

Table of Contents

About the Author xvii

About the Technical Reviewer xix

Acknowledgments xxi

Endorsements xxiii

Foreword xxvii

Preface xxxi

Introduction xxxv

**Chapter 1: Understanding ESG: Factors, Foundations,
and Differentiators 1**

 1.1 Evolution of ESG 3

 1.2 Description of ESG Factors 5

 1.3 Corporate Sustainability Movement 7

 Milestones in Corporate Sustainability 8

 1.4 Emergence of Corporate Social Responsibility 11

 Role of CSR in Shaping Corporate Behavior 12

 Impact of Corporate Social Responsibility on Businesses 13

 1.5 Untangling the Terminology: ESG, CSR, and Sustainability 14

 Intersection of ESG and CSR 15

 Overlap of ESG and Sustainability 16

TABLE OF CONTENTS

ESG, CSR, and Sustainability: Complementary Approaches 16

1.6 Business Case for ESG: Long-Term Value Creation 17

 ESG is Sound Business Strategy 21

Chapter 2: The Current ESG Outlook25

 2.1 Recent and Heightened Focus on ESG..... 25

 2.2 Relevance of ESG Initiatives in the Current Business Climate 27

 Influence of ESG on Business Planning 28

 Market and Economic Impacts of ESG 29

 Growing Attention and Expectations from Stakeholders 31

 2.3 Evolving Legal and Regulatory Landscape 33

 Ripple Effects of a Regulatory Vacuum for Businesses 34

 Business Preparation for Regulatory Requirements..... 35

 2.4 Coalescing of the Standards Framework 38

 Global Push for Standardized ESG Reporting 38

 2.5 Collision Course on Climate 39

 2.6 Demands for Transparency and Data Integrity 43

Chapter 3: The International Legal and Policy Foundations of ESG47

 3.1 Business and Human Rights 48

 Fundamentals of Human Rights 48

 Origins of International Human Rights Law 48

 Human Rights Laws and Business Practices 55

 3.2 Climate and Natural Resources..... 57

 Guiding Principles of International Environmental Law 57

 Emergence of International Cooperation 57

 3.3 Sustainable Development 58

 Brundtland Commission (1983) 58

 Brundtland Report: Our Common Future (1987) 58

Defining Sustainability and Sustainable Development.....	59
Impact and the Origins of Sustainability.....	59
3.4 Key Global Treaties, Agreements, and Summits.....	60
Stockholm Conference (1972)	60
The Rio Earth Summit: A Pioneering Conference on Environment and Development (1992)	61
United Nations Convention on the Law of the Sea (1994) and High Seas Treaty (2023).....	70
Kyoto Protocol (1997)	74
Paris Agreement (2015)	77
COP28 in Dubai (2023).....	80
3.5 United Nations Sustainable Development Goals (SDGs)	85
Introduction to the Sustainable Development Goals.....	85
Key Terms and Concepts	87
The Seventeen SDGs	87
Progress Toward Targets	89
3.6 ESG Integration with the International Principles and SDGs	90
Investor Criteria	90
Key Insights for ESG Integration.....	93
Challenges in Achieving the SDGs	96
Chapter 4: A Deep Dive into the “E” in ESG	97
4.1 Global Tipping Point	99
4.2 World Economic Forum (WEF) Global Risks Report.....	100
Global Risks Report 2024	101
Top Global Risks 2024	102
Global Risks Report 2023	104
Top Global Risks 2023	106
Takeaways from the Past Two Annual Global Risks Reports	107

TABLE OF CONTENTS

4.3 Climate Policy and the Intergovernmental Panel on Climate Change (IPCC)	108
Structure and Organization of the IPCC	109
Reporting Cycles.....	110
Influence on Climate Policy	111
4.4 Greenhouse Gases (GHGs).....	112
List of Greenhouse Gases	113
Primary Sources and Impacts of Greenhouse Gases.....	115
Regulation of Greenhouse Gases.....	117
4.5 Top Greenhouse Gas (GHG)-Emitting Sectors and Countries.....	117
Major Contributing Sectors.....	118
Top Emitting Countries	120
Emissions Data Analysis Informs GHG Reduction Approaches	121
4.6 Carbon Markets.....	123
Understanding Carbon Markets: Compliance Market and Voluntary Market Models.....	123
Development of Global and Regional Carbon Markets	124
Challenges Facing Expansion of Carbon Markets	127
4.7 Pollution and Waste	129
Sustainability Trends in Packaging.....	130
4.8 Biodiversity and Natural Capital Depletion.....	131
Defining Biodiversity.....	131
Current State of Biodiversity and Natural Capital	132
Expansion of Natural Capital and Biodiversity Funds	135
4.9 Responsible Sourcing	139
Establishing a Responsible Sourcing Strategy	139
4.10 Water Use and Stewardship	141
Water Stewardship as a Business Imperative	142

4.11 Circular Economy	144
Environmental Justice	147
Future of the Circular Economy	148
Chapter 5: A Deep Dive into the “S” in ESG	151
5.1 Social Factors and Their Impacts.....	151
5.2 Human Capital and Employee Welfare	153
Evolution of Human Capital Management in the Era of ESG.....	153
5.3 Diversity, Equity, and Inclusion	155
5.4 Gender Equality and Equity	159
Gender Pay Gap	160
5.5 Human Rights and Labor Practices.....	163
5.6 Supply Chain Transparency	165
Maintaining a Transparent Supply Chain	167
5.7 Consumer Protection, Product Safety, and Quality.....	168
5.8 Philanthropy, Responsibility, and Volunteering.....	170
5.9 Community Relations	173
Chapter 6: A Deep Dive into the “G” in ESG	177
6.1 Governance Factors and Their Impacts.....	177
6.2 Transparent and Accountable Governance Practices	180
6.3 Management Responsibilities and Transparency	183
Executive Compensation	184
6.4 Board Duties and Oversight	187
6.5 Board Composition and Capabilities	189
Board Diversity	191
Board Committee Structure.....	193
Board Performance	197

TABLE OF CONTENTS

6.6 Business Ethics and Values..... 198

6.7 Compliance, Risk, and Audit..... 200

6.8 Stakeholder Engagement..... 202

6.9 Shareholder Activism, Proxy Voting, and Asset Management 204

6.10 Greenwashing 208

Chapter 7: The Global ESG Regulatory Paradigm.....213

7.1 Development of the ESG Regulatory Environment..... 213

 Building Upon Existing Environmental, Social, and Governance
 Regulations..... 215

 ESG Taxonomy 220

7.2 Key Global Regulatory Initiatives 223

 Comprehensive Sustainability Regulation in the European Union 231

 Sustainability Disclosure Requirements in the United Kingdom 245

 Stock Exchange and Securities Rules Requiring Sustainability
 Disclosures 249

 Climate-Focused Regulation, Legislation, Exchange Rules, and Tariffs 251

 Executive Compensation 270

 Human Capital Management 271

 Supply Chain and Human Rights Regulation 274

 Circular Economy and Greenwashing Regulation..... 276

 Government and Stock Exchange Board Diversity Rules 282

 Regulatory Efforts to Address the Gender Pay Gap 288

 Regulatory and Legislative Actions on Antitrust 290

7.3 Distinguishing Regulation, Legislation, and Executive Action 292

7.4 Concept of Materiality..... 293

 Financial Materiality 293

 Non-financial Materiality and Double Materiality 294

7.5 Disclosure and Reporting Models	295
7.6 Rise of Enforcement, Litigation, and Shareholder Challenges	297
Regulatory Enforcement.....	297
Climate Litigation.....	301
Greenwashing Litigation.....	304
Shareholder Litigation	306
7.7 Navigating Regulations and Emerging ESG Risk.....	308
Chapter 8: The ESG Standards and Frameworks	311
8.1 Progression of Standards and Frameworks.....	311
8.2 Examination of Key Standards and Frameworks	317
International Sustainability Standards Board (ISSB)	317
ISSB's Inaugural Standards: IFRS S1 and IFRS S2	318
Global Reporting Initiative (GRI).....	322
CDP (Formerly Carbon Disclosure Project)	323
Taskforce on Nature-Related Financial Disclosures (TNFD)	324
8.3 Carbon Accounting and the GHG Protocol	327
Carbon Accounting	327
Greenhouse Gas (GHG) Protocol	328
8.4 Incorporation of Standards into Legislation and Regulation	329
8.5 Implications for Compliance and Risk Management.....	330
Chapter 9: The ESG Ratings Providers and Indices	333
9.1 Role of ESG Ratings	333
9.2 ESG Ratings Providers	336
9.3 ESG Indices and Relevancy in the Market.....	339
9.4 Criticism of Ratings Providers.....	340
9.5 Potential Regulation and Oversight of Ratings Providers.....	342

TABLE OF CONTENTS

Chapter 10: The Role of the Corporation.....349

10.1 Focus on Emerging ESG Trends and Risks..... 349

10.2 Fiduciary Duties and ESG..... 351

 Fundamentals of the Fiduciary Duties..... 351

 Duty of Care..... 352

 Duty of Loyalty..... 352

 Duty of Good Faith 353

 Business Judgment Rule..... 353

 Fiduciary Duties and ESG Application..... 354

10.3 Rise of Corporate Purpose and the Aligned Corporation..... 354

10.4 Alternative Corporate Structures..... 356

 Public Benefit Corporations (PBCs)..... 356

 Distinguishing PBCs from B Corps..... 358

10.5 Stakeholder Engagement..... 361

10.6 ESG Strategy, Program Development, and Reporting..... 362

10.7 ESG in Mergers and Acquisitions 367

10.8 Creating Green Jobs and Reskilling the Workforce..... 368

 Leading Sustainability Within the Corporation..... 370

10.9 Continuous Innovation..... 372

 Blue Ocean Strategy..... 373

 Blue Ocean Economy..... 374

Chapter 11: The Role of the Financial Sector379

11.1 Rise in ESG-Aligned Investing..... 379

11.2 Growth in Sustainable Finance 380

11.3 Managing Climate Risk as a Strategic Priority..... 384

11.4 Advancing the New Economy and the Clean Energy Transition 385

Chapter 12: The Role of International Bodies and UN Programs	391
12.1 Driving International Agreement	392
12.2 Integration of the UN Principles for Responsible Investment (PRI)	393
12.3 Business Engagement with the UN Global Compact (Global Compact).....	396
12.4 United Nations Environment Assembly (UNEA) and Multilateralism	397
12.5 Group of 7 (G7) and Group of 20 (G20) Weathervanes	398
G7 and Global Sustainability.....	399
G20 and the Green Growth Agenda	401
12.6 Global Reach of the Organisation for Economic Co-operation and Development (OECD)	402
12.7 International Union for Conservation of Nature (IUCN): A Convening of Governments and Civil Society	406
12.8 International Organization of Securities Commissions Oversight (IOSCO).....	408
Chapter 13: The Role of Business Interest Groups	411
13.1 Convening the World Economic Forum (WEF)	411
13.2 World Business Council for Sustainable Development (WBCSD) and the SDGs	413
13.3 Business for Social Responsibility (BSR) as an Early Mover	414
13.4 Business Roundtable (BRT) and the “Statement on the Purpose of a Corporation”	415
13.5 The Ceres Influence	416
13.6 We Mean Business Coalition and Climate Action	418
13.7 State of Play for Trade Associations and Business Groups	419
Chapter 14: The Role of NGOs and Third-Party Mechanisms.....	423
14.1 Multipurpose Role of the Nongovernmental Organization (NGO)	423
14.2 Leading the Way on Science-Based Targets	426
14.3 Organizational Advocacy Platforms.....	429
14.4 Independent Role of Certifying Organizations.....	430

TABLE OF CONTENTS

Chapter 15: The Role of the Philanthropic Sector.....437

15.1 Philanthropic Impact and Influence 437

15.2 Mission Shift to Achieve Impact..... 438

15.3 Increased Level of Funding and Grants Activity 440

15.4 Innovative Financing Vehicles 442

15.5 Private Foundations Making their Mark in Climate Philanthropy 448

15.6 Public Charities Programming for Impact and Alignment
with the SDGs 451

Chapter 16: The Pathways to Decarbonizing Key Sectors453

16.1 Decarbonizing the Energy Sector..... 455

Decarbonization Challenges and Potential Solutions 457

Role of Innovation and Technology 459

16.2 Decarbonizing the Transportation Sector 460

Road Transportation: Advancing Technology 460

Aviation and Maritime Transport: Energy Density Matters..... 463

Road Ahead 464

16.3 Decarbonizing the Agricultural Sector 465

GHG Emissions in Agriculture 466

Pathways to Decarbonization 467

16.4 Decarbonizing the General Manufacturing Sector 469

Challenges to Decarbonization 470

Pathways to Decarbonization 471

16.5 Decarbonizing the Building Industry 472

Green Buildings and Sustainable Urban Planning 473

Continuous Innovation in Green Design and ESG Business Strategy..... 476

Challenges to and the Future of Decarbonization in the
Building Sector 477

TABLE OF CONTENTS

16.6 Decarbonizing the Fashion Industry477

 Raw Material Production and Processing.....478

 Manufacturing and Distribution.....479

 Consumer Use and Disposal.....479

 Challenges in Decarbonizing the Fashion Sector479

 Key Steps to Decarbonize the Fashion Sector.....481

Index.....485