



2021

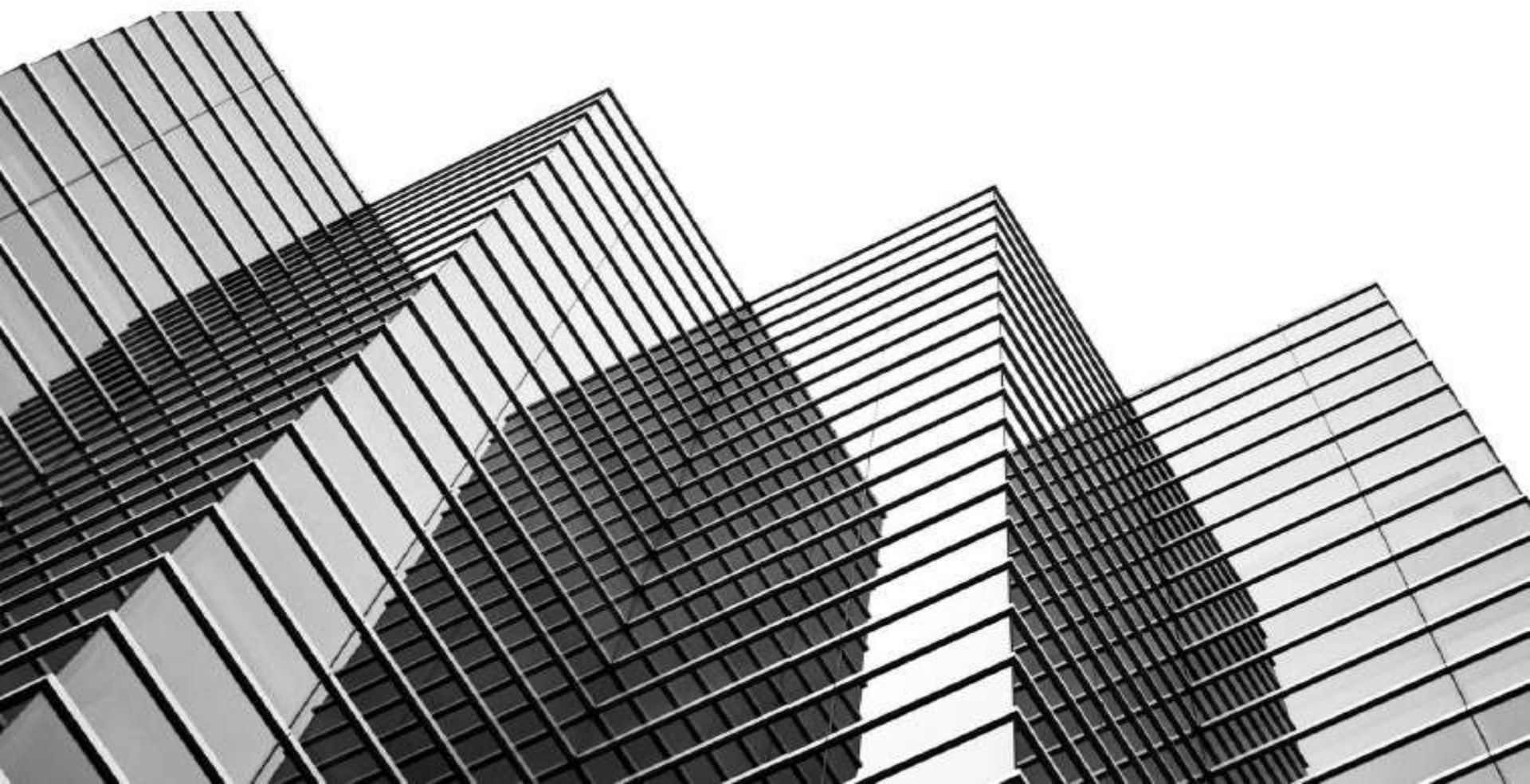
Environmental, Social, Governance (ESG)

*PICG's survey report on ESG
awareness in Pakistan's
corporate sector*



About PICG

The Pakistan Institute of Corporate Governance (PICG) is the country's premier institution, set up in 2004 as a not-for-profit company committed to the cause of promoting good corporate governance practices in the country. It is involved in corporate governance training and education, policy advocacy, advisory services, undertaking research and evaluations, conducting surveys as well as publishing guidelines and other research material





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About the Survey

In recent times, our world, and the countless systems we have so painstakingly crafted within it, are undergoing a massive paradigm shift. As we grapple with climate change, social inequality, and political injustice, certain new priorities come to the fore. Under such circumstances, the practice of 'Sustainable and Responsible Investment' continues to grow in importance globally. This has now received considerable impetus by the onset of the COVID-19 pandemic, instilling a sense of the "urgency of now" increasingly for investors and consumers alike. To this end, businesses find themselves having to more operate with long-term sustainable vision, as opposed to prioritizing short-term gain. Simply contributing to the bottom line no longer defines a successful business; rather, it is crucial for businesses to ensure that they operate in a responsible way, being mindful of new and emerging materialities.

As a result, the Environmental, Social, Governance (ESG) narrative has quickly gained much currency globally; and today, socially conscious investors and shareholders use ESG criteria to screen investments and evaluate a company for its positive impact on the world. A company's ESG performance is directly linked to numerous positive business trends. There is a growing cognizance of the business case for real ESG practices for longer term sustainable profitability – better financial performance, increased adaptability, innovation and regulatory compliance are driving this approach. At its very core, ESG criteria are geared to ensure business mitigate risk and create shared value for all stakeholders.

Simply contributing to the bottom line no longer defines a successful business; rather, it is crucial for businesses to ensure that they operate in a responsible way, being mindful of new and emerging materialities.

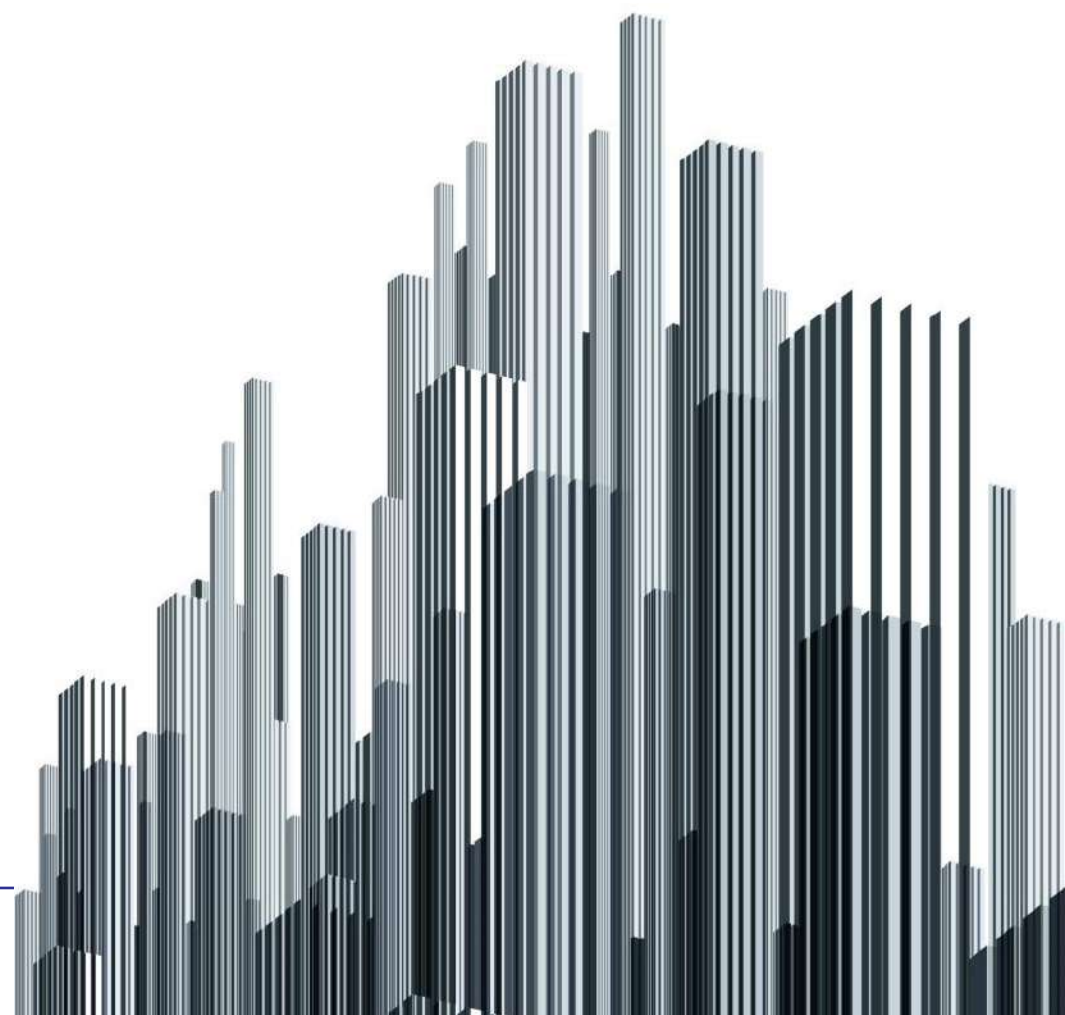


At PICG, under the umbrella of holistic governance, ESG is increasingly becoming a focal point of our work. As Pakistan is considerably behind in this respect, we at PICG are committed to using our platform to mainstream ESG awareness in the corporate sector. As such, this introductory ESG Survey was designed as an online questionnaire and sent to executives of companies in Pakistan to gain insight into awareness levels of ESG in Pakistan; the importance placed on non-financial reporting and disclosure; compliance with regulatory standards; and the need for ESG capacity building incorporates.

The survey was open from 5th April 2021 to 21st May 2021. 155 responses were received, out of which 124 were accepted. (Note: 31 responses were ignored as they were incomplete or did not appear authentic).

We would like to place on record, our appreciation for the invaluable contribution of our respondents to this survey.

Best Regards,
PICG Research Team





Executive Summary

Board members and Senior Management Executives comprise majority of respondents to this survey, ie, 70.96%, which is encouraging to note as ESG integration is a concept which industry and business leaders must be cognizant of, due to the centrality of ESG integration into a company's strategic leadership model.

Respondents represented a good mix of companies from various sectors including Banking, Chemicals, Insurance, Oil & Gas, Textiles, and Power & Utilities. Utilities, Oil & Gas and Banks occupied the largest share of the data set, whereas 60 respondents opted for the 'other' option, reflecting various industries and sectors from construction, automotive and manufacturing, to various consultancies and education.

58.06% of the respondents represented Public Listed companies, 33.87% were from Private Limited companies, and the remaining comprised of Sole Proprietorships and Partnerships, at 4.84% and 3.23% respectively. 80 companies indicated that their board composition ensured a minimum of one-third independent directors, while 38 reported that they did not meet this benchmark, of which 4 were publicly listed companies.

Board composition, specifically the issues of gender and independence, are key good governance practices and therefore crucial components of the 'G' in ESG. It is mandatory for publicly listed companies to ensure that their boards comprise one-third independent directors; therefore, the fact that 4 such companies did not meet this minimum requirement is questionable and indicative of delayed compliance. Moreover, it is noteworthy that of the 80 companies which responded in the affirmative, one is a Sole Proprietorship; that a company with no such regulatory requirement still ensures board independence is commendable and highlights a commitment to good governance.

At the board level, 71.77% of respondents noted that their companies had Audit Committees, 68.55% had HR and Remuneration Committees, and 33.87% had Risk Management Committees. Other board committees included those pertaining to strategy and governance. 5 companies, that is 4.03% reported having a dedicated ESG Committee as well. Of these, 4 were Private Limited companies and only 1 was Publicly Listed.

Board composition, specifically the issues of gender and independence, are key good governance practices and therefore crucial components of the 'G' in ESG



The discrepancy between the proportion of company boards comprising risk management and ESG committees is noteworthy given that ESG at its core is a comprehensive mode of risk mitigation.

As such, it begs the question of whether risk management committees at the board level do in fact consider ESG risks in their deliberations, or whether these committees are restricted to the analysis of financial risks alone. In case of the latter, there is need for a clear bifurcation between these two realms of risk, which necessitates a risk management committee, with an ESG committee working in tandem to consider both financial and non-financial risks.

Given the primacy of ESG endorsement in Pakistan and the scarcity of companies with dedicated ESG committees at the board level, it is interesting to note that 90.08% of respondents claimed to be familiar with ESG. It is, however, thought-provoking that an awareness of ESG does not facilitate its systematic inclusion in board level decision making within our sample set of companies.

Despite a reportedly overwhelming awareness of ESG as a concept, this knowledge does not seem to run deep which is evident from the disproportion of respondents that reported an awareness of ESG as opposed to those that understood the value of ESG to business - only 57.86% claimed to understand the actual value of ESG integration. In the absence of this understanding, ESG awareness becomes futile, as there is no impetus for companies to actively integrate ESG factors into their strategy and operations.

The same analysis holds true with respect to ESG understanding and communication within respondents' companies, with just under half of our data set reporting that ESG is both understood and well communicated at the workplace, 25.62% stating that it was not, and 27.27% being unsure. This lack of surety about the extent of ESG understanding and communication within their companies begs the question of whether any knowledge of ESG at the institutional level has been truly and genuinely internalized. This also reinforces the fact that institutional awareness of ESG presumably does not run as deep as is needed in order to alter company practices and recognise any tangible benefits. It is fair to assume that real company awareness of ESG would undoubtedly lead to the widespread promulgation and inclusion in companies' strategic direction and priorities.



Only 38.05% of respondents stated that their companies' CEO reports to the board regarding ESG implementation despite it being one of the significant issues to be placed for the information's, consideration and decision of the board under the Listed Companies (Code of Corporate Governance) Regulations 2019

Currently one could quite fairly term the level of understanding portrayed as 'ESG-washing' which, much like greenwashing, presents an inaccurate depiction of company understanding, priorities, and practices, albeit due to the respondents' own lack of knowledge in this regard.

60% of respondents reported that their company boards understand their responsibilities with respect to ESG. Comparatively however, only 46.28% noted the presence of dedicated ESG guidelines or policies. Respondent comments in this regard also indicate that there is much to be developed and streamlined, even for those with existing policies and guidelines. In some cases, ESG is equated loosely to sustainability, which is illuminating; the casual interchanging of the two concepts highlights a common misconception which mistakenly assumes that sustainability is in fact, ESG. The two may indeed have overlapping values, however, they are not the same. ESG requires the integration of its components into a company's very DNA in order for sustainability to be achieved. In this regard, board's must recognize their leadership responsibilities and necessitate comprehensive and well communicated ESG guidelines - which clearly differentiate, define the concept, and institutionalize understanding within the very ecosystem of the organisation.

Given that 60% of respondents noted that their boards were aware of their ESG responsibilities, this discrepancy is problematic. It is, however, encouraging that 94 respondents stated that they would be interested in ESG capacity development sessions.

Only 39 respondents noted that their companies issue non-financial reports in addition to their annual financial report and comments indicated that in many cases, such non-financial reporting is done within company annual reports and not as a stand-alone report. Further only 27 respondents stated that their company's issue 'ESG/Sustainability' performance reports, and here too comments indicated that such reports are combined with company annual reports. An overwhelming majority of comments highlighted that non-financial reporting is not a widespread practice amongst corporates and is more of an emerging area of interest and/or obligation, which needs to be further institutionalized.

When questioned on the environmental and social factors that drive decision-making at their companies, majority of respondent answers indicated a substantial degree of ambiguity.

With respect to risk management as well as the company's regulatory compliance, most respondents stated that the CFO was responsible. Given the centrality of risk and regulations to the ESG framework, the person responsible for this should have a very holistic approach, whereas a CFO may naturally have a penchant to see matters from a financial lens, thereby overlooking other considerations and materiality's which are key to ESG performance.

Honing into specific ESG factors, 45.87% respondents stated that their companies had not identified financial risks or opportunities due to climate change, out of which a quarter of these had previously reported that their companies had dedicated ESG guidelines in place. This is an informative statistic, because it calls into question the adequacy of the said guidelines as environmental considerations are key to the ESG framework.

With respect to Diversity and Inclusion, it is encouraging that 52.29% of respondents stated that their companies do in fact have a formal approach to such a policy, given its primacy within the ESG framework. Of the 39 respondents who noted the absence of such a policy, 8 had previously reported dedicated ESG guidelines within their companies - therefore, once again posing the same question with regards to ESG policy adequacy and awareness.

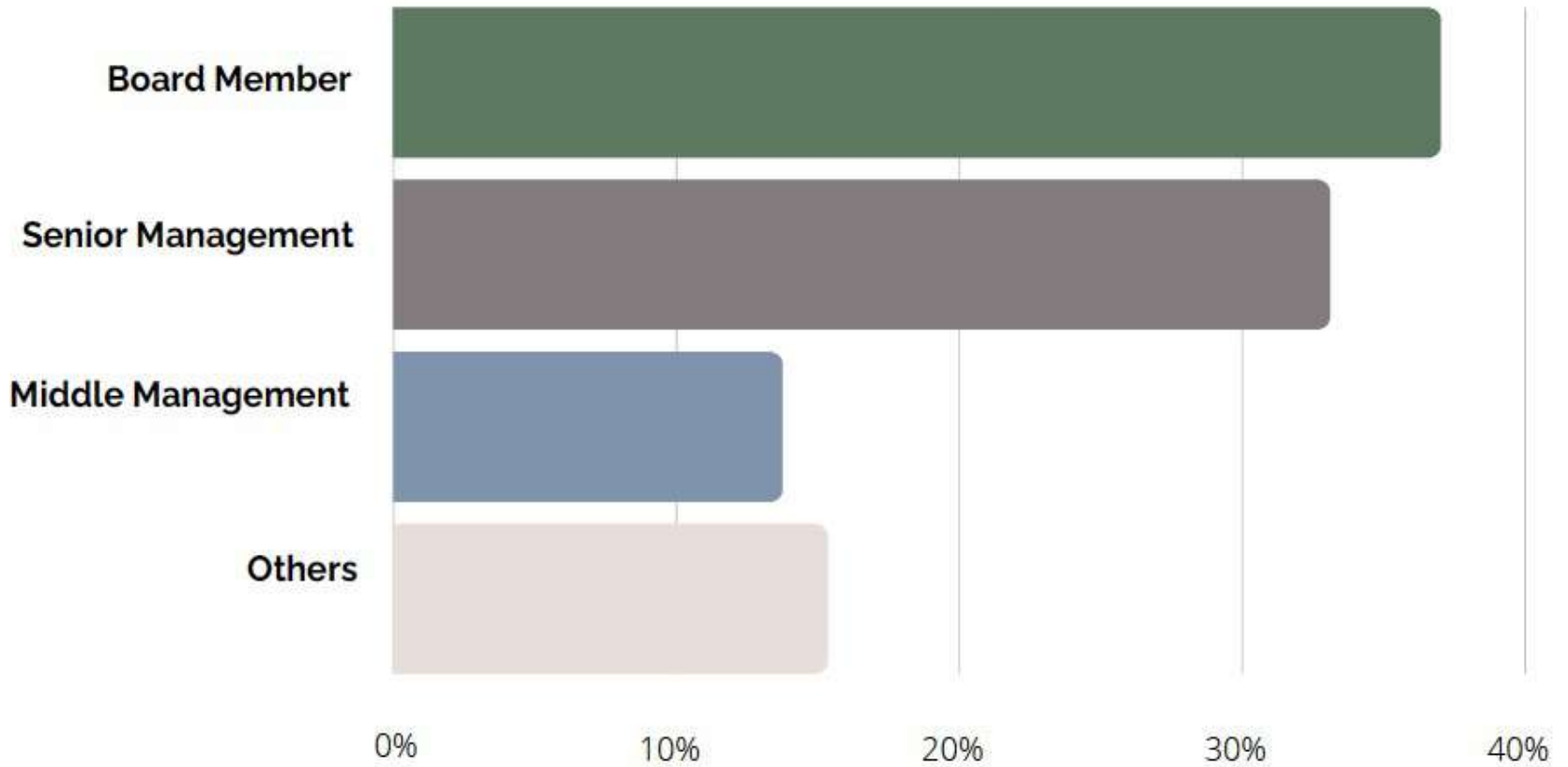
When questioned on the environmental and social factors that drive decision-making at their companies, majority of respondent answers indicated a substantial degree of ambiguity. Very few responses provided specific information or details, and these were geared mostly towards environmental considerations, with mention of GHG emissions, electricity usage, and global climate change goals. For the most part, however, responses remained vague.

With regards to contributions towards economic value within communities, responses reflected an understanding that economic value goes beyond financial contributions. Responses included references to health services, education, training and employment opportunities, and energy efficiency.

Overview of Survey Results

Respondent Information

Q3: Your Designation

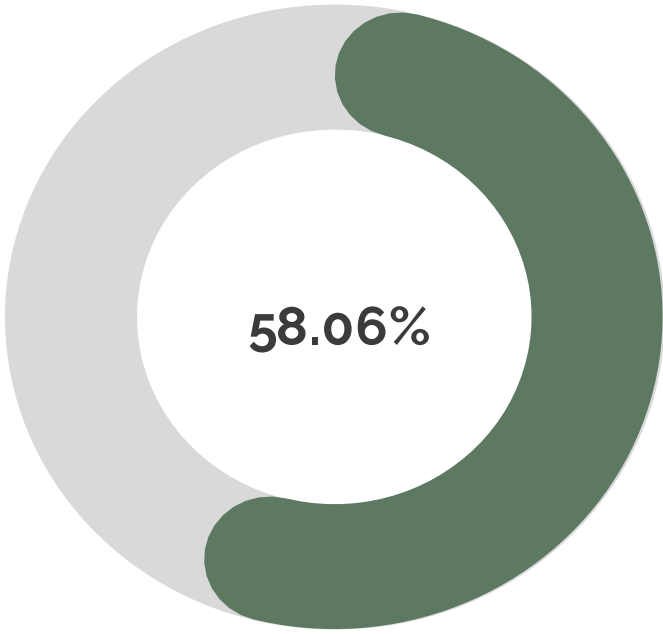


OTHERS INCLUDE:

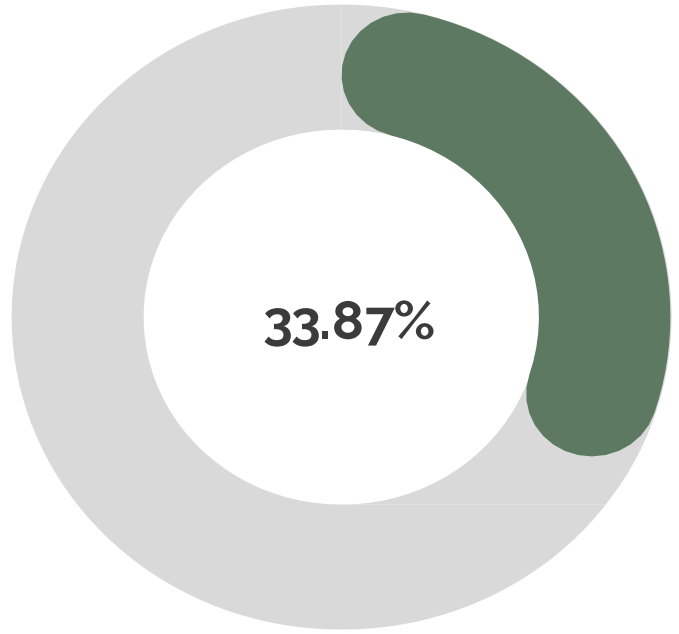
- Managing Director & Chief Executive
- Founder & Managing Director
- Deputy Secretary General
- CEO/ Executive Director
- Team Lead - Finance
- Managing Partner
- Company Secretary
- Chairperson COD
- Senior Partner
- Chairman
- CFO
- CEO



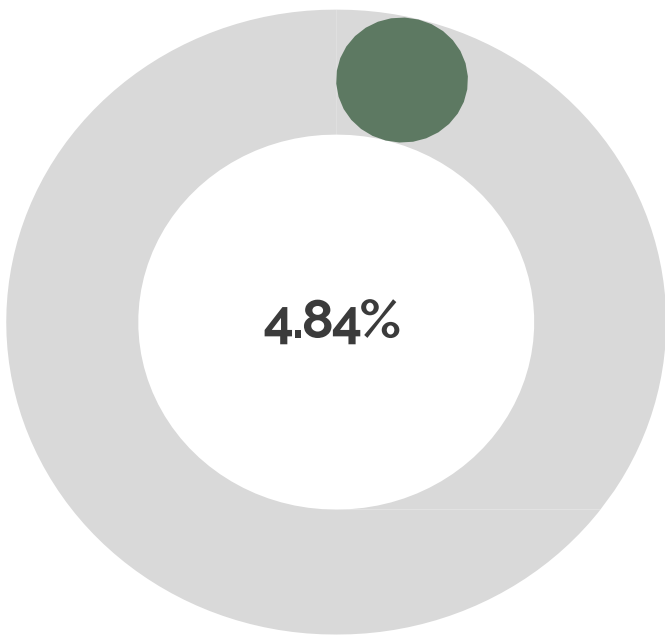
Q4: Company Type



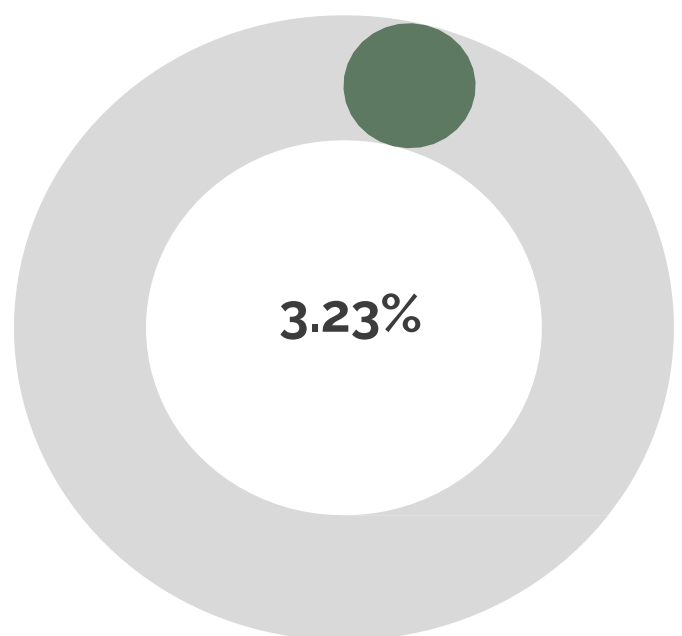
Public Listed



Private Limited



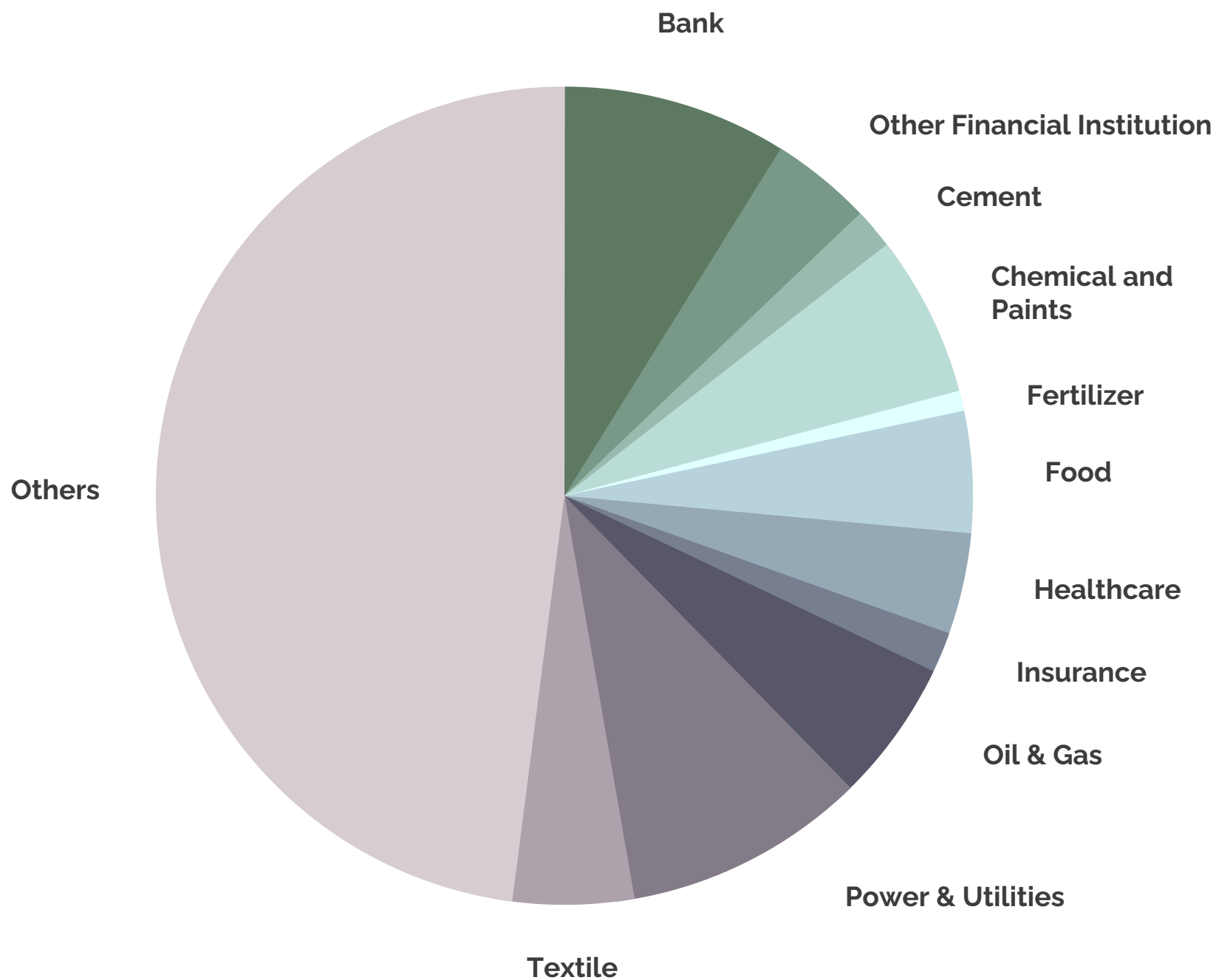
Sole Proprietorships



Partnerships



Q6: What is your company's core area of business?

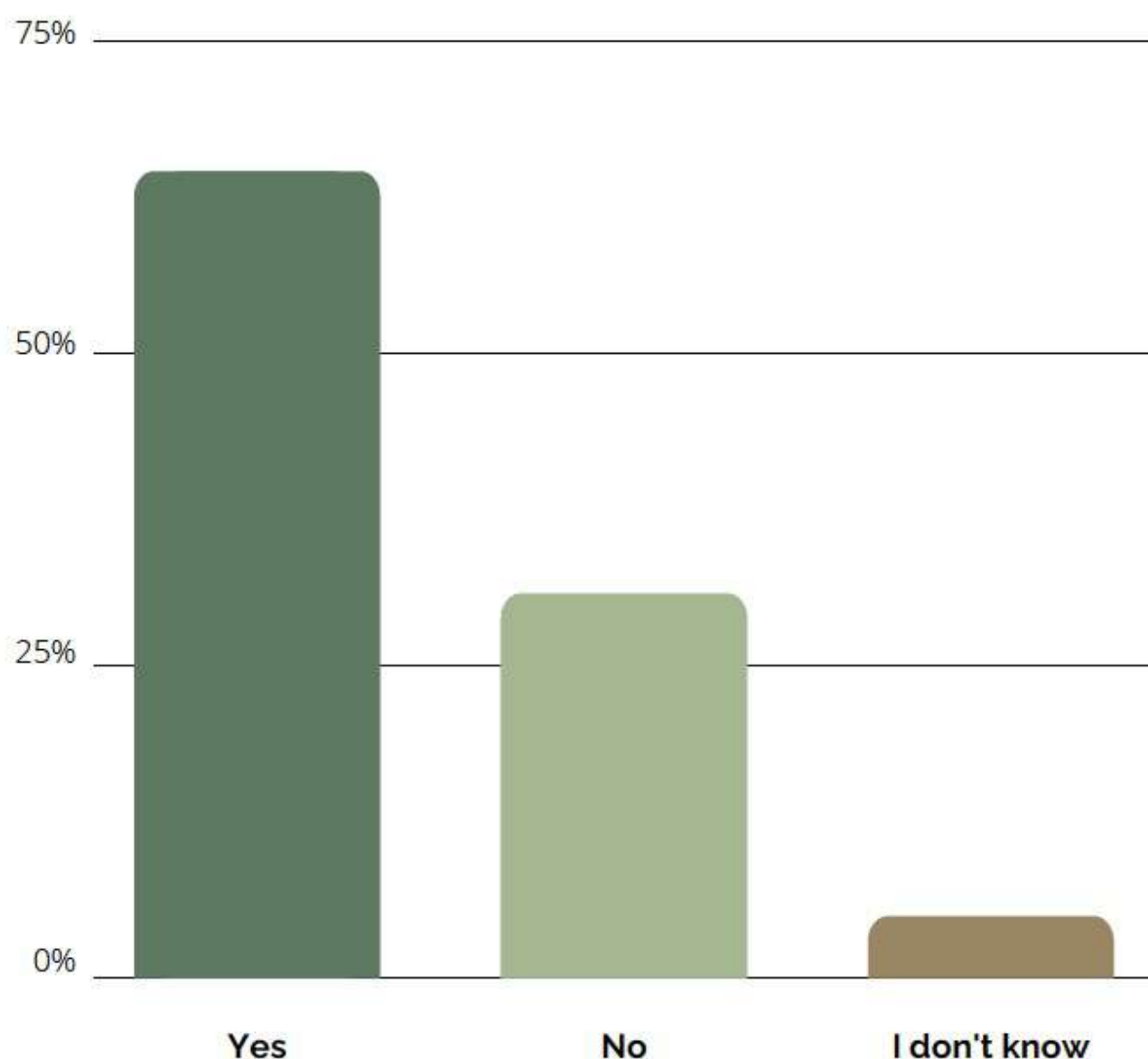


OTHERS INCLUDE:

- Consultancy
- Legal services
- Advisory
- Construction & Infrastructure Development
- Manufacturing
- Automotive



Q7: Does your company have at least one-third independent directors on its board?

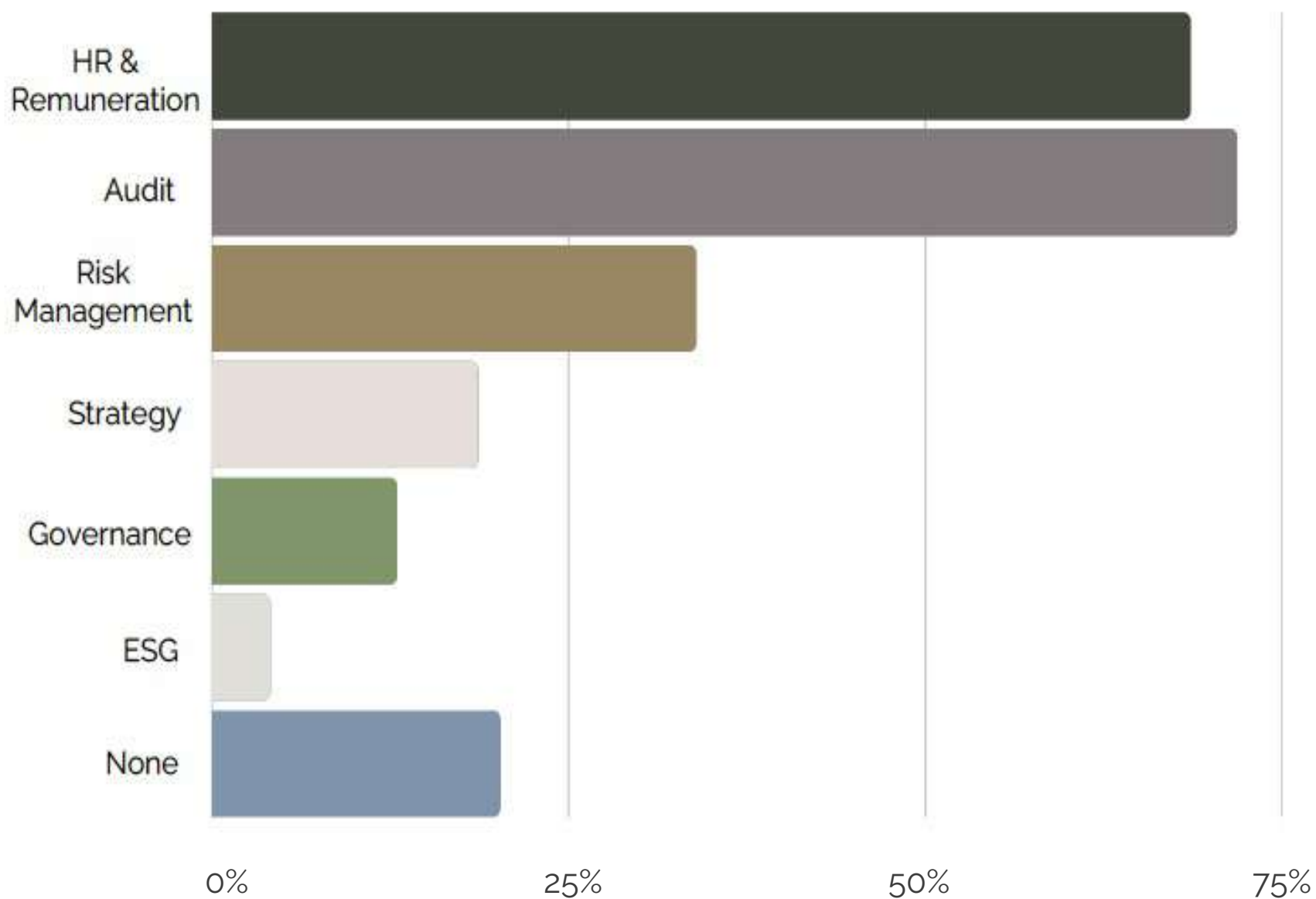


INSIGHTS:

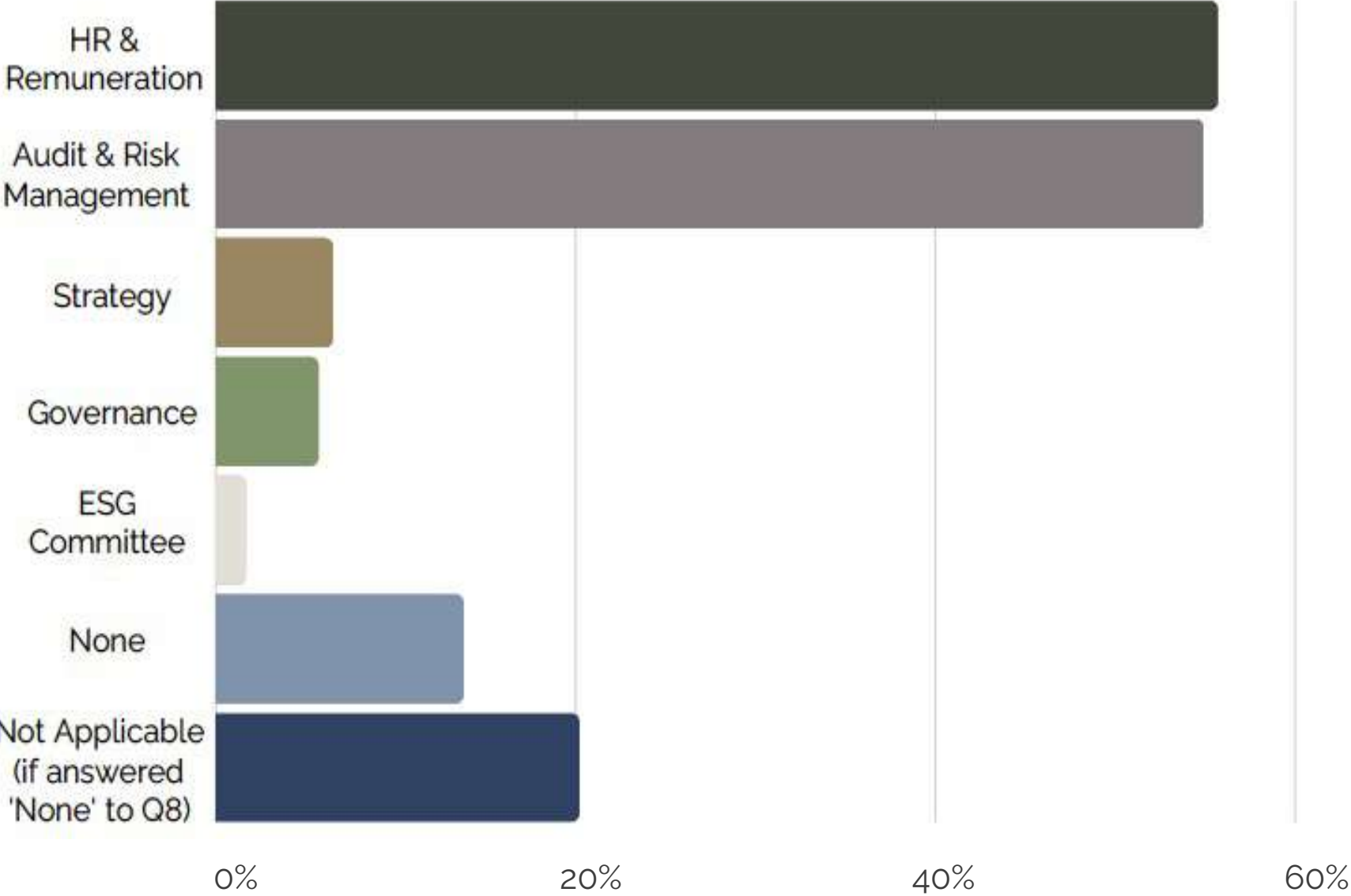
- 1/3 independent directors on a board is mandatory for publicly listed companies'
- 80 companies indicated that their board composition ensured a minimum of one-third independent directors
- 4 publicly listed companies do not meet this minimum requirement – a breach of the Code of Corporate Governance
- 12 private limited companies and 1 Sole Proprietorship have 1/3 independent directors on their boards – even though it is not a requirement



Q8: Which of the following board committees does your company have?



Q9: Which of the above chosen committees have independent directors as Chairs?



ESG Awareness

Q10: Are you familiar with the term Environmental, Social, Governance (ESG)?



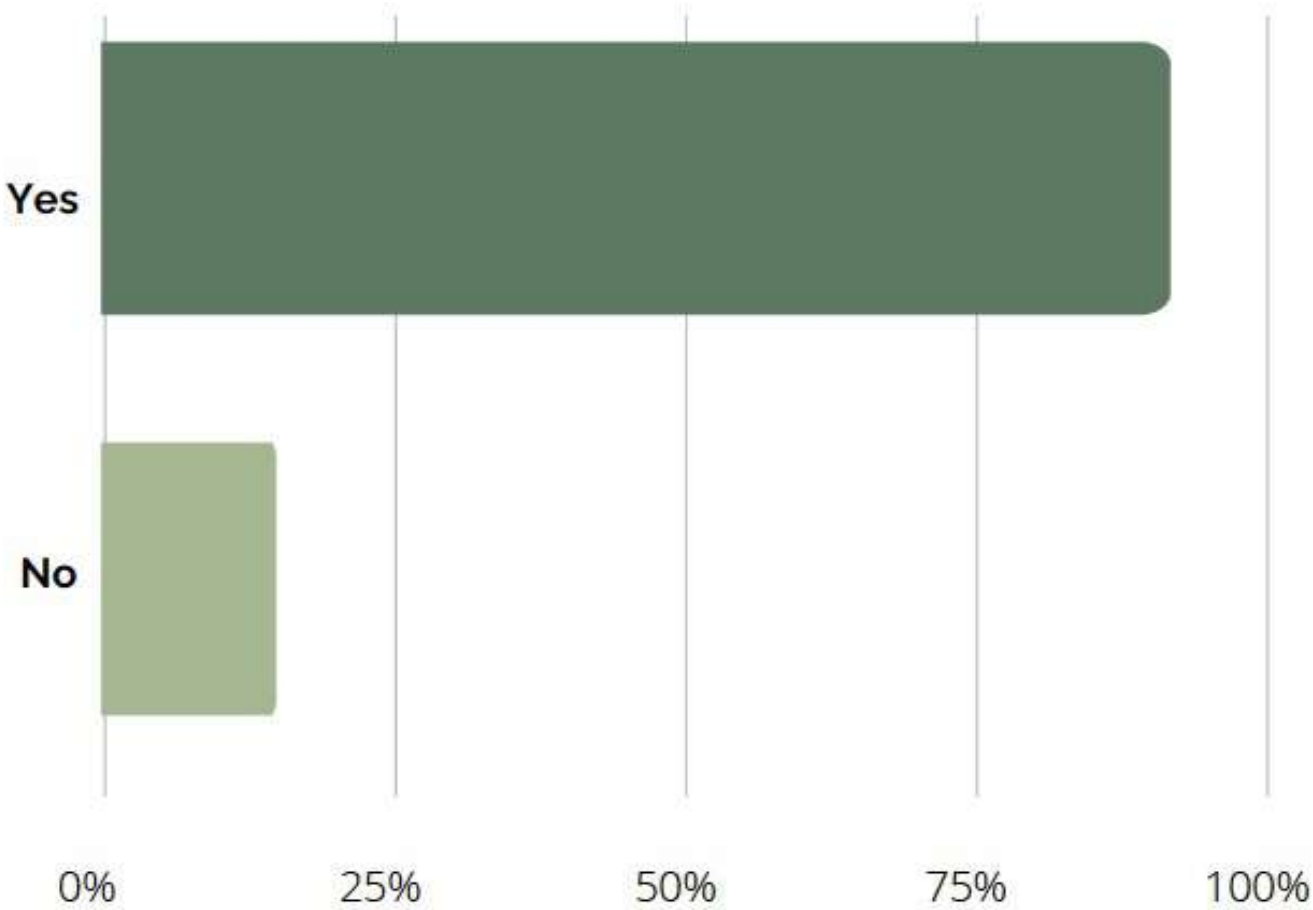
Environment



Social



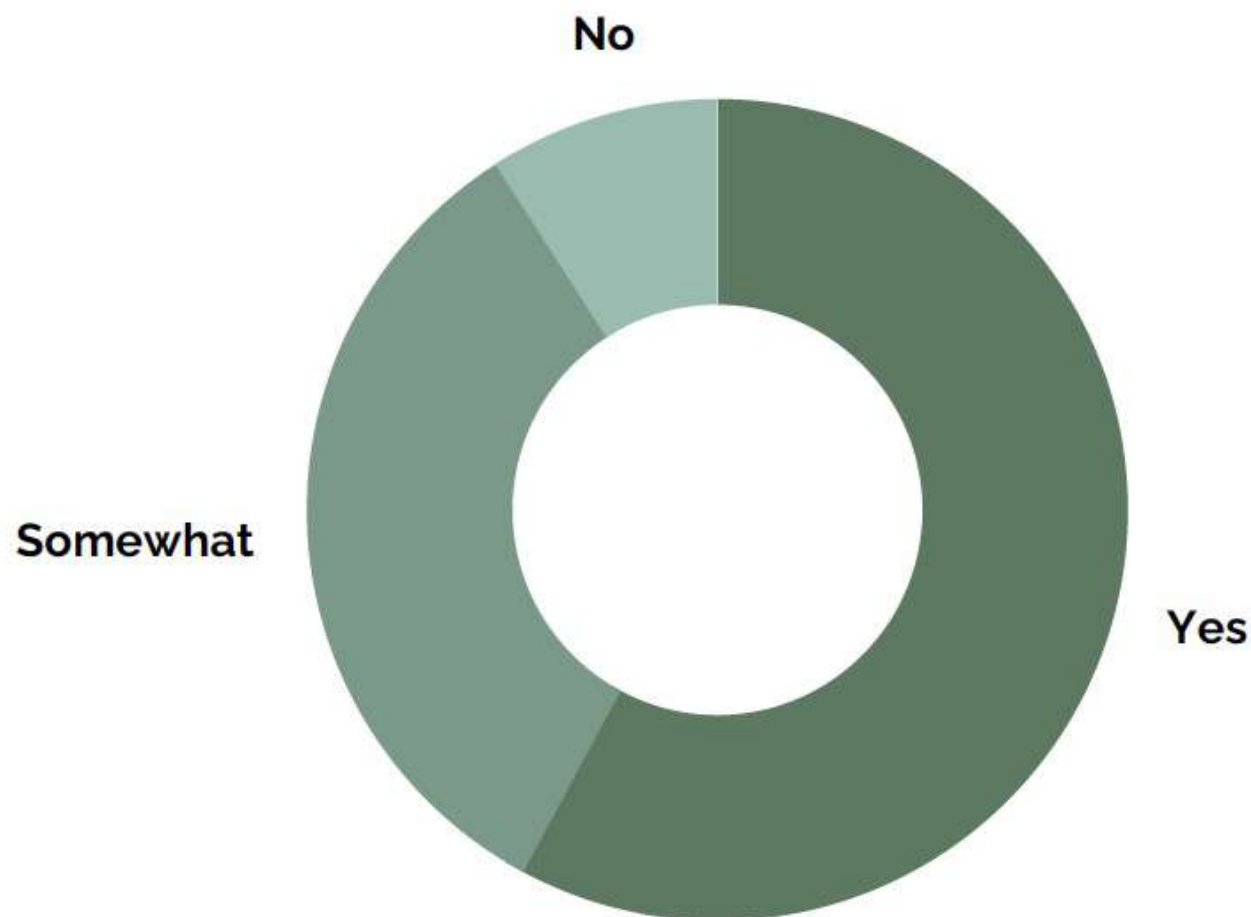
Governance



90.8% Respondents reported an awareness of the framework



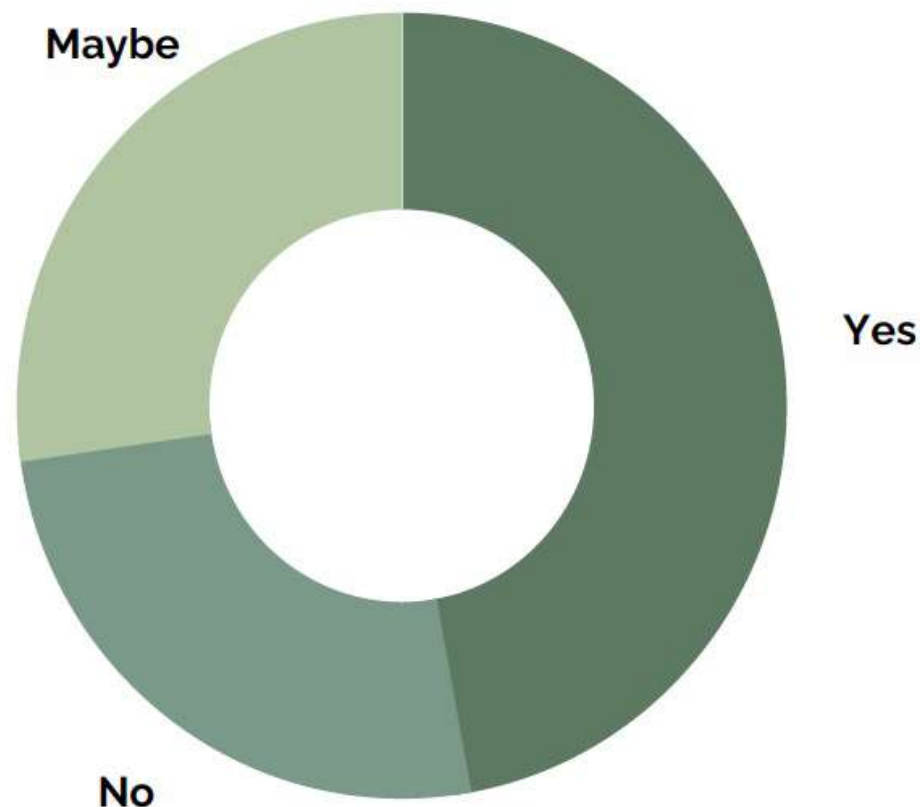
Q11: Do you understand the value (or business case) of ESG for your company?



INSIGHTS:

- Comments included statements referring to environmental concerns, contributions to society, sustainable processes, and risk.
- However, few respondents were able to clearly state the business benefits ('business case') of ESG, for example **greater access to capital, acquisition & retention of top talent, reduced energy & water consumption, and improved financial performance.**
- Most responses remained vague and did not directly address the question.
- Given that 57.86% (70 companies) reported in the affirmative, the explanations provided call into question whether there is a genuine awareness of the benefits of ESG to business.

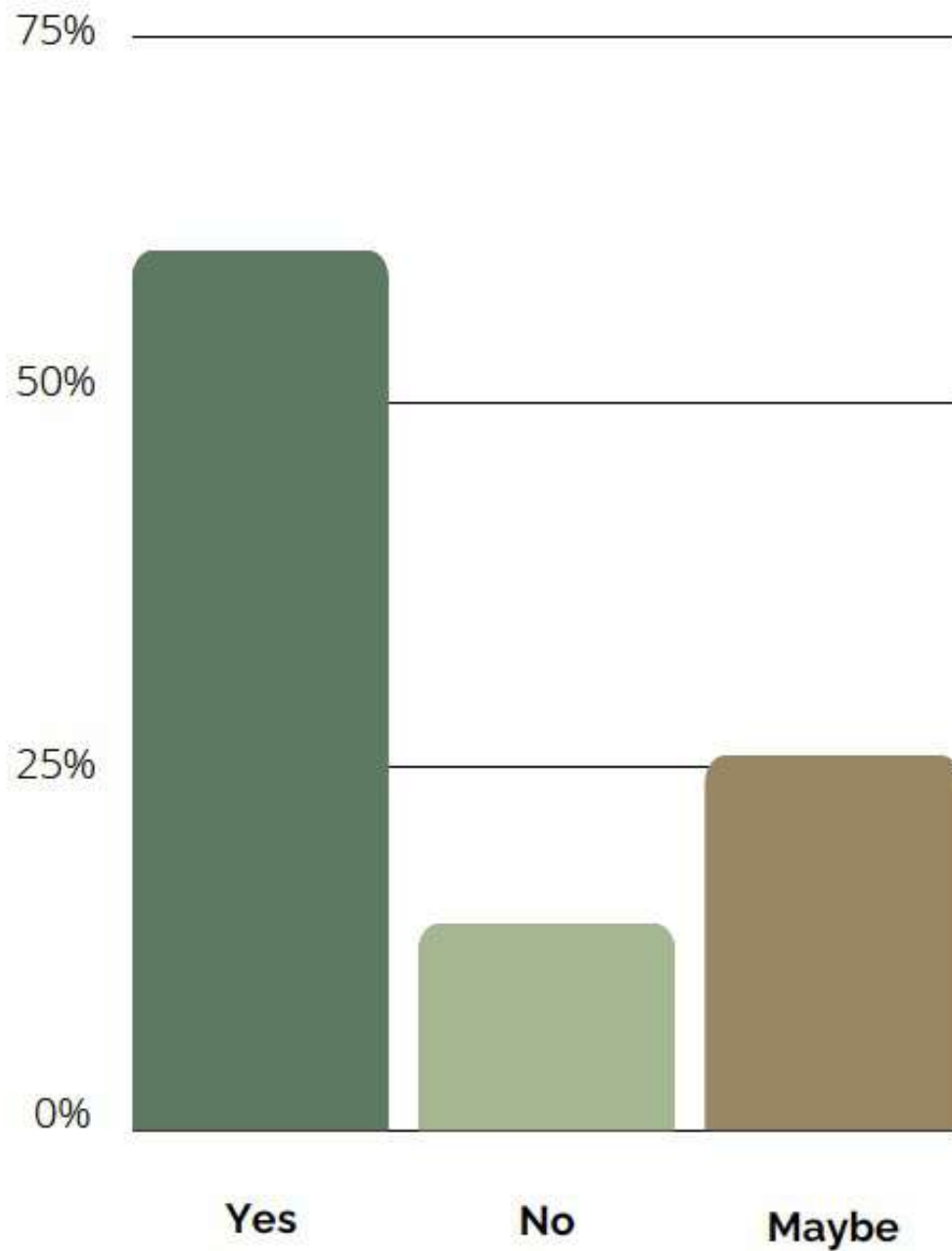
Q12: Is the term Environmental, Social, Governance (ESG) well understood and communicated in your company?



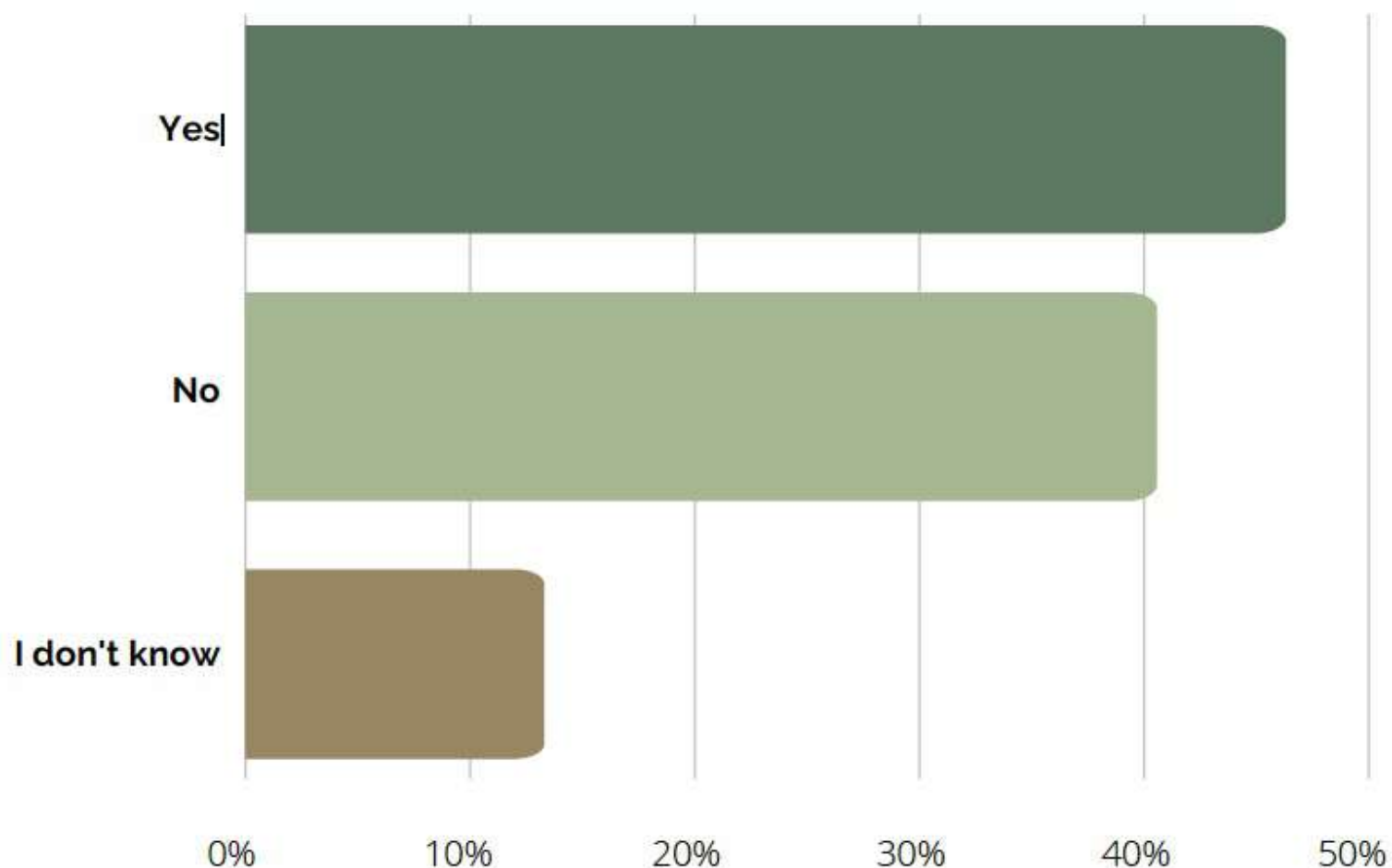
INSIGHTS:

- Respondent comments frequently mentioned 'sustainability.'
- This highlights a common misconception which incorrectly equates ESG to a broadly defined notion of sustainability.
- While the ESG ethos is definitely rooted in sustainable, long-term thinking, an understanding of ESG does not necessarily follow from the communication of sustainability within a company.

Q13: Does your company's board understand its responsibilities regarding ESG?



Q14: Does your company have a policy for or guidelines on Environmental, Social, Governance (ESG) issues?

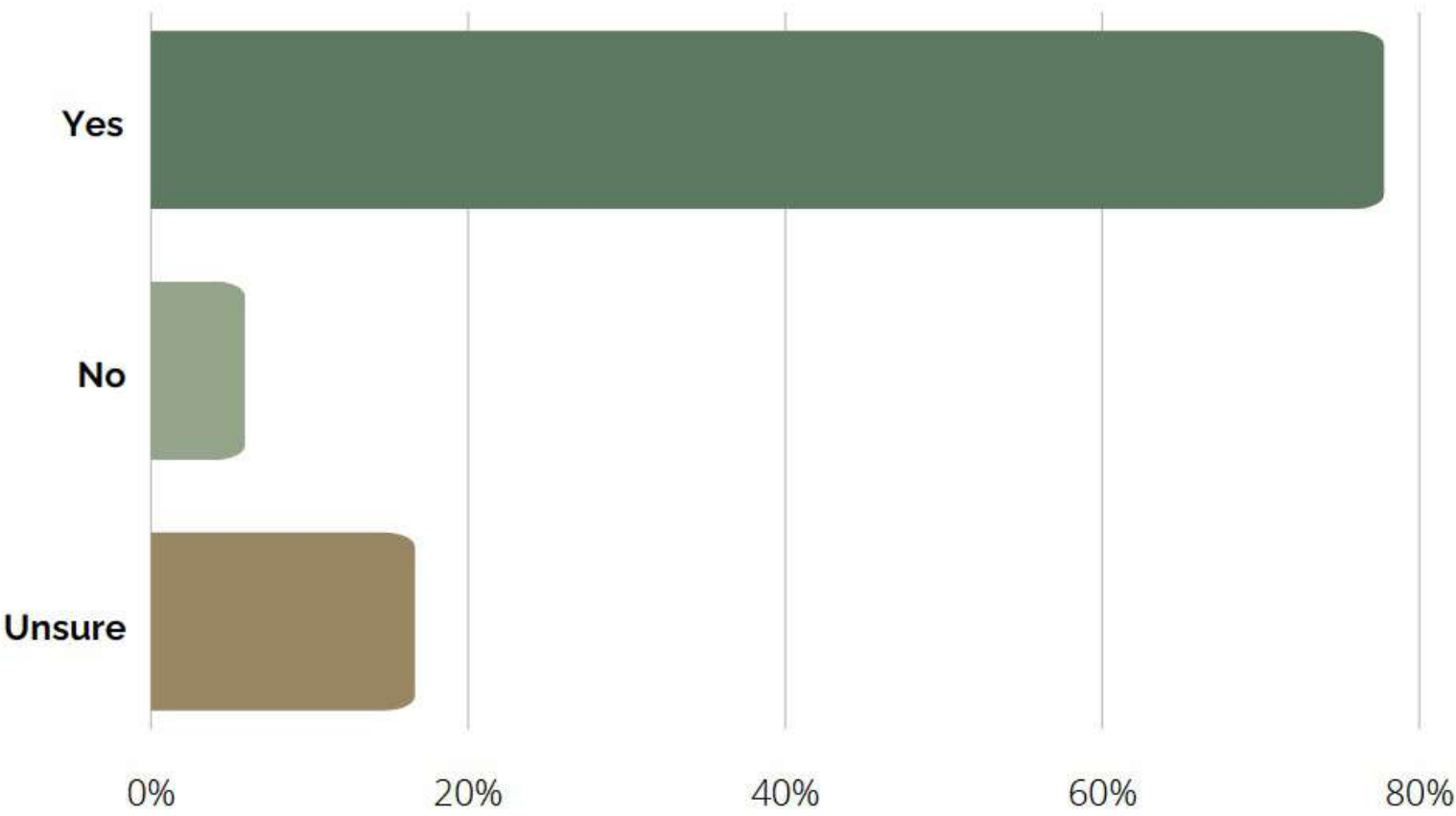


INSIGHTS:

- 46.28% of respondents reported that their companies did have ESG guidelines or policies in place.
- However, the comments indicated that in many cases, these are either not considered adequate, or have not formally been put in place yet.
- **Comments included:**
 - 'Probably need to be further developed.'
 - 'It is not a structured policy'
 - 'We refer to it as Sustainability'

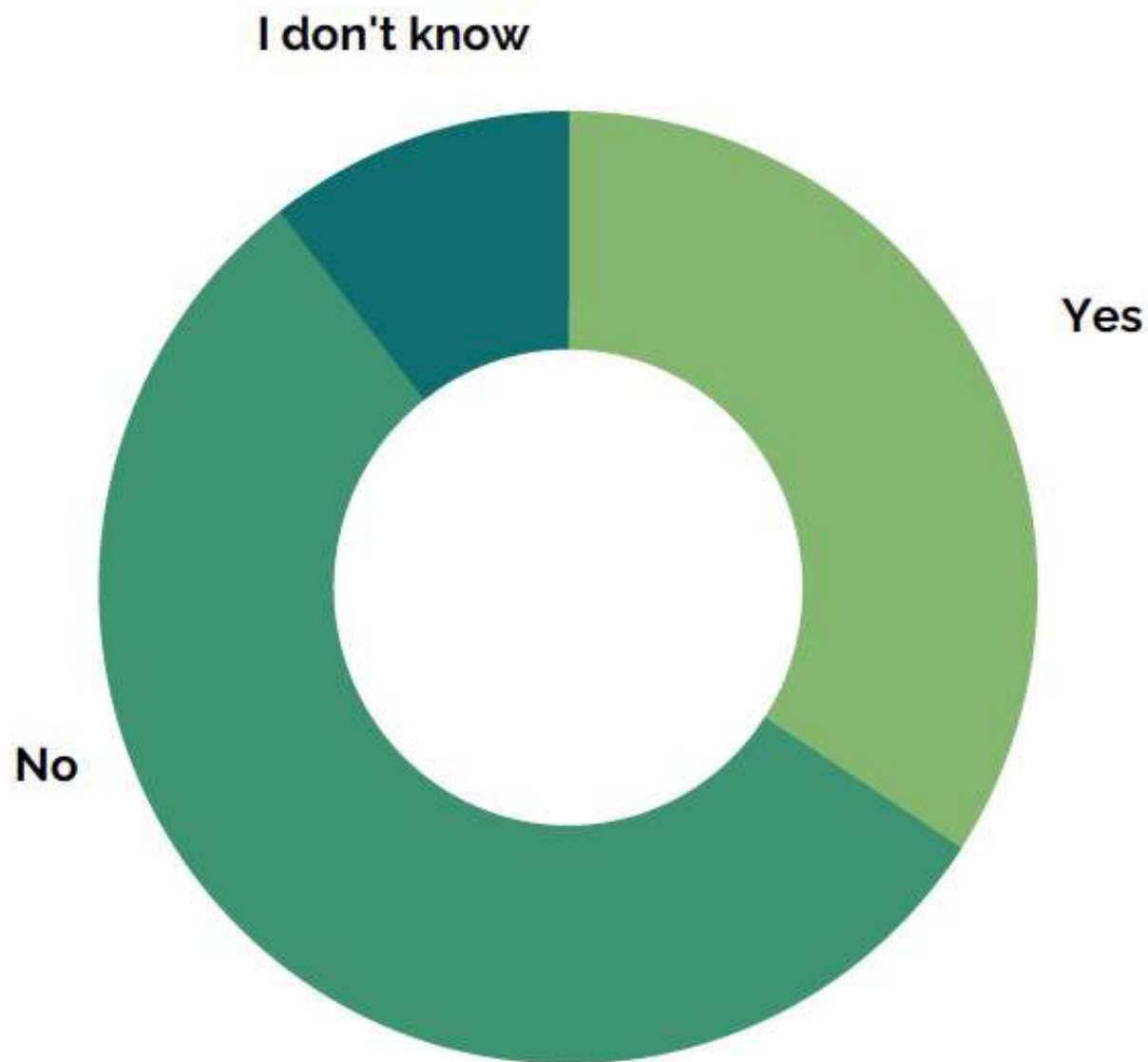


Q16: Would you be interested in attending capacity development sessions on ESG?



ESG Reporting & Disclosure

Q17: Does your company issue publish a non-financial report in additional to its financial report?

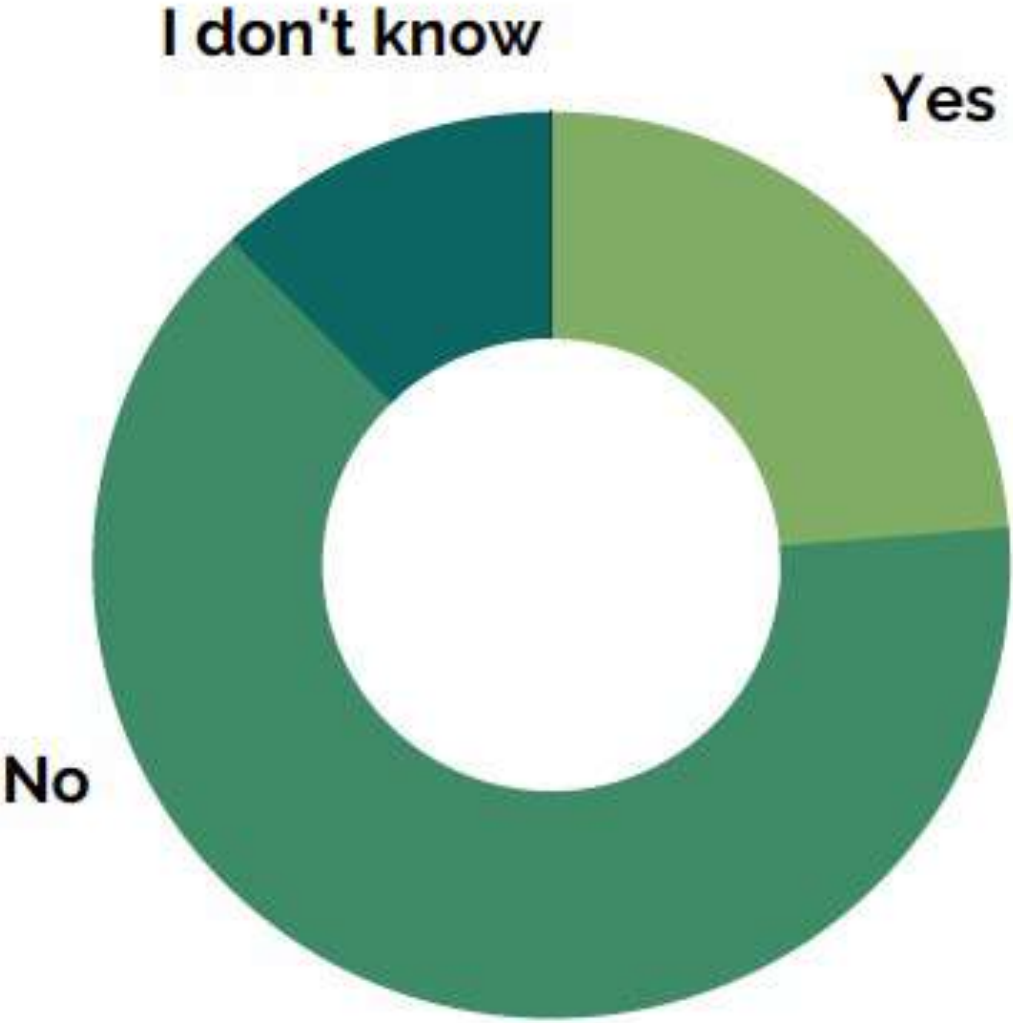


INSIGHTS:

- Most comments indicate that non- financial reporting is covered within annual reports and not as a stand-alone report.
- Some comments also refer to CSR activities, which are often mistakenly linked to Sustainability and ESG.
- While CSR activities do indeed lead to positive social outcomes, ESG is a highly structured, data-driven and institutionalized framework.



Q18: Does your company prepare and issue, periodically, ESG/ sustainability performance reports?

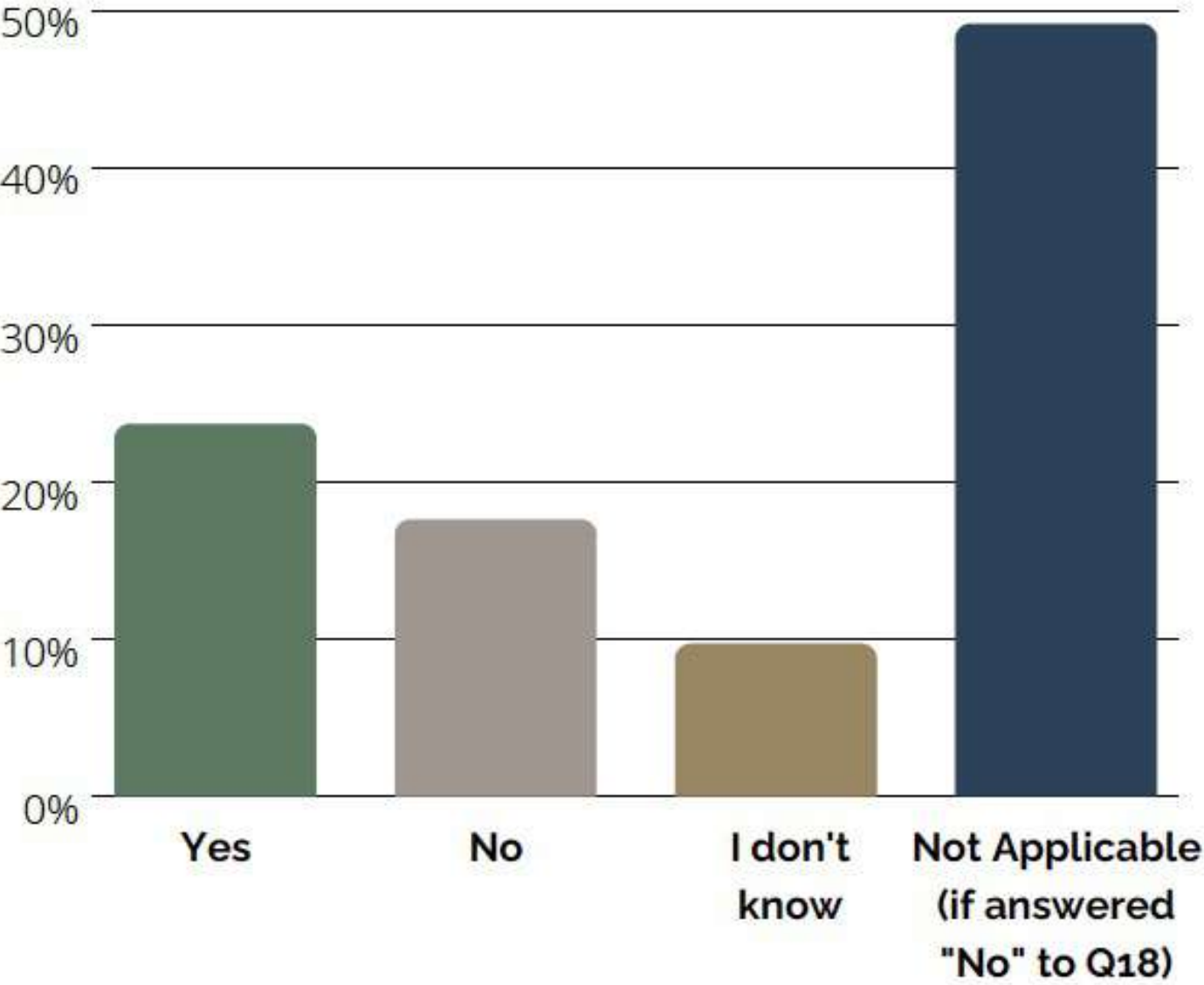


INSIGHTS:

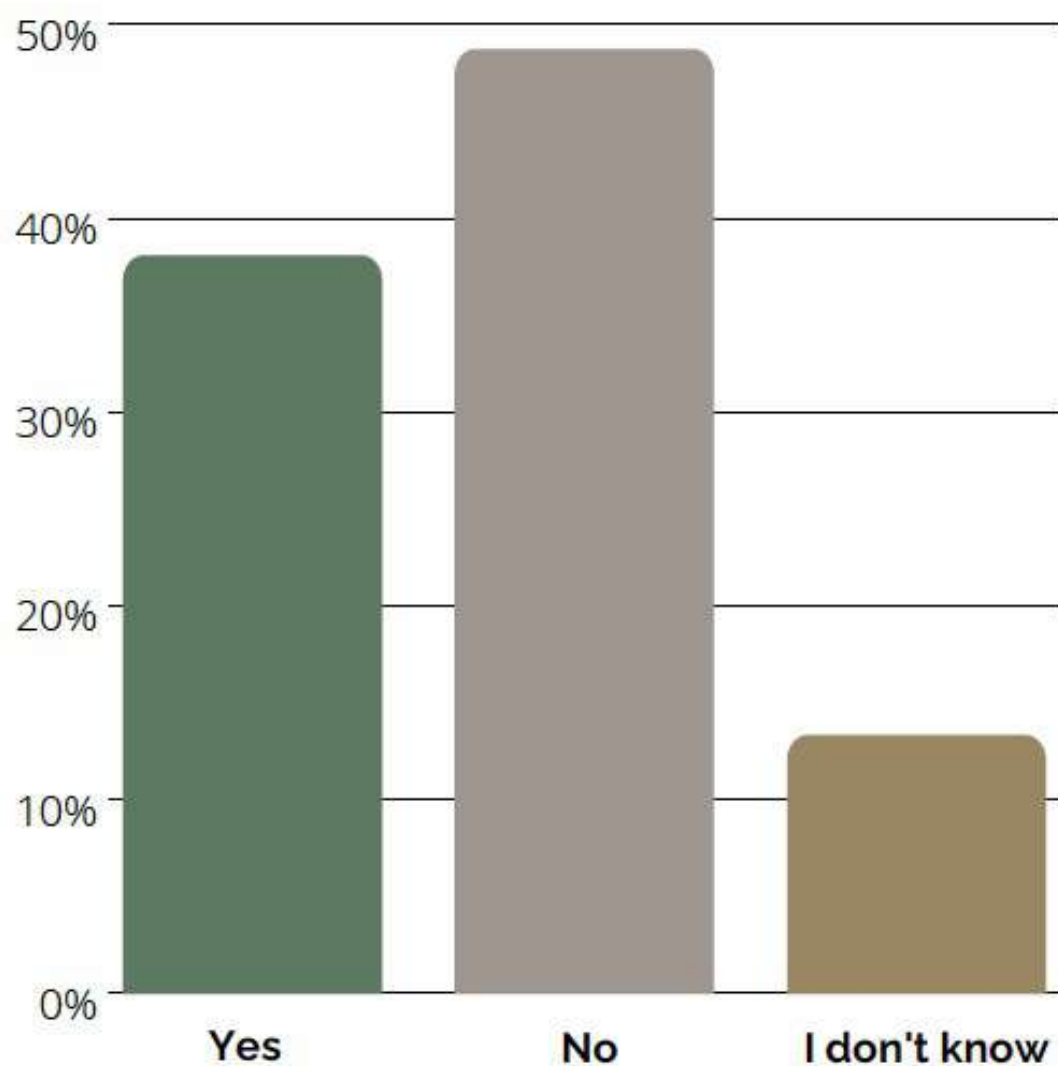
- Comments indicate that for many companies, ESG/Sustainability reporting is covered within a company's annual report.
- It is noteworthy that while 39 companies reported the publication of non-financial reports in addition to annual reports (Q17), here only 27 states the issuance of performance reports.



Q19: If yes, are such reports made available to clients/ shareholders?



Q20: Does your company's CEO place before your Board/ Board Committees report on the extent of the implementation of ESG including:

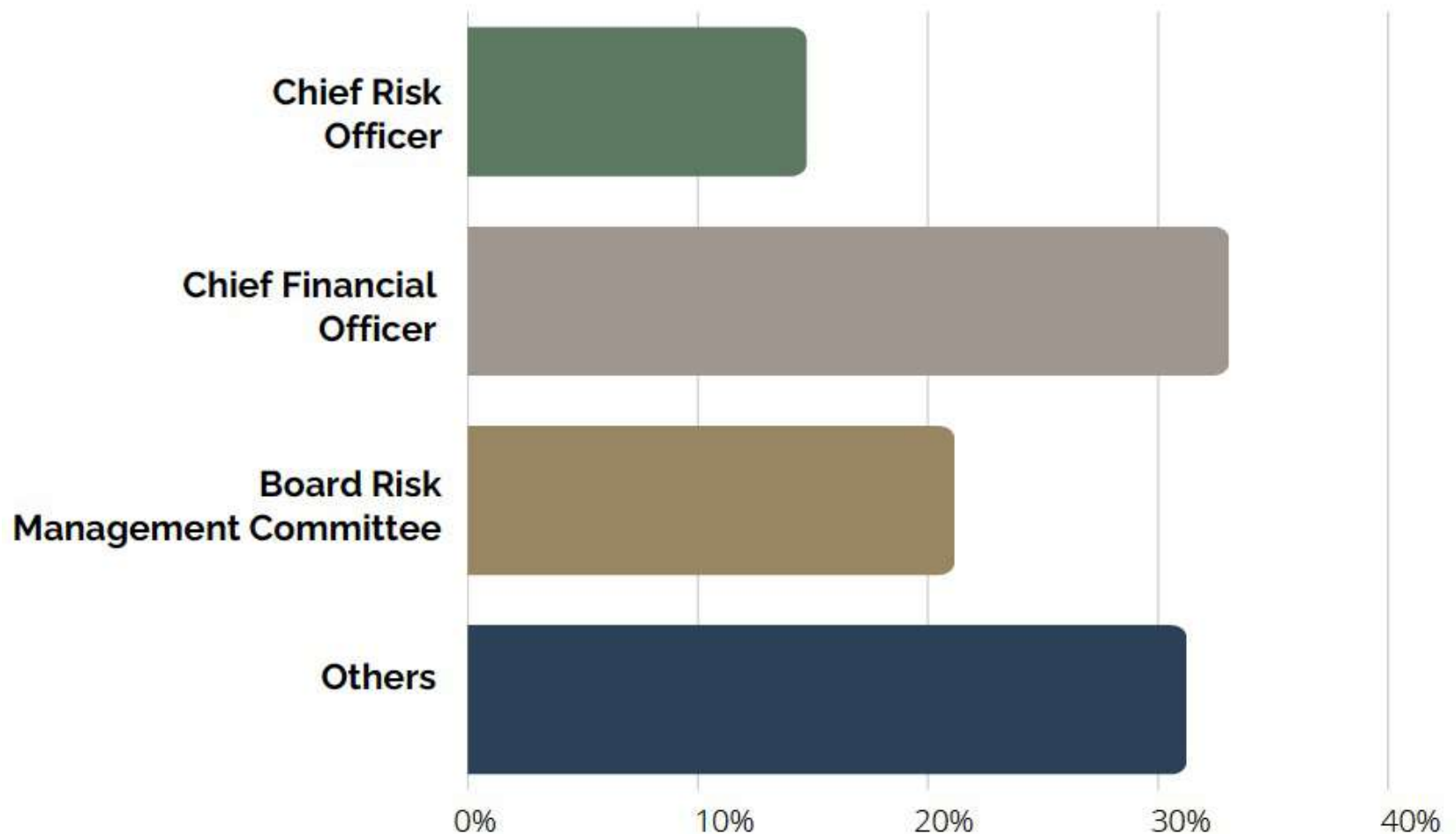


- Health & safety practices
- CSR activities, and
- The status of adoption of SECP's Corporate Social Responsibility (Voluntary) Guidelines, 2013 or any other regulatory framework?



Risk Management & Compliance

Q21: Who is responsible for risk management at your company?



OTHERS INCLUDED:

- CEO
- COO
- CFO
- Risk Management Committee
- Compliance Committee



Q22: Who is responsible for regulatory compliance at your company?

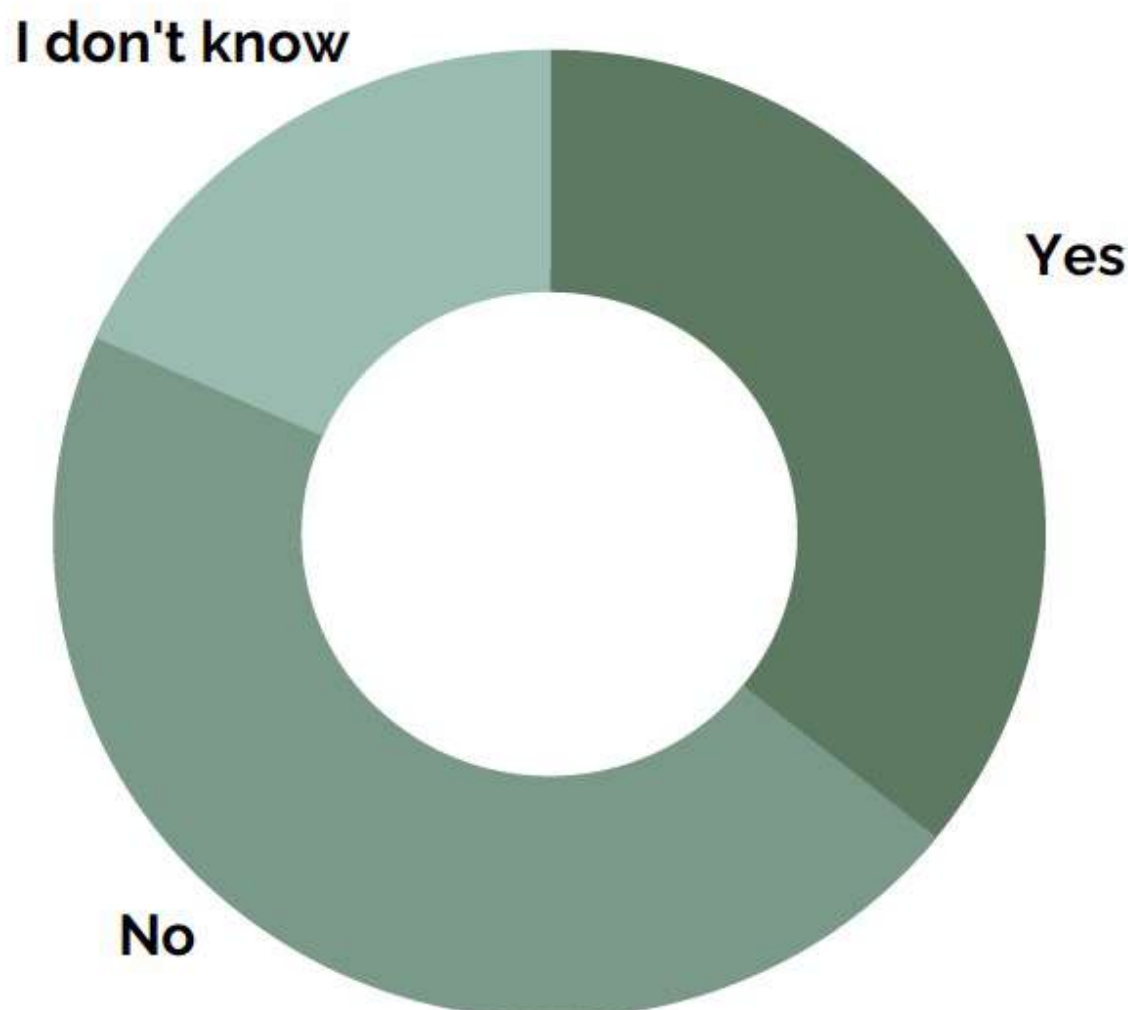
No common department was identified, however, with respect to individuals, the most common responses included:

- **Chief Financial Officer**
- **Company Secretary**
- **Compliance Officer**
- **Chief Executive Officer**
- **Head of Legal**

One respondent also stated that an 'Environmental Officer' oversees company regulatory compliance



Q23: Has your company identified financial risks or opportunities due to climate change?

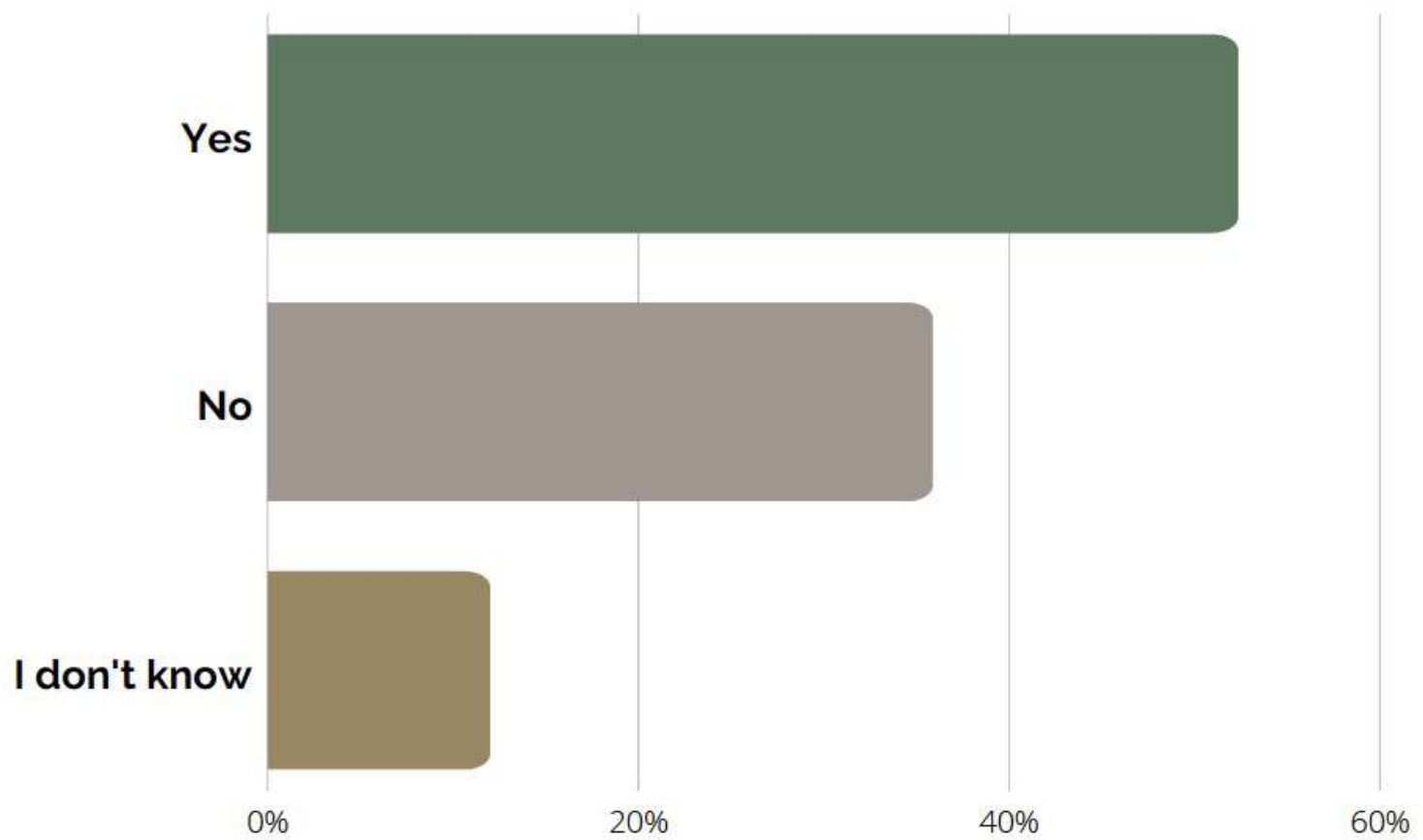


INSIGHTS:

- 45.87% of respondents reported that their companies had not identified financial risks or opportunities due to climate change
- It is interesting to note that approx. 1/4th of these previously reported that their companies did in fact have ESG guidelines and/or policies in place
- Identifying environmental risks and opportunities is a cornerstone of any ESG policy; this therefore calls into question the authenticity of said guidelines



Q24: Does your company have a formal approach or policy to Diversity and Inclusion?



ESG in Practice

Q25: What, if any, Environmental or Social factors drive decision-making at your company?

Majority of the respondents reflected ambiguity and/ or lack of awareness on this; with more clarity and awareness on environmental factors than those which were socially driven.

Specific responses included:

GHG, Zero Carbon initiatives, GSGs of the UN

Compatibility with climate change goals and regulations

Gender equality and diversity

Reducing carbon emissions and less usage of electricity

Health and safety of workers

Recurring vague responses included:

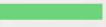
N.A, None, Both, Social Factors, Board



Q26: How does your company directly or indirectly contribute economic value to the communities in which it operates?

- Ensuring provision of health products and services
- CSR related activities
- Providing employment opportunities, training, internship programs
- Lowering emissions
- Engaging local workforce and suppliers
- Supporting marginalised communities through CSR initiatives
- Help businesses and households adopt efficient and clean energy and low waste living
- Interventions in the areas of health, education and livelihood





Conclusion

Sustainable business activity necessitates a cross-functional strategy – this, in turn begets organizational resilience

The world we live in today is rapidly and constantly evolving; progress is always and inherently interlinked to some negative externality, or at least the risk of it. As a result, all sections of society, not least businesses, must be increasingly cognizant of the repercussions of their actions and activity on their external environments. New and emerging materiality priorities include environmental protection, social consciousness, and of course, transparency and accountability. These come together to form a holistic framework of governance, with Environmental, Social, Governance (ESG) at its very core.

ESG is now a prerequisite in the age of sustainable and responsible business activity. Supporters of the ESG narrative argue for an urgent need to move ahead of the financial bottom line, towards a new triple bottom line approach – that is, People, Planet, Profit. This shift represents an expansion of corporate values, towards greater inclusivity, accountability, and more holistic risk management. In today's world it is unacceptable for businesses to operate in silos, unbothered by the numerous changes taking place around them. However, ESG is not only a moral or social imperative, but also, in fact, the smart business decision to take. Integrating ESG considerations into a company's operations holds tremendous potential for growth and improved performance, that is, the business case for ESG. Driven by its potential and by global political, social, and environmental narratives, ESG continues to gather steam globally. However, Pakistan lags considerably in this regard.

In Pakistan, ESG as a concept and business priority, is at its very infancy. ESG integration is hindered by a lack of awareness of the importance and value of ESG, common misconceptions, and a penchant against increased regulations. There is, understandably so, an overwhelming desire to stick to the status quo, which prevents companies from comprehensively addressing their ESG priorities. Moreover, in the absence of any comprehensive regulatory guidance and a dearth of industry leaders to follow, genuine ESG integration becomes difficult. There is an urgent need for ESG to be institutionalized within individual companies, and within the corporate sector at large, for its benefits to truly be recognised.



However, not all hope is lost - our survey has highlighted that while a thorough understanding of ESG may not prevail in the corporate sector, at the very least there is a surface level understanding of the concept. It seems that with the right guidance, Pakistan's corporate sector could effectively incorporate ESG factors into its business activity, and thereby hop onto what is such a crucial global imperative.

There is an overwhelming interest in ESG capacity development, which highlights a desire to learn, grow, and reassess business priorities.

To this end, operating under our new vision of holistic governance, PICG is prioritizing long-term thinking and sustainability, in order to spearhead a movement for ESG in Pakistan. We believe that our notion of holistic governance is essential to cultivate and strengthen resilience in Pakistan's corporate sector. By expanding our scope of governance, we recognise that there are numerous intangibles which must be considered in promoting true good governance and by incorporating a holistic approach to our work, we aim to build national ESG capacity and promote a reassessment of business priorities, for shared value creation.

Acknowledgements

We would like to thank Shahzeb Irshad for his invaluable input in the preparation of the questionnaire and Layla Hameedi for compilation of the results and draft report.

Further, we would like to appreciate the work of our Management Trainees, Rameen Aamir Ahmed & Fatima Khayam in the design and graphical edits made.

Note

All information has been tabulated and analysed based solely on responses received.

While due care has been taken to compile the results, the possibility of any unintentional error cannot be ruled. Kindly inform the Research Team of errors, if any, noted at: info@picg.org.pk



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