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STRATEGIC ADVANTAGE

# REASONS TO ADOPT ESG AGENDA

**E**NVIRONMENTAL, social and governance (ESG) criteria have become increasingly important for companies worldwide.

The ESG framework refers to the three central factors that measure a company's sustainability and societal impact.

Companies tend to adopt the ESG agenda for four reasons or a combination of the four reasons.

They are those who feel it is the right thing to do morally and ethically.

Then some adopt it because they cannot sell their products in certain overseas markets if they do not adopt ESG principles.

The third category comprises those who do to it so that they do not incur the wrath of institutional shareholders. For to do so would result in painful share sell-downs and reputation loss.

The fourth category are those who adopt ESG principles because the rules require them to do so. Here, there is a real risk of "box ticking".

But there are many more reasons why companies should adopt ESG principles.

#### **Risk mitigation**

Adopting ESG practices helps companies identify and mitigate potential risks.

By considering environmental factors, such as climate change and resource scarcity, and social factors, like labour practices and community engagement, businesses can proactively address risks that might otherwise lead to reputational damage, legal liabilities or operational disruptions.

#### **Long-term value creation**

ESG integration fosters long-term value creation for compa-

nies and their stakeholders.

Emphasising sustainability and responsible business practices can lead to improved financial performance, increased investor confidence and enhanced brand reputation over time.

Investors and consumers are increasingly seeking companies that positively impact society and the environment.

#### **Enhanced stakeholder relations**

ESG-focused companies often enjoy stronger relationships with stakeholders, including employees, customers, suppliers, investors and local communities.

Demonstrating a commitment to ESG principles can attract like-minded stakeholders who want to be associated with an ethical and socially responsible organisation.

#### **Access to capital**

The rise of sustainable investing has led to increased interest in companies with strong ESG profiles.

Companies that prioritise ESG principles are more likely to access capital from investors and financial institutions that have integrated ESG factors into their decision-making processes. As a result, ESG adoption can broaden financing options and potentially lead to lower borrowing costs.

#### **Improved innovation and efficiency**

ESG practices can drive innovation and operational efficiency.

Companies that prioritise sustainability are more likely to invest in technologies and processes that reduce waste, conserve resources and optimise energy usage.

These innovations can lead to cost savings and bolster a company's competitive edge.

#### **Employee attraction and retention**

ESG-oriented companies tend to attract and retain top talent. The modern workforce, particularly the younger generation, seeks meaningful work and prefers to serve purpose-driven organisations. Employees are more likely to be engaged and committed to companies that prioritise ESG values, leading to reduced turnover rates and higher employee satisfaction.

#### **Regulatory compliance**

ESG adoption helps companies stay ahead of evolving regulations and requirements. Governments and regulatory bodies increasingly incorporate sustainability and social responsibility expectations into their policies.

#### **Reputation and brand resilience**

In today's interconnected world, a company's reputation is vulnerable to public scrutiny. Embracing ESG principles builds a resilient brand image that can withstand negative events and criticism. A strong reputation for responsible practices can help companies regain trust after challenges or crises.

#### **Fostering inclusive growth**

Companies that integrate social factors into their business strategies contribute to fostering inclusive growth. By considering employee welfare, diversity and inclusion, and community engagement, businesses can support broader social development and contribute positively to society.

#### **Addressing global challenges**

ESG adoption allows companies to play a part in addressing global challenges, such as climate change, poverty and inequality. Businesses have significant resources and influence, and by incorporating ESG principles, they can contribute to sustainable development and work towards a more equitable world.

#### **Supply chain resilience**

Adopting ESG principles can enhance supply chain resilience.

Companies collaborating with suppliers committed to responsible and sustainable practices are less likely to face disruptions caused by environmental or social issues within the supply chain.

#### **Competitive advantage**

Finally, ESG adoption can create competitive advantages in the market. Companies that embrace sustainability and social responsibility differentiate themselves from their competitors, attract conscious consumers and strengthen their market position.

In conclusion, incorporating ESG principles into business strategies is a moral imperative and a strategic advantage. Companies that prioritise environmental sustainability, social responsibility and effective governance stand to gain in terms of risk management, financial performance, stakeholder relations, access to capital, innovation and employee satisfaction.

ESG adoption is a pathway to long-term value creation and a better future for businesses, society and the planet.

The writer is chief executive officer of Minority Shareholders Watch Group.

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