

The Oil & Gas Industry and ESG: What You Need to Know

ESG may be challenging for oil and gas companies to implement, and it may seem like it would affect profits, but investors are interested in companies that implement ESG programs. Investors are looking for companies whose business plans contribute to society in a tangible and sustainable way.

What is ESG Reporting?

Environmental, social, and corporate governance issues are covered in ESG reports. Investors, customers, and wider stakeholders get a snapshot of the business's impact in these three areas. ESG reporting helps organizations be transparent about risks and opportunities related to sustainability and ensures they consider their impact on sustainability issues.

Why is ESG Important?

In light of recent events, ESG has gained additional significance: companies have the responsibility and resources to create a more sustainable and resilient future and invest in tangible results that investors are looking for.

What are ESG Metrics?

To quantify ESG performance, investors need precise ESG metrics and tools to guide their investment process, particularly in the age of sustainable investing. The ESG objectives of investors and companies must be clearly articulated, aligned, and measurable.

The three main categories of ESG should be understood when defining metrics. Various metrics matter to each industry and organization, but metrics commonly tracked include:

Environmental Metrics

Environmental metrics such as electricity savings, fuel savings for company vehicles, carbon emission reductions, water savings, and waste diversion.

Social Metrics

Employee and occupant social metrics, such as health and wellbeing, diversity, and supply chain management.

Governance Metrics

A governance metric's relevance is determined by the presence of policies on a wide range of topics, including policies on matters related to business resilience.

Metrics like these can be used to predict a company's future financial performance, and they can be used by corporations to communicate with stakeholders, demonstrate commitment to fundamental principles, and assess environmental impacts.

What is My ESG Score?

The ESG score of an organization reflects its performance across a wide range of topics related to environmental, social, and governance (ESG).

The relevant factors can be either financial or nonfinancial, but equally compelling to the company's stakeholders. An ESG score is a way for organizations to assess and understand ESG performance both internally and across the broader corporate ecosystem.

Organizations' perceptions of their performance regarding environmental, social, and governance matters are used to calculate ESG scores. There is also a gap between perception and reality in the development of corporate reputation. A system of transparent, results-based promotion or a strong carbon emission policy is worthless if the information isn't publicly available.

How Can ESG Impact My Company?

Environmental, social, and governance (ESG) factors are increasingly considered by investors. Company performance and shareholder value can be affected both positively and negatively by ESG considerations. The ESG performance of companies has been shown to have positive impacts on financial performance and to reduce risk, especially when markets are volatile.

What Does ESG Mean in Oil and Gas?

A key element of ESG is the sustainability of a business when viewed from these three perspectives, as well as the relative risks it poses for the business and its investors. Oil and gas companies tend to focus heavily on environmental impact, but the social and governance aspects of ESG are becoming increasingly important.

Governance is of particular importance. It includes such things as regulatory standards, government policies, and company oversight. This is a key enabler for companies and businesses to adopt better environmental and social practices.

What is an ESG Strategy?

Environmental, social, and governance activities provide the company with the means of creating long-term value. It encompasses both financial and non-financial aspects, such as human and social capital, environment, technological advancement, business management, and governance.

A sustainable ESG business strategy is a long-term plan to improve performance and create value as part of those initiatives.

What is its significance to the oil and gas industry? As for sustainability, we see major industry players investing in renewables, but that doesn't mean fossil fuels will cease to exist. We should use ESG to tell our industry's story. ESG is impacting access to capital more than ever because there has been a shift in the investment community.

The number of ESG investments in sustainability-focused companies has increased, and these investments are tied to ESG ratings. Investors are also demanding performance-based sustainability-linked bonds and loans. ESG is more important to investors and consumers. Consumers base their buying decisions in part on social issues resulting in capital flow being affected.

It's not just investors demanding more from oil and gas companies. Approximately 70% of employees want meaningful work and strong social policy positions from their employers.

Achieving an ESG strategy and tracking performance clearly requires time, human capital, and ultimately financial resources, not just to implement the initiatives, but also to create systems for tracking and reporting.

How to Improve Your ESG Rating

Investor interest in ESG-related topics continues to grow. Investors require credible information about the company's management of environmental, social, and governance opportunities and risk.

Here are six practical steps to improve your ESG performance.

1. Determine Your Material Topics

ESG issues are becoming more complex and companies must track them. Organizations cannot address every single ESG issue equally due to the diversity of stakeholders and topics. Your ESG strategy should instead be centered on the topics that are most relevant to your business.

2. Embrace ESG in Your Business Strategy

Investing in long-term success means understanding how companies respond to macroeconomic trends, how they identify ESG risks, and how they position themselves for long-term success. Make sure to incorporate ESG considerations into your business planning.

3. Comply with Regulatory Requirements and Global Standards

In the last 20 years, ESG disclosure frameworks have increased by 92%. The frameworks most widely cited by investors are illustrated below, but we're still some way off a global consensus.

In order to provide investors with more consistent, comparable, and reliable information, international standards and frameworks can play a critical role. Follow a recognized framework to develop an ESG strategy that will help shape the narrative in a way that investors and other stakeholders will appreciate.

4. Learn How to Interpret Your ESG Ratings

ESG ratings are used by investors to make informed decisions. Companies that receive high ratings receive more investment and lower capital costs.

Develop an ESG ratings strategy to identify gaps and opportunities to improve E, S, and G scores. This allows you to better communicate the information that matters most to your investors.

5. Ensure High-Quality Data

Consistent, clear, accurate, and comparable ESG data is important to investors. ESG data should strive to meet characteristics of:

- Accuracy: Data collection should be rigorous
- Comparability and consistency:
 - To facilitate comparison, use consistent global standards
 - Boundaries: Business ownership and fiscal year alignment
 - Data provision: Both raw and normalized data should be provided
 - External assurance: Ensure the data's integrity by having it assured
 - Balance: Give both a positive and a negative view of the situation
 - Timeliness: Providing data in conjunction with annual reporting

6. Think About How You Communicate

Whatever format you choose to report on sustainability, whether it be an integrated report, an annual report, or a separate sustainability report, there are inevitably trade-offs between breadth and depth. These choices are not mutually exclusive, and you can choose a variety of reporting channels that complement each other. You should make reporting part of your overall dialogue with investors.

The Future of Social Responsibility

Oil and gas companies should seize the opportunity to capitalize on ESG given the recent increase in investor demand. By establishing consistent definitions for environmental, social,

and governance metrics, the efficiency of ESG data value chains can be improved. This will lead to more effective investor interactions.

Investors are asking more questions about your company's responsible investing efforts, employee and vendor relations, environmental initiatives, and other ESG-related initiatives. You must be prepared to answer any questions they might have.

Businesses must be adaptive, adaptable, and resilient, and apply a global perspective. Business ESG frameworks ensure businesses can mitigate risk, from environmental degradation to climate change, and global pandemics to mass extinctions, as well as seize long-term growth opportunities.