

“Sustainability and ESG: A Link to Financial Performance and a Better Future for All?”

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The following article is from Alan Stenson, CEO of [Neutral Carbon Zone](#).

Sustainability and ESG activities have become critical considerations for businesses as the world grapples with challenges like climate change, social inequality, and environmental degradation. While there is no denying the ethical imperative to address these issues, there is also growing evidence that sustainability and ESG initiatives can be a significant driver of financial performance.

Over the past few years, several studies have analysed the correlation between sustainability and financial performance. While the results of these studies have been mixed, the overall picture is clear: companies that prioritise sustainability tend to perform better financially than those that do not.

One way that companies can prioritise sustainability is by setting ESG targets and tracking their progress towards achieving them. By doing so, companies can hold themselves accountable for making progress towards a more sustainable future. Research has shown that companies that set ESG targets tend to perform better financially than those that don't.

For example, a study by the Harvard Business Review found that companies that set specific ESG targets had a median return on assets (ROA) of 6.4%, compared to 4.8% for those that did not. Similarly, a study by MSCI found that companies that disclosed their ESG performance had a higher return on equity (ROE) than those that didn't disclose their ESG performance.

Another critical aspect of sustainability is embedding it into management processes. This involves ensuring

that sustainability considerations are taken into account when making business decisions and that senior management is held accountable for sustainability outcomes. Research has shown that companies that focus on sustainability in their management processes outperform their peers financially.

A study by the United Nations Global Compact found that companies that integrated sustainability into their business strategies had a higher market valuation than those that did not. Similarly, a study by the Harvard Business Review found that companies with high sustainability performance tended to have better risk management and higher profitability.

Procuring sustainably is another key aspect of sustainability. This involves ensuring that a company's supply chain is sustainable and that the products and services it procures are produced in an environmentally and socially responsible manner. Companies that select sustainable procurement tend to have better ESG outcomes and financial performance.

A recent study by CDP demonstrated that companies prioritising sustainable procurement had a higher return on investment (ROI) than those that did not, and a similarly study by the Harvard Business Review found that companies with high environmental and social performance tended to have lower supply chain risks and higher profitability.

Companies can put in place programmes to reduce carbon emissions and improve diversity, equity, and inclusion. Again, research has shown that companies focussing on these areas tend to perform better financially than those that do not.

A Harvard Business Review found that companies that invested in diversity and inclusion tended to have higher innovation and better financial performance. Similarly, a study by Trucost found that companies that reduced their carbon emissions tended to have higher profitability and lower risk.

Overall, the evidence suggests that companies that prioritise sustainability and ESG activities do tend to outperform their peers in terms of financial returns. While not every analysis yields a positive correlation, the data consistently shows that positive ESG outcomes are a trait of successful companies and that sustainability measures correlate with better financial performance.

Moreover, sustainable business practices are becoming increasingly important to stakeholders, including investors, customers, and employees. Investors in particular are demanding that companies integrate ESG considerations into their operations to ensure a sustainable and profitable future. According to a survey by the Global Sustainable Investment Alliance, sustainable investing assets under management grew by 15% between 2018 and 2020, reaching \$35.3 trillion globally.

Similarly, customers are increasingly seeking out sustainable products and services, and employees are more likely to be attracted to companies that value sustainability and ESG. A study by Cone Communications found that 87% of consumers would purchase a product because a company advocated for an issue they cared about, while 76% of employees consider a company's social and environmental commitments when deciding where to work.

In addition to the financial benefits and stakeholder demands, sustainability and ESG activities also have a positive impact on society and the environment. By reducing carbon emissions, promoting diversity and inclusion, and procuring sustainably, companies can help to address some of the world's most pressing challenges. This, in turn, can help to create a more stable and sustainable future for everyone.

Overall, it is clear to see that sustainability and ESG activities are essential considerations for businesses looking to succeed in today's world. The evidence consistently shows that companies that prioritise sustainability tend to perform better financially than those that don't. Additionally, stakeholder demands and the positive impact on society and the environment make it clear that sustainable business practices are not just good for business but are also the responsible thing to do.

Business leaders can take a range of steps to ensure that their company is set up for success. This includes setting clear and credible ESG targets and tracking progress towards achieving them, embedding sustainability into management processes, procuring sustainably, and implementing programmes to reduce carbon emissions and promote diversity and inclusion.

By doing so, companies can create value for all their stakeholders, from investors and customers to employees and the wider community. Ultimately, sustainability and ESG activities are not just a nice-to-have anymore, they're an essential component of business success in today's world.

To find out how your business could improve its value through integrating sustainability email us at gozero@neutralcarbonzone.com

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