KINETIC CONSULTING

Accelerating Business Growth

The Power of ESGs: Achieving Lasting Impact for your Organisation

Environmental, social, and governance (ESG) issues have become increasingly important for businesses in recent years. ESG factors are now considered key drivers of long-term value creation and risk management. Investors, customers, employees, and regulators are all paying closer attention to a company's ESG practices and performance. Therefore, it has become imperative for businesses to establish and track ESGs specific to their organisation.

This thought leadership paper will discuss the importance of establishing and tracking ESGs for businesses of all sizes. We provide examples of what this might look like for small businesses and large enterprises. We also explore the benefits of integrating ESG considerations into business operations and decision-making processes. Finally, we will highlight some of the challenges that businesses may face when it comes to ESG reporting and measurement.

1. WHY ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE (ESG) INITIATIVES MATTER

ESG factors are increasingly seen as drivers of long-term value creation and risk management. According to a report by McKinsey & Company, companies with strong ESG performance are more likely to outperform their peers in terms of financial performance and employee and customer satisfaction. They are also less likely to experience regulatory fines, litigation, or reputational damage. In short, good ESG practices can lead to better financial outcomes and lower risk.

1. **Investors** are paying closer attention to ESG performance when making investment decisions. According to a Global Sustainable Investment Alliance report, sustainable investments reached $31 trillion in assets under management in 2018, up from $22.8 trillion in 2016. This represents a 34% increase in just two years. As sustainable investing grows, investors are becoming more selective about the companies they invest in, and they are looking for companies with strong ESG performance and a commitment to sustainability.

2. ESG is also becoming increasingly important to **customers**. According to a report by Nielsen, 66% of global consumers are willing to pay more for products and services that come from companies committed to positive social and environmental impact. This represents a significant opportunity for businesses that can demonstrate strong ESG performance and a commitment to sustainability.

3. Finally, ESG factors are becoming more important to **regulators**. Governments around the world are introducing new regulations and policies aimed at reducing carbon emissions, promoting renewable energy, and protecting workers' rights. Businesses that do not meet these new standards may face fines, legal action, or reputational damage.

2. THE BENEFITS OF ESTABLISHING AND TRACKING ESG

Establishing and tracking ESGs can bring many benefits to businesses. These benefits include:

1. **Enhanced reputation:** Businesses that establish and track ESGs can enhance their reputation among customers, investors, and other stakeholders. This can lead to increased customer loyalty, improved investor confidence, and better relationships with regulators.

2. **Improved risk management:** By tracking ESGs, businesses can identify and manage ESG-related risks more effectively. This can lead to a lower likelihood of financial, legal, or reputational damage.

3. **Improved operational efficiency**: ESG practices can drive operational efficiencies by reducing waste, conserving resources, and lowering costs. For example, reducing energy consumption can lower energy bills and reduce carbon emissions, which can lead to cost savings and increased profitability.

4. **Cost savings:** Many ESG initiatives can lead to cost savings over the long term. For example, companies can improve their supply chain management by sourcing raw materials more sustainably and efficiently, reducing waste, and using more efficient transportation methods; businesses that prioritise employee health and safety can reduce costs associated with accidents, injuries, and illnesses.

5. **Improved employee engagement:** Employees are increasingly looking for employers that share their values and are committed to positive social and environmental impact. By establishing and tracking ESGs, businesses can improve employee engagement and attract and retain top talent.

6. **Enhanced competitiveness:** By establishing and tracking ESGs, businesses can gain a competitive advantage over their peers. Customers, investors, and other stakeholders increasingly seek businesses committed to sustainability and ESG performance.

7. **Access to capital:** Companies that prioritise ESG practices can also have greater access to capital, as investors increasingly prioritise companies with strong ESG performance. This can lead to lower financing costs and increased profitability.

3. ESTABLISHING ESG FOR YOUR BUSINESS

The argument for adopting ESGs is compelling for larger organisations, but is it relevant to smaller businesses?

Organisations, large, medium-sized, or small, benefit from looking at their business through specific elements of the ESG lens most appropriate to their activity. ESG adoption is just as impactful to small businesses as to large enterprises. We outline this through the examples below.

3.1 ESTABLISHING AND TRACKING ESGS FOR SMALL BUSINESSES

Small businesses face unique challenges when it comes to establishing and tracking ESGs. They may have limited resources, expertise, and capacity to manage ESG initiatives. However, there are still many ways that small businesses can incorporate ESG considerations into their operations and decision-making processes.

One approach for small businesses is to focus on a few key ESG areas that are most relevant to their business and stakeholders. For example, a small restaurant may focus on reducing food waste, sourcing sustainable ingredients, and providing employees with fair wages and working conditions. By tracking and reporting on these key ESG areas, the business can demonstrate its commitment to sustainability and attract customers who value these initiatives.

Another approach for small businesses is to leverage external resources to help establish and track ESGs. This may include partnering with ESG consultants, participating in industry initiatives or certifications, or accessing online tools and resources.

Finally, small businesses can also leverage their size and agility to experiment with new ESG initiatives and partnerships. For example, a small fashion retailer may partner with a local, sustainable fashion designer to source more sustainable materials and reduce waste. By leveraging local partnerships and initiatives, small businesses can demonstrate their commitment to sustainability while also building stronger relationships with their community.

3.2 ESTABLISHING AND TRACKING ESGS FOR LARGE ENTERPRISES

Large enterprises have more resources and capacity to establish and track ESGs but face greater complexity and challenges. Large enterprises often have diverse operations and stakeholders, making it more difficult to establish consistent ESG practices and reporting.

One approach for large enterprises is establishing a dedicated ESG team or function. This team can establish ESG goals, track and report on ESG performance, and engage with stakeholders on ESG initiatives. This approach can help ensure consistency and accountability across diverse operations and stakeholders.

Another approach for large enterprises is establishing specific, measurable, time-bound ESG goals and targets. For example, a large energy company may establish a target to reduce carbon emissions by 50% by 2030. The business can hold itself accountable and demonstrate progress to stakeholders by setting clear and measurable goals.

Finally, large enterprises can leverage technology and data to track and report on ESG performance more effectively. This may include using data analytics tools to monitor energy consumption or waste reduction initiatives or implementing blockchain technology to track supply chain sustainability. Large enterprises can automate and streamline ESG reporting by leveraging technology, making it easier to identify and address ESG risks and opportunities.

4. EXAMPLES OF ESG FOR SMALL BUSINESSES AND LARGE ENTERPRISES

The specific ESGs that a business should establish and track depend on various factors, including the nature of the business, the industry in which it operates, and the priorities of its stakeholders. However, several ESGs are relevant to many businesses, regardless of size or industry.

Effective governance is essential for companies seeking to meet ESG criteria, as it ensures that the organisation is operating sustainably and ethically.

4.1 SUSTAINABLE ENVIRONMENTAL PRACTICES

There are several examples of how organisations can actively change their impact on the environment by applying ESG best practices:

- **Greenhouse gas emissions:** Many businesses are setting targets to reduce their greenhouse gas emissions in line with the Paris Agreement. This may involve reducing energy consumption, switching to renewable energy sources, or implementing more efficient production processes.

- **Water consumption**: Businesses relying on water as a key resource should track their water consumption and implement strategies to reduce water usage. This may involve implementing more efficient irrigation systems, reducing leaks and losses, or implementing water recycling and reuse systems.

- **Waste management:** Businesses should track the amount of waste they generate and implement strategies to reduce, reuse, and recycle waste. This may involve implementing a waste reduction program, using more sustainable packaging materials, or working with suppliers to reduce waste throughout the supply chain.

4.2 SUSTAINABLE SOCIAL PRACTICES

There are several examples of how organisations can actively change their impact on their staff by applying ESG social best practices:

- **Labour standards:** Businesses should establish and track goals and targets related to labour standards, including fair wages, safe working conditions, and freedom from discrimination and harassment. This may involve implementing a code of conduct for suppliers, conducting regular audits of labour practices, or working with labour unions to improve working conditions.

- **Diversity and inclusion**: Many businesses are setting goals and targets related to diversity and inclusion, including the representation of women, people of colour, and other underrepresented groups in their workforce and leadership. This may involve implementing diversity and inclusion training programs, establishing employee resource groups, or implementing blind resume screening processes.

- **Community relations**: Businesses should establish and track goals and targets related to their impact on local communities. This may involve investing in local infrastructure, supporting local charities and non-profits, or engaging in community service initiatives.

4.3 SUSTAINABLE GOVERNANCE PRACTICES

There are several examples of how organisations can actively make their organisations more sustainable by applying ESG governance best practices:

- **Board Diversity:** A diverse board of directors can help ensure that a company considers a range of perspectives in its decision-making, including those related to environmental and social issues. Boards can include individuals with sustainability expertise or a history of advocating for ethical business practices. They should also address the representation of women, people of colour, people of determination and other under-represented groups.

- **Sustainability Reporting:** Companies can provide transparent reporting on their sustainability performance, including metrics related to energy consumption, carbon emissions, waste reduction, and social impact. This helps investors and stakeholders evaluate the company's ESG performance.

- **Executive Compensation**: Companies can align executive compensation with ESG goals. For example, executives may receive bonuses for meeting sustainability targets or ensuring that the company operates ethically.

- **Stakeholder Engagement:** Companies can engage with a range of stakeholders, including customers, employees, suppliers, and communities, to ensure that they are considering the impact of their operations on these groups. This can include conducting regular surveys, holding town hall meetings, and engaging in dialogue with stakeholders.

- **ESG Oversight:** Companies can create ESG oversight committees to ensure that environmental, social, and governance issues are being considered in all decision-making processes. These committees can be made up of individuals with expertise in sustainability, ethics, and governance and can help ensure that the company is operating responsibly and sustainably.

5. ESG REPORTING: CHALLENGES & CONSIDERATIONS

While establishing and tracking ESGs can bring many benefits, there are also challenges and considerations that any business needs to consider. Some of the key challenges and considerations include:

1. **Lack of standardisation**: ESG reporting and measurement is not yet standardised, making it challenging to compare ESG performance across different businesses and industries. However, initiatives such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) are working to establish more consistent reporting standards.

2. **Data quality and availability:** ESG reporting and measurement requires accurate and reliable data. However, many businesses may not have the necessary data or expertise to collect and analyse ESG data effectively. This can make establishing ESG goals difficult and tracking performance over time.

3. **Stakeholder engagement:** ESG reporting and measurement requires engagement with a wide range of stakeholders, including investors, customers, employees, and regulators. Businesses need to be prepared to engage with these stakeholders and incorporate their feedback into ESG initiatives and reporting.

4. **Cost and resource constraints:** Establishing and tracking ESGs can require significant resources and investment, especially for smaller businesses with limited budgets. Businesses must carefully consider the costs and benefits of different ESG initiatives and prioritise the most impactful and feasible ones.

5. **Greenwashing:** Greenwashing refers to the practice of making false or exaggerated claims about ESG performance or initiatives. Businesses need to ensure that their ESG reporting and communications are transparent, accurate, and based on credible data.

6. **Integration with business strategy:** ESG initiatives need to be integrated with overall business strategy and decision-making processes. This requires a clear understanding

of how ESG considerations can impact financial performance, reputation, and long-term sustainability.

6. CONCLUSION

Many organisations have yet to establish a link between their Environmental, Social, and Governance (ESG) practices and business growth. However, mounting evidence suggests that companies that effectively implement ESG best practices can significantly boost brand reputation, financial performance, and investor appeal.

Establishing and tracking ESGs is becoming increasingly important for businesses of all sizes and industries. By incorporating ESG considerations into their operations and decision-making processes, businesses can mitigate risks, improve performance, and enhance their reputation and brand value. However, businesses also face challenges and considerations regarding ESG reporting and measurement, including lack of standardisation, data quality and availability, stakeholder engagement, cost and resource constraints, greenwashing, and integration with business strategy.

To overcome these challenges, and establish effective ESG practices, businesses need to prioritise ESG considerations, establish clear and measurable goals, engage with stakeholders, leverage technology and data, and integrate ESG initiatives with overall business strategy. By doing so, businesses can enhance their sustainability and social impact and drive long-term financial performance and value creation.

As the United Arab Emirates (UAE) and other Countries in the GCC set explicit targets for building more sustainable economies, there will be an increasing number of opportunities available to organisations that can demonstrate superior ESG performance.

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Do you want to know how we can help with your ESG strategy, measurement or reporting, or any other business challenges? Contact Craig Lee, Partner at Kinetic Consulting at help@kineticcs.com

Kinetic Consulting Services is a boutique business growth consultancy providing private and public sector clients with the full suite of consulting services to accelerate growth, build brand value, and achieve market differentiation. Kinetic has offices in Dubai, UAE and Sydney, Australia.

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