

ESG Strategy: Imperatives and Perspectives

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The Perspective

Environmental, social, and governance (ESG) strategy is creating new challenges and opportunities for leaders to create sustainable, inclusive growth. Successful companies are implementing ESG strategies that increase financial, societal, and environmental impact as well as ensure long-term competitiveness. A dramatic acceleration of interest in ESG in the past 12 to 18 months has increased awareness of the impact of companies on the environment and society. Driven by factors such as climate change, social inequality and the impact of COVID-19 - and amplified through social media platforms – ESG has become front of mind for all.

What Is ESG?

ESG is a holistic approach to business that goes beyond maximizing shareholder profits to address environmental, social, and corporate governance impact for all stakeholders. Through ESG, businesses define and measure their impact on the environment and society while remaining transparent about their governing practices. The goal is to ensure businesses remain intentional about fostering sustainable and ethical operations for people and the planet.



ESG Factors

- ESG Environmental Factors - The ESG environmental factors focus on how a company impacts natural resources and manages environmental risks.
- ESG Social Factors -The ESG social factors focus on stakeholder relationships -- including relationships with employees, customers and society as a whole.
- ESG Governance Factors -The ESG governance factors focus on how a business is governed, including how

decisions are made, who makes decisions regarding the business and how processes are completed.

What is an ESG Strategy?

An ESG strategy is a business model that prioritizes 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 organizations. 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. Keep reading for more information on developing an ESG strategy so businesses can achieve new levels of success

An ESG strategy is an action plan to achieve environmental, social, and governance goals that align with a company's vision, values and growth plan. It's the roadmap companies follow to ensure they're doing what they say they're going to do – capturing opportunities, avoiding risks and meeting all necessary regulatory requirements. A strategy typically outlines the why (mission), what (goals/metrics), how (tactics) and when (timeframe) for an initiative. A strategic roadmap ideally includes all those components; however, many companies only publish goals and target dates for external audiences.

Your ESG strategy should answer:

- What's your end goal?
- How will you measure impact?
- How will you achieve it?
- By when?

Why is ESG in business important?

While ESG metrics are relatively new, they have grown in importance due to rising concerns over climate change, depleting natural resources and economic inequalities. Businesses that prioritize ESG considerations can gain a competitive advantage and foster long-term success.

Here are some reasons why ESG is important for businesses:

- Make your business operations sustainable and cost-effective: Effective ESG policies help companies reduce energy, water, and waste expenses and drive strategic

resource allocation. ESG ultimately helps promote top-line growth and lower costs. According to a McKinsey report, ESG goals can effectively reduce operating expenses and increase profit by up to 60 percent.

- **Be in the good books of customers:** Consumers are putting more and more stress on businesses to be socially and environmentally responsible. According to Forbes, 62 percent of generation Z will prefer to buy from sustainable brands while 50 percent of the millennials say the same.
- **Improve employee engagement and retention:** Employees are increasingly motivated by purpose and social impact. Businesses that prioritize ESG can improve employee engagement and retention by demonstrating their commitment to social and environmental responsibility. Better health and safety policies can also help retain employees and improve overall morale.
- **Meet investor expectations and improve financial performance:** Investors are increasingly incorporating ESG criteria into their decision-making processes. Businesses that prioritize ESG can demonstrate their commitment to long-term sustainability and improve their financial performance. Research shows that companies with strong ESG performance are more likely to outperform their peers financially.
- **Reduce risk and enhance resilience:** ESG considerations can help businesses identify and mitigate risks, such as supply chain disruptions, regulatory compliance issues, and reputational damage. By prioritizing ESG, businesses can enhance their resilience and adaptability in the face of changing market conditions.

How to Create an ESG Strategy in 6 Steps

By following the right steps, companies can see the beneficial results of an ESG plan as they grow in their environmental, social and governance responsibilities. Here are six steps to implementing an ESG strategy:

1. **Consult with stakeholders:** An ESG strategy must include items stakeholders care about. In today's market, investors want to use their money to grow companies that have similar values to their own. Define the beliefs and values of stakeholders to start mapping out objectives with your ESG strategy.
2. **Choose the right ESG framework:** Once businesses have the necessary information from their stakeholders, it's time to choose the right ESG framework to guide their strategies. These guidance include the United Nations Sustainable Development Goals, the Global Reporting Initiative Standards and the Sustainability Accounting Standards Board Standards, to name a few.
3. **Conduct a materiality assessment:** A materiality assessment is a crucial part of successful ESG strategy implementation because it reveals the relevant topics an ESG plan should focus on. These are the topics stakeholders, investors, employees, peers and competition care about. A materiality assessment prioritizes the right actions to take to meet their goals.

4. **Appoint the right people for management:** A company is only as good as the people who comprise it. Hire or appoint the right people to manage ESG efforts — people who devote themselves to the ESG strategy's success.
5. **Collect data toward key performance indicators (KPIs):** Once the ESG plan is up and running, it's time to start collecting data. ESG processes benefit businesses because they provide objective metrics that prove the success of social responsibility efforts. Use the data you gather to track KPIs, measuring success along the way.
6. **Reassess over time:** As companies continue gathering data related to ESG efforts and track KPIs, they have the benefit of being able to reassess their strategies over time. It's OK for said strategies to change — businesses should strive to achieve new levels of success, but they can only do that by seeing the honest data and making necessary adjustments. Acknowledge strong areas and continue what's been working. Note weaker areas, and take the next right steps to improve.

Measuring Progress of an ESG Strategy

A key factor of having an ESG strategy is measuring progress. ESG progress metrics give insight into how companies are performing compared to their individual goals and competition. Ideally, metrics will reveal that businesses are well on their way to meeting their goals and are keeping up with or even surpassing the competition in their ESG efforts.

Measuring progress is also crucial for reporting purposes. The main draw of an ESG strategy is that it provides objective statistics about the issues investors and stakeholders care about most. Simply telling investors to "take our word for it" when companies give progress updates is out of the question — businesses need to accurately measure their progress to provide real, raw data reports to their investors. Investors use these reports to know if they're investing in a company that aligns with their goals and provides the least risk.

Benefits of corporate ESG strategy

An ESG strategy offers a systematic approach to corporate growth with many advantages. It promotes long-term growth by adjusting to changing market dynamics and fostering longevity via strategic planning.

Let's explore the competitive advantages of the company's ESG initiatives:

- **Enhanced brand reputation.** It shows a company's dedication to responsible practices, building trust among stakeholders, and increasing brand loyalty.
- **Attraction and retention of top talent.** Prioritizing ESG concerns attract high-quality candidates, and committed employees, reducing turnover costs and fostering a motivated workforce.
- **Improved financial performance.** ESG factors improve business efficiency and lead to better financial performance.

- Access to capital and investment opportunities. ESG initiatives attract ethical investors and improve access to capital and investment opportunities for companies.
- Innovation and competitive advantage. Sustainability goals inspire innovation and give companies a competitive edge.
- Positive impact on communities and the environment. ESG strategies benefit communities and the environment, making socially and environmentally conscious consumers happier.

Conclusion

Building an ESG strategy is not easy. While these six steps will put you on the right path, they are only the starting point for creating an ESG strategy that will bolster investor confidence and your bottom line. Developing strong, effective ESG principles is a long-term effort that starts with the board. By considering ESG factors, your business can thrive, earn a stellar reputation, and stay competitive. Crafting a successful ESG strategy calls for a deep understanding of your business's specific risks and opportunities, well-defined goals, and a continuous performance review.

Indeed, stakeholder engagement and visionary leadership

are vital in how to develop ESG strategy successfully. However, companies may face ESG factors. Navigating between limited resources and the tension of balancing short-term and long-term goals presents a complex journey.

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