, social, and governance practices and performance, or are not reporting at all.

Out of those who do use reporting standards, 16% of those have adopted the SASB (Sustainability Accounting Standards Board) framework, and approximately 15% have adopted the GRI (Global Reporting Initiative) framework. These frameworks are internationally recognized and widely used for ESG reporting. 43% of Power Generation & Distribution companies, followed by 30% Textile, and 17% Engineering companies use this framework. GRI on the other hand is most used by Engineering (33%), followed by Power Generation (29%), and Food & Personal care products (25%).

The fact that GRI and SASB are the most commonly adopted frameworks internationally aligns with the broader trend in the ESG reporting landscape. However since July of 2023, global standards such as those from ISSB have also come out, which can provide a consistent approach to reporting, facilitate stakeholder communication, and help organizations align their reporting with global best practices.

Are organizations which have adopted ESG goals with specific KPIs more likely to report their ESG activity externally?

According to our survey, 86% of the firms which have specific KPIs also report on their ESG activities externally in some capacity. This is in contrast with the 58% of respondents who report externally in total.

Is the ESG strategy communicated within the organization?

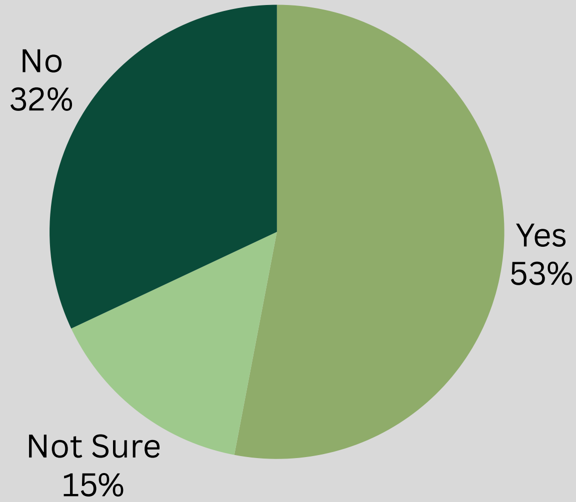

Figure 24

Just over half the respondents, that is 53% of the sample, reported that ESG strategy is communicated internally within the organization. 71% of Power Generation, and 50% of Engineering and Food and Personal Care Products fall within this category.

Furthermore, 79% of Commercial Banks, and 70% of Textile are the top two industries which do not communicate ESG strategy internally, It is important for firms to realise the significance of communicating strategy within the organisation as it helps employees understand the long-term goals and vision of the company, and work accordingly. It also fosters coordination amongst employees which ultimately builds a collaborative working environment beneficial for the company overall.

Do You Know?

Organizations that effectively communicate their ESG strategy internally are also able to report their ESG activity externally. It is encouraging that almost 77% of organizations that communicate their ESG strategy internally also report their ESG activity externally.

Way Forward

Upcoming Priorities

Our survey asked respondents to identify which ESG issues they will be prioritising in the coming year in order to get an idea of what companies plan to focus on next. The top three priorities include Energy Management (52%), followed by Diversity, Equity & Inclusion (45%), and Occupational Health and Safety (41%). Figure 26 shows the various other ESG issues and where they rank in terms of priority.

It is common for organizations to prioritize ESG issues that directly impact their operations and profitability. Energy management is often seen as an urgent issue because it can have significant cost implications and is closely tied to environmental impact. Improving energy efficiency, transitioning to renewable energy sources, and reducing greenhouse gas emissions can not only help organizations reduce their environmental footprint but also save costs in the long term.

Top 3 Priority Issues

1. Energy Management
2. Diversity, Equity & Inclusion
3. Occupational Health and Safety

Figure 25

ESG Issues Ranked by Priority

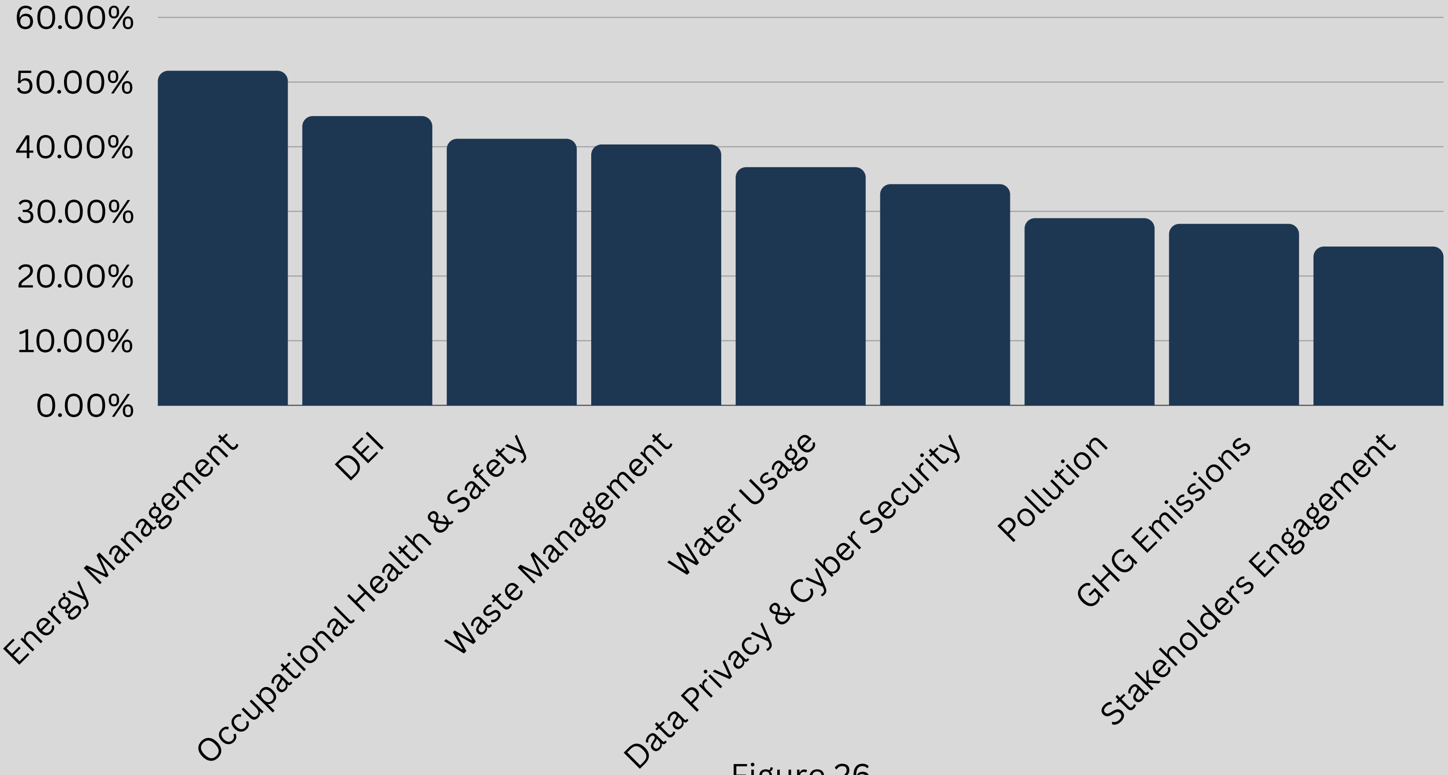

Figure 26

Shareholder Rights

Our survey revealed that shareholder rights was one of the lowest priorities chosen by respondent industries. Only 17% regarded it as a priority, out of which the highest was the Textile industry with 20%. It is important that companies realise the significance of shareholder rights as doing so ensures that interests of shareholders and company management is aligned, thereby reducing conflict of interest. It also increases market confidence as investors are more likely to invest in places where they know their rights are protected. Commitment to shareholder rights showcases the company's plan for long-term value creation.

Overall, only 17% of the respondents chose Shareholder Rights & Impact on Biodiversity to be a priority

Impact on Biodiversity

Globally, the Agriculture and Food production industries have been placing significant emphasis on addressing biodiversity loss. Our survey findings indicate that in Pakistan, 25% of **Food & Personal Care product** industry prioritizes biodiversity conservation. However, there is a need to encourage companies operating in industries like Oil and Gas, Real estate, and Textile, to focus more on biodiversity preservation and environmental protection, as they have placed low priority on it. These industries often have a significant impact on the environment and biodiversity due to their operations. It is important to engage with these industries, raise awareness about the importance of biodiversity, and highlight the benefits of integrating biodiversity conservation into their operations. This can include implementing measures such as habitat restoration, sustainable land use practices, and minimizing pollution and waste. By encouraging industries across various sectors to prioritize biodiversity preservation and environmental protection, we can work towards a future benefiting both ecosystems and human well-being.

It is important to note that the prioritization of ESG issues can vary depending on the industry, geographic location, and stakeholder expectations. Organizations may prioritize issues such as water management, supply chain sustainability, or diversity and inclusion, based on their specific circumstances and stakeholder interests. Ultimately, they need to strike a balance between addressing ESG issues that have a direct impact on their profitability, and those that have broader societal and environmental implications. It is important to consider the long-term sustainability and reputation of the organization while also addressing external effects and contributing to the overall well-being of the planet and society. The tables below showcase ESG issues prioritized by different industries (Figure 27 and 28).

Oil & Gas	Commercial Banks	Engineering
Diverty, Equity, & Inclusion	Diverty, Equity & Inclusion	Energy Management
Occupational Health & Safety	Data Privacy & Cyber Security	Occupational Health & Safety
Data Privacy & Cyber Security	Energy Management	Diverty, Equity & Inclusion

Figure 27

Textile	Food & Personal Care	Insurance
Water Usage	Water Usage	Occupational Health & Safety
Pollution	Waste & Energy Management	Diverty, Equity, & Inclusion
Waste & Energy Management	GHG Emissions, DEI, Occupational Health & Safegy	Labour & Human Rights

Figure 28

International Top Priorities

Globally operating organizations may prioritize a range of ESG issues over the coming year, depending on their specific industry, geographic presence, stakeholder expectations, and sustainability goals. However, there are several ESG issues that are commonly prioritized by global organizations. Those written below have been gathered from various sources, such as Deloitte, PWC, and United Nation publications. They include:

Climate Change and Carbon Emissions

Addressing climate change and reducing GHG emissions is a top priority for many international organizations. This includes setting emission reduction targets, implementing renewable energy solutions, and adopting sustainable practices to mitigate the organization's contribution to climate change.

Supply Chain Sustainability

International organizations often have complex and extensive supply chains. Prioritizing supply chain sustainability involves ensuring ethical sourcing, responsible procurement practices, and promoting social and environmental standards throughout the supply chain.

Diversity and Inclusion

Promoting diversity and inclusion within the organization is a critical ESG issue. This includes fostering gender equality, promoting inclusivity for underrepresented groups, and ensuring equal opportunities for all employees.

Human Rights and Labor Practices

International organizations need to prioritize respecting human rights and ensuring fair labor practices across their operations and supply chains. This includes addressing issues such as child labor, forced labor, and unsafe working conditions.

Water and Resource Management

Managing water resources efficiently and responsibly is crucial, particularly in water-stressed regions. International organizations may prioritize water conservation, responsible water usage, and reducing water pollution in their operations.

Data Privacy and Cybersecurity

With the increasing digitalization of businesses, protecting customer data, ensuring data privacy, and addressing cybersecurity risks are becoming key ESG priorities for international organizations.

Conclusion

ESG is still an evolving regime in Pakistan. Awareness about the benefits of incorporating ESG practices into business operations is growing. However, most organizations have not moved beyond identifying their ESG risks and opportunities to creating an action plan that can generate real value. The creation of comprehensive action plans and ESG strategies should be a top priority for organizations in Pakistan because it can unlock benefits such as the ability to secure loans and access better investment options including FDI. Regulatory requirements are also likely to get more stringent in the coming years so it is imperative that organizations in Pakistan strengthen their reporting and disclosure mechanisms. However, even as organizations gear up to increase their ESG reporting they must keep in mind that the objective is not the report itself, but transformation of the entire business based on sustainable practices. Without concrete steps to incorporate sustainable practices into core businesses and value chains, ESG will remain an empty buzzword in the corporate sector in Pakistan.

Acknowledgments

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