



# What & Why ESG Strategy

ESG & Sustainability Transformation

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ESG Transformation



## What & Why ESG Strategy

An ESG strategy is a business model that prioritises social responsibility while generating profits. This approach provides companies with a framework to track progress towards sustainability goals, offering valuable quantitative information for investors and stakeholders who value environmentally and socially conscious organisations. Implementing an effective ESG plan contributes to financial, efficiency, and growth objectives, helping businesses achieve new levels of success. All businesses seek profits, but today's investors and shareholders want to see businesses making efforts to make the world a better place as they generate those profits. To do this, companies need to make an ESG business strategy to guide their approaches.

ESG provides a view of a company and its long-term value potential and relevance to its stakeholders. An ESG rating measures environmental and social impacts and the effectiveness of corporate governance in managing them. Organizations create ESG strategies to help them act on and measure what is mutually good for the 3Ps: Profits, People, and the Planet.

### Why Do Businesses Need an ESG Strategy?

#### Business and ESG Compliance Requirement

The ecological Footprint of Business Operations is larger than the general business process diagram. The top ten risks based on a global survey highlight environmental and social risks along with economic, geographical, and technological.

#### Some difficult questions for corporates:

- What does business owe society and the planet? Isn't it enough to create jobs, make and deliver useful products and services, and pay taxes?
- Why should companies worry about what is happening outside – Climate Change, Biodiversity Loss, Inequity, Vulnerable Communities? In other words, what's the problem if a business shuts out the external world and focuses on what it knows?
- This leads to an ethical dilemma "Is it possible to be a strong company in a weak society? What professional and moral dilemmas does such a situation pose?"

#### Questions that are more difficult:

- Why does a company exist? Whom does it exist for – owners/shareholders, customers, employees, suppliers, communities, and the public...? On the other hand, for all of them? Who among these has priority?
- From the 'Why' comes the 'What' and the 'How' – the pathway matters as much as the destination....
- What fundamental values does the company live by? How does it create value for its various stakeholders? Are the two consistent with each other? What is more important – valuation assigned to it by markets or value derived by its stakeholders?

Therefore, the answers to above questions open our eyes in various directions. Since business, development, society, and nature shall operate together without destroying other counterparts, ESG components are very crucial for planning, operation, and handover. No business can operate in isolation and no development can take place at the cost of other's



demolition. Therefore, business and economic activities shall operate with minimum impairments to nature, biodiversity, social harmony, eco-system, and governance system. The earth is the common home of various components like plants, animals, geography, society, etc so the soil, air, water, and other various components of the planet to be protected for long-term journey.

An ESG plan is the key to achieving financial, efficiency and growth goals. It's easy for a company to want to become more environmentally and socially conscious. That said, it can be much harder to know if companies are actually meeting these goals without a way to track them. Even if your business isn't looking for investment, adopting an ESG framework has benefits – from reducing risk and lowering costs to improving reputation and attracting new customers as well as receiving strong support from the local community where the business operates.

That's where having a corporate ESG strategy makes all the difference. An ESG plan gives businesses a framework for seeing progress toward reaching sustainability goals. Companies get quantitative information that measures the value they're getting back for their efforts, which can benefit them in the following ways:

### **Improve company reputation**

Incorporating ESG into your organisation could help your business's reputation as it indicates you have a transparent plan that focuses on helping the environment, supporting diversity and equal opportunities, and ensuring ethical business decisions.

### **Lower costs**

Initiatives that reduce waste and the amount of materials used, such as in packaging, can reduce costs. Reducing energy costs, such as switching to LED lighting, could also lower overheads through smaller energy bills.

### **Attract employees**

Some employees may be looking to work in more eco-conscious companies committed to implementing favourable ESG policies. Employees may want to associate themselves with companies that foster a diverse and inclusive workplace, with employee support programmes for mental well-being and improved work/ life balance.

### **Attract customers**

Some customers may be more willing to buy a similar product from a more ethical brand than another business – even if it costs more. Research by McKinsey found that over 70% of people said they would pay an additional 5% for a green product if it met the same standards as non-green alternatives.

### **New Business Models**

Adoption of business models based on circular economy: Remanufacture, Refurbish, etc. Lease and Shared Ownership models.

### **Risk Mitigation**



Anticipate and mitigate risks to business continuity: Water Scarcity, Resource Depletion, Climate Change, Social Unrest, etc. Regulatory and Market Risks: Legislative mandates, Structural changes e.g., rising cost of property insurance etc.

## Secure investment

Investors have, in recent years, shown interest in putting their money where their values are. An ESG strategy can help companies look better to their clients and investors. This is a key factor in staying competitive and relevant within their industries. Research by Charles Stanley found that up to half (48%) of investors are looking to increase their ESG investments within the next three years.

As a result, brokerage firms and mutual fund companies have started offering exchange traded funds (ETFs) and other financial products that follow ESG investing strategies. Robo-advisors including Betterment and Wealth front have promoted these ESG-themed offerings to younger investors.

ESG investors are also increasingly informing the investment choices of large institutional investors such as public pension funds. According to an industry report from US SIF Foundation, investors held \$17.1 trillion in assets chosen according to ESG principles in 2020, up from \$12 trillion just two years earlier. ESG-specific mutual funds and ETFs also reached a record \$400 billion in AUM in 2021, up 33% from the year before - and are expected to continue to grow rapidly in the coming years.

Many ESG investors are willing to make that trade-off, though; according to a recent survey of Investopedia and Treehugger readers, nearly half of ESG investors said they'd be willing to take a 10% loss over a five-year period to invest in a company that "aligns exceptionally against ESG standards." But 74% of respondents said that valuation/price was "very or extremely important to them." This indicates that the average ESG-friendly investment trades at a premium, making it a relatively more expensive investment style.

According to the CBI, two-thirds of investors take ESG factors into account when investing in a company meaning ESG has the potential to grow your business while benefiting the environment and community.

## Why SMEs should also embrace ESG

Investors are now more commonly seeing ESG strategies as a "need to have" rather than a "nice to have" in order to protect and future-proof their investments.

For SMEs who are considering reporting on ESG for the very first time, seeking advice from an audit professional is recommended, preferably one that has a good already understanding of the business and its market.

SMEs that prioritise ESG today are putting themselves in a better position to penetrate new markets, expand existing ones, and ensure their stable, long-term success. So, they shine to stand out from the crowd.

To learn more about ESG and sustainability-related models, don't hesitate to contact **[YTT Consulting!](#)**

