

# ESG RATINGS

A company's performance with regard to Environmental, Social, and Governance (ESG) concerns is measured or evaluated objectively using an ESG score. An examination of a company's performance in relation to multiple sustainability measures is called an ESG score (related to either environmental, social, or governance issues).

ESG scores are produced by rating platforms where analysts assess company filings, speak with management, and examine information that is publicly available about an organization in order to provide an assessment of the performance of the latter. Different rating platforms that provide ESG scores use various evaluation standards.

Different stakeholders like investors, shareholders, employees, customers and the community at large use scores in different ways, and rating platforms have developed to match this diversity of the use of scores by different stakeholders.



## ESG Rating Agencies

ESG (Environmental, Social, and Governance) Rating Agencies look at a company's corporate governance, social responsibility, and environmental practices to assess its sustainability.

Investors and businesses looking for information on the company is doing in terms of sustainability practices can utilize ratings to examine their portfolios. These results can be utilized to provide clarification and serve as a starting point for measuring performance.

ESG ratings by different agencies can be used to assess if an investment is socially responsible or not and which ESG aspects the firm is taking into account when considering its influence on society and the environment.



The areas covered while assessing the ESG score are the company's efforts in preservation of natural resources, the environment, climate change,

use and consumption, consumer's satisfaction, regulations and initiatives for data protection and privacy, safety and health of employees, human rights, employee inclusion, equity, and diversity (DEI), workplace norms, relations with the community, relation with the employees, the internal system checks and compliance procedures used by a company to govern it, transparency, industry best practices, effective management of the business, and related growth activities, leadership in the company, bribery and corruption, executive policies and compensation, Tax planning, including the composition of the audit committee, internal controls, and regulatory guidelines, Whistleblower initiatives, Political lobbying and donations etc

### **Some notable ESG rating agencies**

ESG ratings are provided by Sustainalytics<sup>1</sup>, an ESG rating and data provider, for 20,000 companies across 172 nations. They evaluate 40,000 businesses globally. An ESG data system called Bloomberg ESG Disclosure Scores <sup>2</sup> delivers ESG data for over 11,800 companies across more than 100 countries. ESG Ratings by FTSE Russell <sup>3</sup> are based on a rigorous review of the performance at the firm level and include more than 7,200 securities from 47 different countries. ISS (Institutional Shareholder Services) <sup>4</sup> offers full spectrum of sustainable investment issues, such as climate change, human rights, labor standards, corruption, and questionable weapons <sup>5</sup>.

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<sup>1</sup> <https://www.sustainalytics.com/esg-ratings>

<sup>2</sup> <https://www.bloomberg.com/professional/dataset/global-environmental-social-governance-data/>

<sup>3</sup> <https://www.ftserussell.com/>

<sup>4</sup> <https://www.issgovernance.com/>

<sup>5</sup> <https://theimpactinvestor.com/esg-rating-agencies/>

<sup>6</sup> <https://www.cdp.net/en/companies/companies-scores>

CDP, a non-profit organization offers environmental data, research, and tools to aid investors in finding firms that are better at tackling real issues like climate change, water security, and deforestation.<sup>6</sup>

## **Importance**

The repercussions of a poor SG score/rating might be severe given that investors use ESG scores into their investment strategy. Investors might remove your stock from their investment portfolio if, for example, one ESG data provider gave your company a poor SG score/rating, leading to the perception that it is an unsustainable asset. If several investors make the same conclusion, your stock price may eventually suffer as a result. Companies that perform well on ESG indicators are thought to be more capable of identifying potential risks and opportunities in the future, more inclined to think strategically about the long term, and more focused on long-term value creation.

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<sup>6</sup> <https://www.cdp.net/en/companies/companies-scores>