

newtral

ESG Scoring

Your guide to ESG Scoring for individuals and organizations to seek insights into sustainability reporting mandates



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Introduction

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About This Guide

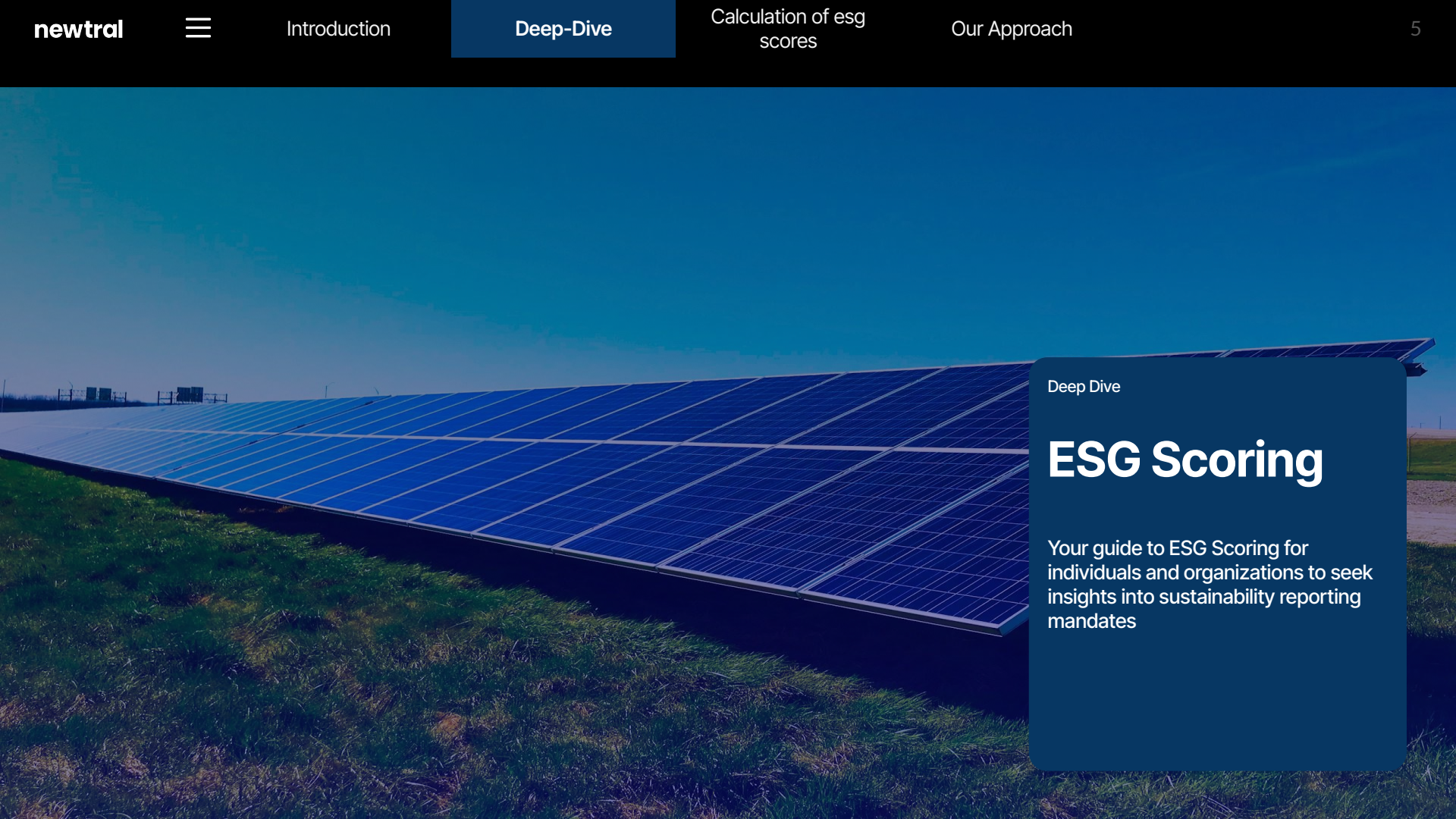
The "ESG Scoring Handbook" is a comprehensive guide to understanding and implementing environmental, social, and governance (ESG) scoring frameworks. It serves as a valuable resource for organizations seeking to evaluate and report on their ESG performance and impact.

This handbook provides in-depth explanations of various ESG scoring methodologies, metrics, and reporting standards widely adopted by investors, regulators, and stakeholders. It covers the assessment of organizational practices across environmental stewardship, social responsibility, and corporate governance principles.

Within its pages, you will find practical guidance on data collection, scoring calculations, and reporting frameworks, ensuring alignment with relevant ESG frameworks and regulations. The handbook also offers insights into best practices for enhancing ESG performance, mitigating risks, and communicating your organization's sustainability efforts effectively.

Whether you are a sustainability professional, investor, or corporate leader, this handbook serves as a comprehensive reference, equipping you with the knowledge and tools necessary to navigate the complexities of ESG scoring and contribute to a more sustainable and responsible business landscape.





Deep Dive

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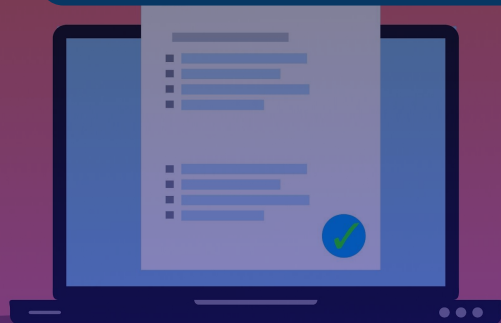
Your guide to ESG Scoring for individuals and organizations to seek insights into sustainability reporting mandates

What is ESG scoring and what is its purpose?

ESG scoring is a method used to evaluate a company's performance in areas related to sustainability and ethical business practices. It involves assessing a company's actions and policies concerning environmental impact, social responsibility, and corporate governance. ESG scoring is typically done by rating agencies or organizations that specialize in analyzing these aspects of corporate behavior.

The primary reasons for conducting ESG scoring are:

- **Assessment of Sustainability Practices:** ESG scoring helps investors and other stakeholders assess how well a company manages environmental risks, social impacts, and governance structures. This information is crucial for investors seeking to align their investments with their values or sustainability goals.
- **Risk Management:** Evaluating ESG factors can help identify potential risks that may affect a company's long-term performance. For example, poor environmental practices could lead to regulatory fines or reputational damage, while weak governance structures may increase the likelihood of fraud or mismanagement.
- **Value Creation:** Companies with strong ESG performance are often better positioned to create long-term value for shareholders. By integrating sustainability into their business strategies, these companies can attract investors, customers, and talent who prioritize ethical and responsible practices.
- **Stakeholder Engagement:** ESG scoring encourages companies to engage with stakeholders, including shareholders, employees, customers, and communities. By addressing their concerns and incorporating their feedback, companies can enhance trust and build stronger relationships.



Growing Importance of ESG Factors in Investment Decision-Making

In recent years, there has been a paradigm shift in investment decision-making, with a growing recognition of the materiality and relevance of ESG factors. Investors are increasingly integrating ESG considerations into their investment processes to better understand the non-financial risks and opportunities associated with their portfolios.

The growing importance of ESG factors in investment decision-making can be attributed to several factors:

- **Risk Management:** ESG factors can significantly impact companies' financial performance and long-term sustainability. Assessing and managing ESG risks allows investors to mitigate potential liabilities and protect investment capital.
- **Value Creation:** Companies with strong ESG performance are often better positioned to create long-term value for shareholders. By integrating ESG considerations into investment decisions, investors can identify opportunities for sustainable growth and competitive advantage.
- **Stakeholder Expectations:** Stakeholders, including customers, employees, regulators, and communities, increasingly expect companies to operate in a socially and environmentally responsible manner. Investors are responding to these expectations by incorporating ESG criteria into their investment strategies.
- **Regulatory Requirements:** Regulatory initiatives, such as BRSR, require companies to disclose ESG-related information, increasing transparency and accountability. Investors are leveraging this information to assess companies' ESG performance and compliance with regulatory standards.

**Purpose of BRSR Reports and their Relevance to ESG Analysis:**

The primary purpose of BRSR reports is to encourage companies to adopt sustainable business practices and demonstrate their commitment to responsible corporate citizenship. These reports serve as a platform for companies to disclose information related to their ESG performance, including initiatives taken to mitigate environmental impacts, promote social welfare, and uphold strong governance practices.

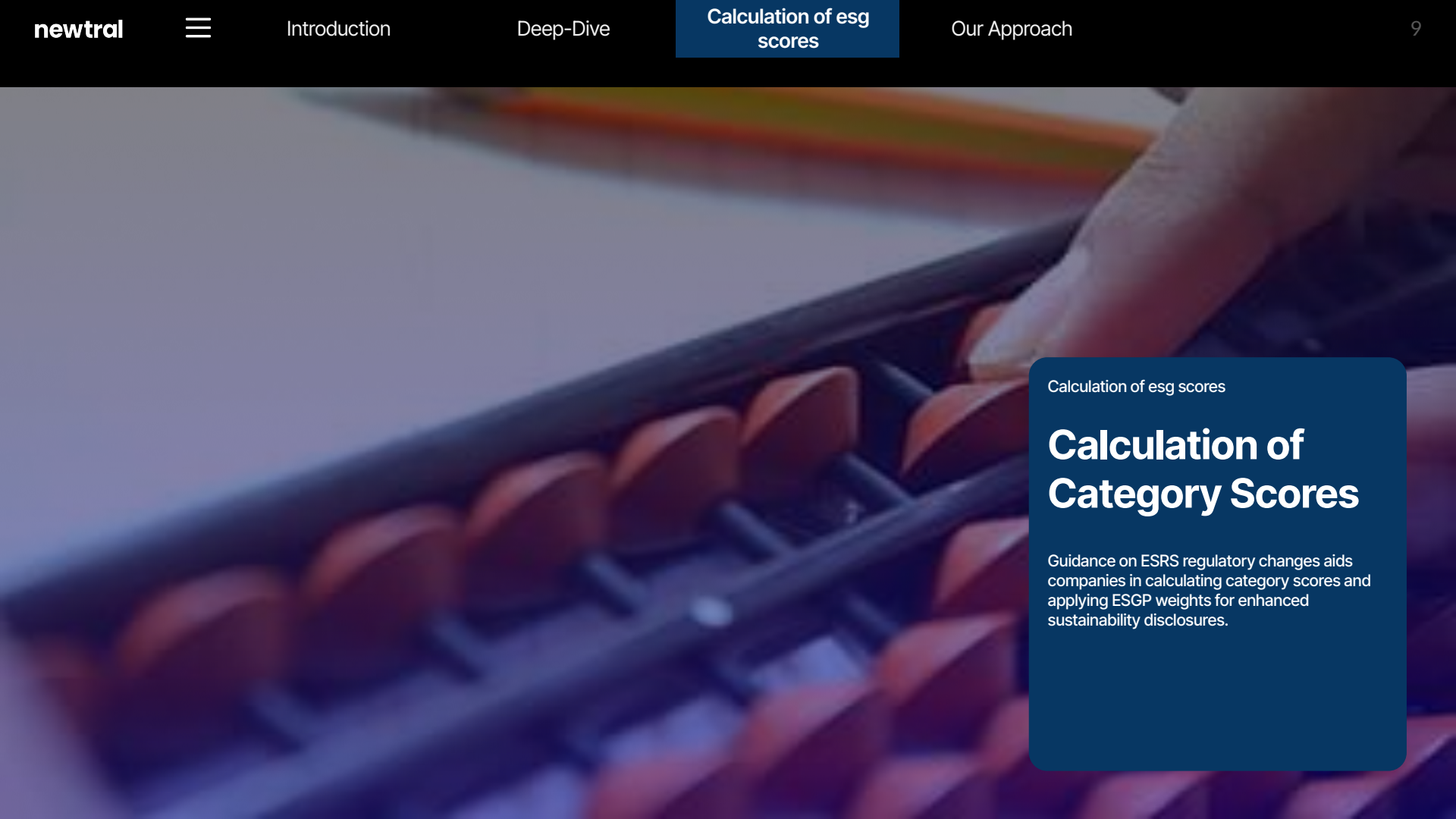
Objective - To develop ESG Scoring Methodology:

The primary objective is to create a robust and comprehensive methodology for scoring companies based on their environmental, social, and governance (ESG) performance. This involves the development of a structured framework that can effectively evaluate and quantify various ESG factors. Overall, the objective of developing an ESG scoring methodology is to provide investors, stakeholders, and companies with a reliable and comprehensive tool for assessing and benchmarking ESG performance. By incorporating both quantitative and qualitative factors and ensuring scalability and adaptability, the methodology aims to promote transparency, and sustainability in corporate practices.

BRSR reports are highly relevant to ESG analysis for several reasons:

- **Standardized Reporting:** BRSR establishes a uniform framework for reporting ESG-related information, facilitating consistency and comparability across companies and industries which enables investors, stakeholders, and regulatory authorities to assess and benchmark ESG performance effectively.

- **Disclosure Requirements:** By mandating the disclosure of specific ESG metrics, BRSR encourages companies to provide comprehensive and transparent information about their sustainability efforts.
- **Integration of ESG Factors:** BRSR reports integrate ESG factors into corporate reporting processes, highlighting the importance of environmental stewardship, social responsibility, and ethical governance in business operations.
- **Investor Demand:** Investors are considering ESG factors as critical drivers of financial performance and risk. BRSR reports offer valuable insights into companies' ESG practices, allowing investors to evaluate sustainability risks and opportunities and make investment decisions aligned with their values and objectives.

The background of the slide is a close-up, slightly blurred photograph of a hand moving a red bead on a black abacus. The abacus has several rows of beads, and the hand is positioned over one of the beads in the foreground. The lighting is soft, and the colors are muted, with the red of the beads standing out against the dark frame of the abacus.

Calculation of esg scores

Calculation of Category Scores

Guidance on ESRS regulatory changes aids companies in calculating category scores and applying ESGP weights for enhanced sustainability disclosures.

Calculation of esg scores

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Guidance on ESRs regulatory changes aids companies in calculating category scores and applying ESGP weights for enhanced sustainability disclosures.

Calculation of Category Scores and Application of E, S, G, and P Weights

Once the sub-category weights are assigned and the pointer averages are normalized, the category scores for E, S, G, and P factors are calculated. This involves multiplying the normalized pointer averages by the respective sub-category weights and summing the results across all sub-categories within each dimension.

The application of E, S, G, and P weights is based on industry standards and best practices. These weights reflect the relative importance of each dimension in assessing overall ESG performance and may vary depending on factors such as industry norms, regulatory requirements, and stakeholder expectations.

Interpretation of Findings

The analysis of BRSR data and computation of ESG scores provide valuable insights into corporate sustainability and ESG performance. Here's how the findings can be interpreted:

- **Corporate Sustainability:** The ESG scores offer a comprehensive assessment of companies' environmental stewardship, social responsibility, and governance practices. Higher ESG scores indicate stronger sustainability performance, reflecting a commitment to long-term value creation and responsible business conduct.
- **ESG Performance:** By examining E, S, G, and P scores individually, trends and patterns emerge regarding companies' performance in specific areas. For example, high environmental scores may indicate a focus on eco-friendly operations, while strong governance scores may reflect effective oversight and transparency.

Process of Analyzing the 152 Pointers from the BRSR Report:

- **Data Completeness Assessment:** Each of the 152 pointers is evaluated to determine the total number of fields required for entry and how much data has been entered for each field. This assessment yields a percentage indicating the completeness of the data for each pointer.
- **Factualness Evaluation:** The accuracy and appropriateness of the entered data are assessed for each pointer. This involves verifying whether the data provided directly addresses the question posed by the pointer, and if it is accurate, relevant, and suitable for analysis.
- **Supporting evidence check:** The third step involves conducting a supporting evidence review. For each of the 152 pointers, any evidence provided is meticulously examined. This process ensures that there is substantiating documentation corresponding to the data entered for each pointer.
- **Pointer Averages Calculation:** After assessing completeness and factualness, the data for each pointer is aggregated and averaged. This computation results in a pointer average for each of the 152 indicators.

Computation of Pointer Averages and Sub-category Weightage Assignment

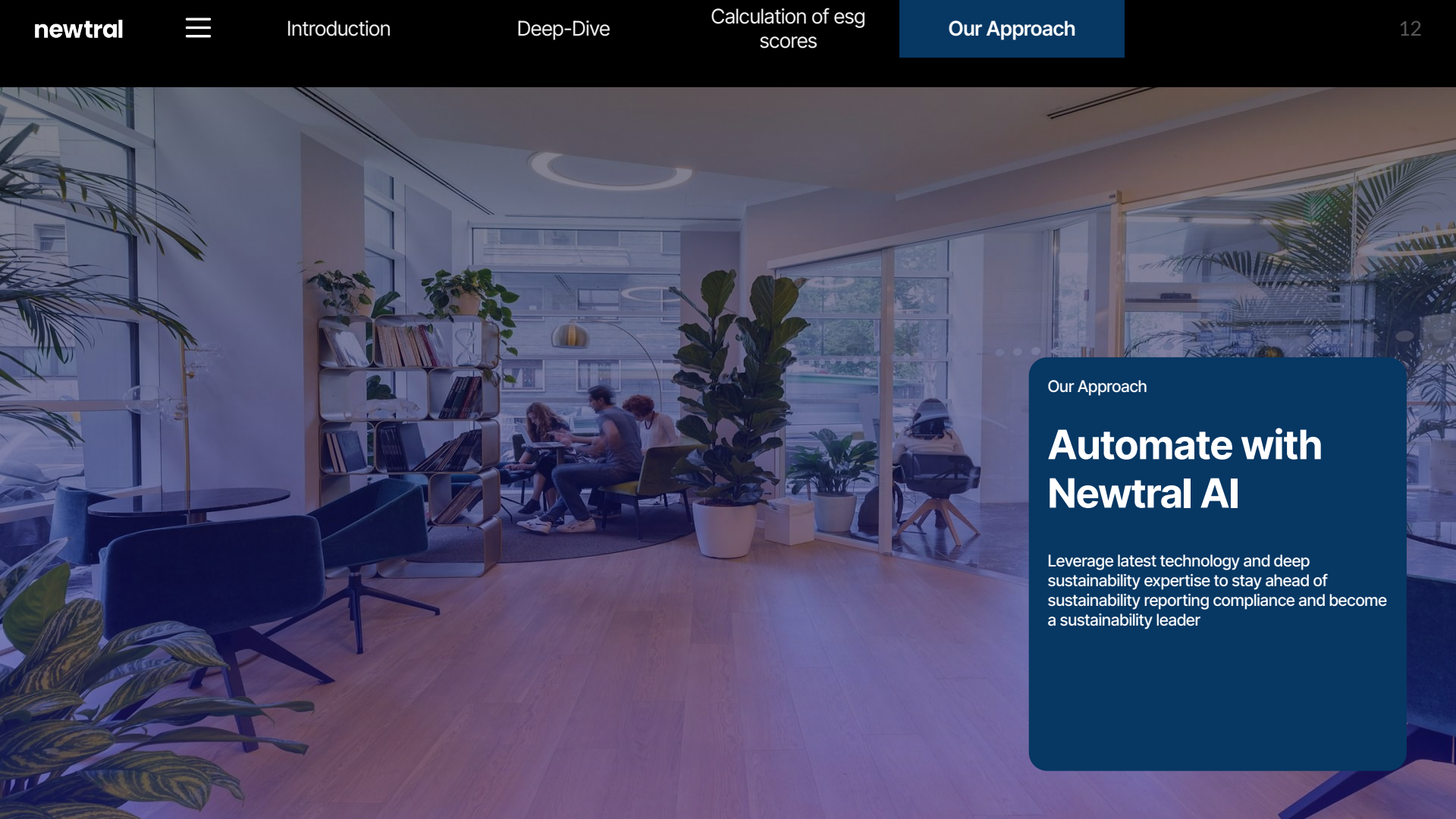
Once the pointer averages are calculated, the next step involves assigning weightage to sub-categories within each of the E, S, G, and P factors.

1. **Identification of Sub-categories:** Sub-categories are identified within each of the E, S, G, and P dimensions based on the specific focus areas relevant to the industry and the organization's operations.
2. **Weightage Assignment:** Weights are assigned to each sub-category based on its relative importance in contributing to overall ESG performance. These weights are determined through a combination of industry standards, stakeholder expectations, and internal assessments.
3. **Normalization Process:** To ensure comparability across different sub-categories and dimensions, the pointer averages are normalized through min-max normalisation. This normalization process adjusts the scores to a common scale, typically ranging from 0 to 1, allowing for meaningful comparison and aggregation.

Implications for Investors, Stakeholders, and Companies

The calculated ESG scores have significant implications for various stakeholders

1. **Investors:** ESG scores serve as crucial decision-making tools for investors, helping them identify companies with robust sustainability practices and manage ESG-related risks. Higher ESG scores may attract socially responsible investors seeking to align their investments with environmental and social values.
2. **Stakeholders:** ESG scores provide stakeholders, including customers, employees, regulators, and communities, with insights into companies' commitment to sustainability and corporate responsibility. Transparent reporting and high ESG scores enhance trust and credibility, fostering positive relationships with stakeholders.
3. **Companies:** For companies themselves, ESG scores offer an opportunity to benchmark their performance against industry peers, identify areas for improvement, and enhance competitiveness. High ESG scores can enhance corporate reputation, attract investment, and drive long-term value creation.

A modern office interior with large windows, indoor plants, and people working. The scene is bright and airy, with a focus on sustainability and technology.

Our Approach

Automate with Newtral AI

Leverage latest technology and deep sustainability expertise to stay ahead of sustainability reporting compliance and become a sustainability leader

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At Newtral, we understand the challenges businesses face in navigating the complex landscape of sustainability reporting and ESG integration. That's why we've developed a cutting-edge, AI-powered sustainability platform that streamlines your entire sustainability workflow, ensuring compliance, transparency, and value creation for all stakeholders.

Key Features and Benefits:

Automated Sustainability Workflow:

- Our AI-driven platform automates data collection, analysis, and reporting, saving time and resources
- Seamless integration with existing systems for efficient data management
- Ensures accuracy and consistency in sustainability reporting

Comprehensive Concierge Services:

- Dedicated sustainability experts to guide you through every step of your sustainability journey
- Tailored strategies and actionable insights based on your unique business needs
- Continuous support and expertise to help you achieve your sustainability goals

ESG Supply Chain Innovation:

- Advanced tools to assess and manage ESG risks and opportunities within your supply chain
- Collaborate with suppliers to improve sustainability performance and transparency
- Gain a competitive edge by demonstrating responsible supply chain practices

Scope 3 Emissions Management:

- Accurately measure and report your Scope 3 emissions with our AI-powered platform
- Identify hotspots and implement targeted reduction strategies
- Demonstrate leadership in addressing indirect emissions and climate change

Regulatory Compliance and Transparency:

- Stay ahead of evolving sustainability regulations and disclosure requirements
- Communicate your sustainability performance effectively to investors, customers, and other stakeholders
- Build trust and credibility through transparent and reliable sustainability reporting

Take the first step towards a more sustainable future with Newtral. Our AI-powered platform and expert concierge services provide the tools and guidance you need to integrate sustainability seamlessly into your business operations. Contact us today to schedule a demo and discover how Newtral can help you create lasting value for your stakeholders while contributing to a greener, more resilient world.



Newtral AI Platform- Enterprise ESG Platform for Corporates and Supply Chain

We help organizations automate their ESG metric measurements, tracking and reporting across company as well as their supply chain. Our platform solves for all corporate sustainability reporting and carbon accounting needs, visit newtral.io for more information.

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