Environmental, Social, and Governance (ESG)

As of 2019, McKinsey reported a global sustainable investment of $30 trillion, an increase of 68% since 2014.

What is ESG

Increasing scrutiny of whether organizations are doing their part in providing an effective environmental, social, and governance strategy (ESG) has made organizations realize the long-term value add.

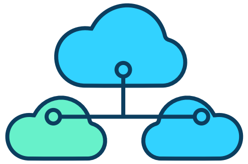
- **It stands for environmental, social, and governance frameworks that undertake those growing concerns.**
- **Environmental Criteria:** Every organization uses energy and resources which in turn affects the environment (carbon emissions) and is affected by it (climate change).
- **Social Criteria:** The relationship an organization develops with people and institutions in the community and society at large.
- **Governance:** The framework and policies put into place to make effective decisions, comply with the law, and meet the needs of stakeholders and shareholders.

Growing need

The sheer magnitude of investment indicates that this is more than a fad.

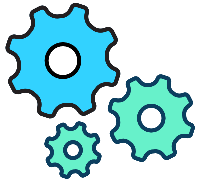
Increasing scrutiny

With the pressure of climate change, planning and executing ESG has become critical



Drivers

Social, governmental, and consumer attention on the broader impact of organizations in society.



Strong ESG strategy protects long-term success

Research indicates that it correlates to higher equity returns and reductions in downturn risks.

Key Value Drivers

McKinsey's research and experience working with organizations across industries outlined five key areas adding value through a robust ESG strategy.

Top-Line Growth	Tap into new markets and expand existing ones. Sustainability-market products grow 5.6 times faster than conventional products.
Cost Reductions	Strong correlation between resource efficiency and financial performance. A strong ESG proposition combats operating costs.
Regulatory Relief	Robust ESG allows greater freedom from regulatory bodies, more governmental support, and better relations with the community; allowing greater strategic freedom.
Increased Productivity	Research shows that a strong ESG effort can boost morale and motivate and attract quality talent.
Investment and Asset Optimization	Allocating capital to ESG opportunities like waste management, and renewables can strengthen investment returns. Not aligning with these opportunities would be more expensive in the long run.

ESG needs to be tailored to fit each organization.

E.g.: Oil /gas companies will focus on reducing carbon emissions while consumer companies will look at more sustainable products.

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