SUSTAINABILITY AND VALUE CREATION

Introduction

Stakeholders have become less tolerant of corporate ESG incidents in recent years with the increased transparency and access to information globally. Even smaller companies can benefit from a focus on ESG. For example:

- initiatives that reduce waste and the quantity of materials used, such as in packaging, can reduce costs;
- reducing energy costs, such as switching to LED lighting, could also lower energy bills; and
- research (2) has shown that a higher ESG profile is associated with higher EV/EBITDA multiple, and a company that increases its ESG profile year-on-year experiences an even higher EV/EBITDA multiple.

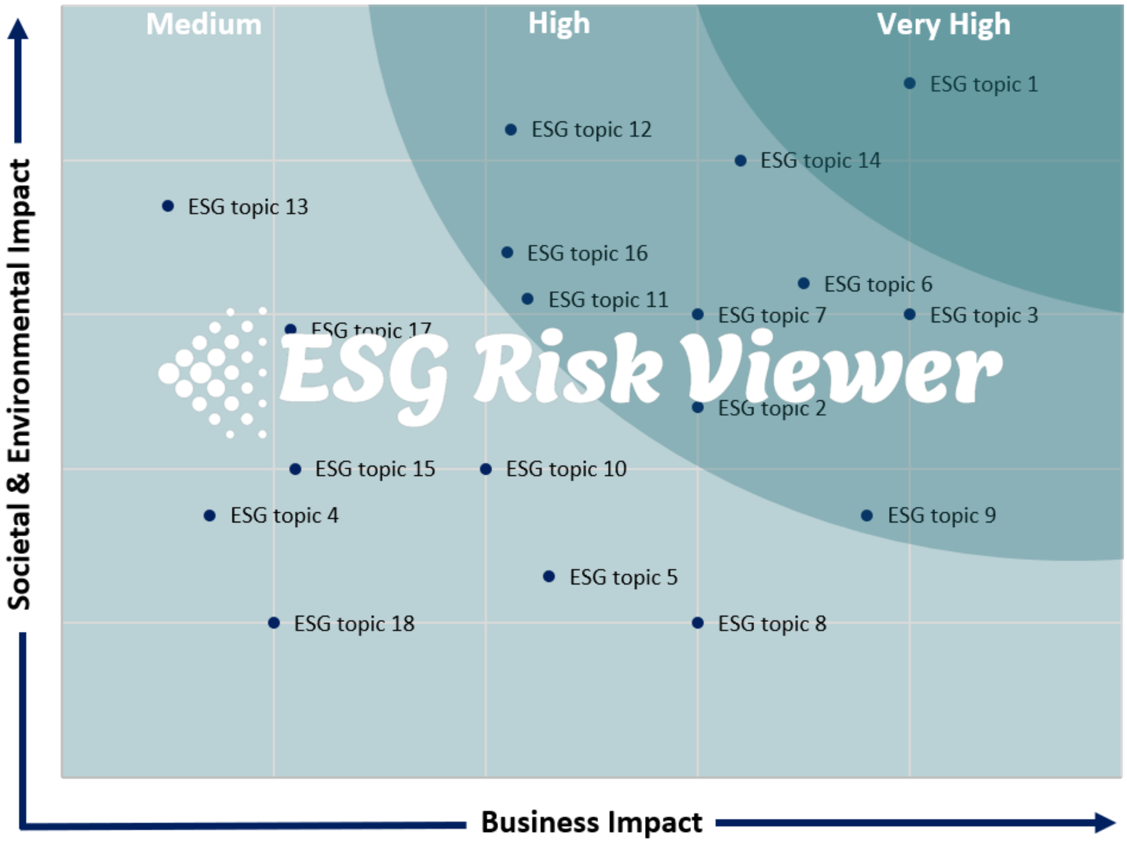
Reporting on ESG metrics is becoming mandatory for large organisations, and a voluntary adoption by SMEs (for example the using the Voluntary SMEs sections of European Sustainability Reporting Standards (ESRS) or Global Reporting Initiative (GRI) Standards) can enhance reputation with upstream and downstream partners, and help organisations access alternative sources of finance such as green and social loans.

Adopting a Corporate ESG Approach

Assess materiality

Organisations should assess material ESG factors for their industries using relevant frameworks such as the OECD Due Diligence Guidance for Responsible Business Conduct, the European Sustainability Reporting Standards, and industry-specific Sustainability Accounting Standards issued by the International Sustainability Standards Board (ISSB).

We recommend a double-materiality assessment to ensure a focus on the needs of a broader range of stakeholders. Such assessment involves compiling an initial long list of topics and subtopics (both from a financial materiality and an impact materiality perspectives), and ongoing stakeholder engagement to set materiality thresholds and to creating a shortlist of material ESG issues. The results are generally visualised by creating a matrix of material ESG issues, which is then validated by the management.



Assess past ESG profile

With the consolidation of various ESG reporting frameworks, there is now less confusion on how to report on material ESG topics. Moreover, many reporting frameworks (for example, ESRS, ISSB Standards and GRI Standards) are cross-referencing each other, hence facilitating reporting across different frameworks and jurisdictions.

Many organisations would already have gathered the vast majority of historical data on ESG risks and opportunities as part of their Enterprise Risk Management systems; and this information can be used in the assessment of the organisation's past ESG profile.

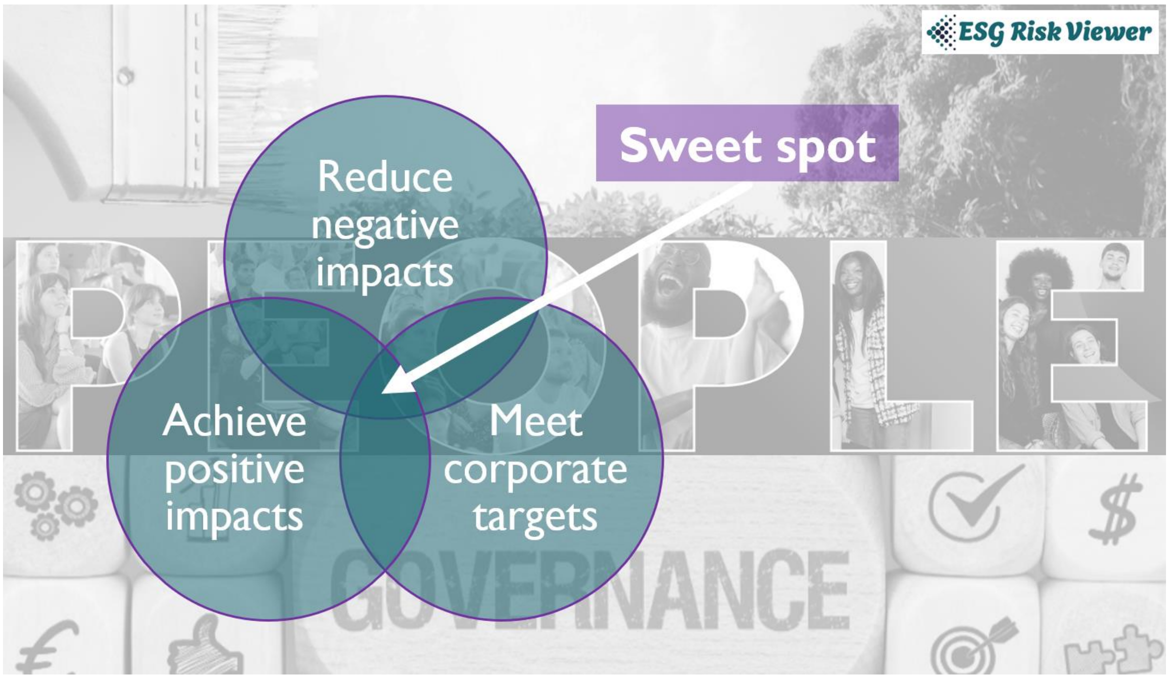
Develop a roadmap with measurable actions

An ESG strategy should be embedded within the organisation’s business strategy. Organisations must endeavour to create roadmaps that identify ESG-related risks and opportunities and establish actions with measurable targets where appropriate, that will mitigate those risks, whilst capitalising on the opportunities in order to deliver long-term value.

Establish ESG incentives

What is a manager's motivation to meet ESG targets? The first and fundamental point in setting ESG incentives is to create awareness that ESG targets and other corporate objectives such as profitability are not mutually exclusive; that is, effectively identifying the organisation's "sweet spot". Secondly, implementing a strategy of 'layering' every corporate decision with an ESG mindset will ensure a double materiality alignment (financial materiality and impact materiality). For example, consider Kelloggs's "Same Weight, Less Packaging" campaign. The "...less packaging" action is financially beneficial for the company and positive for the environment and the society at large. This is an example of a "win-win-win" action.

We propose communicating the "sweet spot" across the organisation, with clear illustrative examples.



Measure and communicate progress

Organisations should develop processes to monitor and report on ESG progress. Communication of the organisation's ESG progress should be an ongoing process, helping stakeholders to stay updated throughout the organisation's sustainability journey, while sustaining confidence in the organisation's commitment to its values.