The Sustainability Edge

Business Benefits of Embracing ESG

BDO

Corporate sustainability today is grounded in a conscious and conscientious approach to capitalism — a belief system positing that when value is created to share with all stakeholders, more value is generated over the long term. The rise of sustainability as a strategic imperative — and the integration of environmental, social and governance (ESG) factors into decision-making — are as much about the demands of the business as they are about the demands of society and the desire to make a positive impact on the world.

Addressing the interconnected challenges of our global society is a shared responsibility and an opportunity to drive improved environmental, social and business outcomes. Evidence shows that integrating ESG into a company's core business strategy ensures the organization is more resilient and better positioned to adapt to change. Leading and governing with an ESG mindset reprioritizes long-term value creation and recognizes that purpose is the path to sustained profits and success.

Here are five ways ESG creates long-term business value

Attract Talent and Improve Employee Loyalty

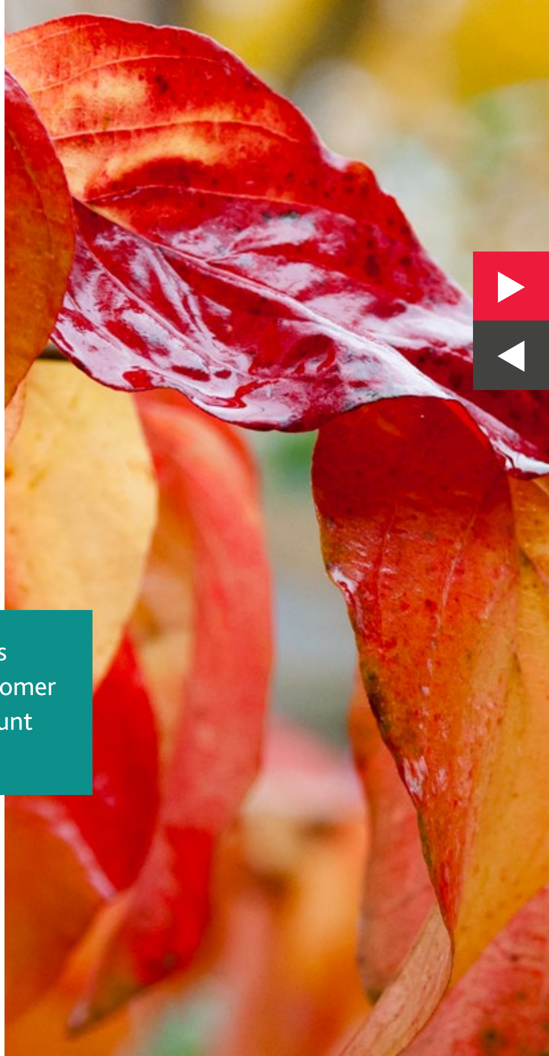
People want to work for organizations whose values align with their own. Career decisions are increasingly values-based, with "pandemic epiphanies" putting purpose front and center for many employees. As the war for talent hits a fever pitch, companies with strong ESG profiles are likely to have greater success with recruitment and retention, especially with younger generations. Nearly six in ten (58%) employees **consider a company's social and environmental commitments** when deciding where to work. **Research** from the Forbes *2021 100 Best Companies to Work For* list also found that employees at companies with generous and lasting corporate social responsibility efforts were 15.6 times more likely to say their company was a great place to work.

CAPTURE THIS BENEFIT: Purpose is inextricably linked to ESG. It's why your business exists — and for that "why" to be differentiated, it needs to deliver impact beyond economic value. Once defined, purpose should be engrained into your culture, your business strategy and decision-making compass. To put purpose into practice, live it and lead with it. Promote your purpose through regular employee engagement and measurable commitments. Solicit employee feedback as commitments evolve over time.

Increase Customer Loyalty and Safeguard Brand Integrity

Customers vote with their wallets and research has shown they are more likely to support sustainable businesses. In a 2021 survey conducted by the **Chapman & Co. Leadership Institute**, 60% of U.S. consumers said brand values (including a commitment to diversity and a positive company culture) influence their purchasing decisions. **64% of Americans** also say they would be willing to pay more for a sustainable product, and 62% of U.S. and UK consumers say they would **join a customer loyalty program** if they knew the rewards contributed to social causes they cared about.

CAPTURE THIS BENEFIT: To attract new customers and retain existing supporters, businesses must not only address customer needs but customer values. Align services, products and customer offerings with the company's own broader ESG priorities, and ensure ESG commitments account for and reflect the issues customers care about most.



Deliver Greater Shareholder Returns

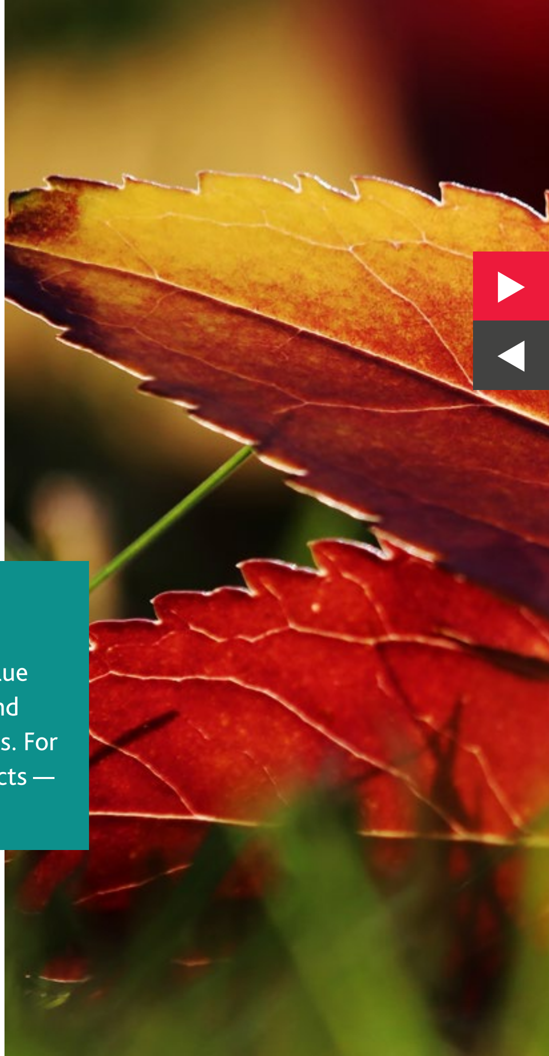
The savviest investors know it's the long game that matters. Short-term measures to meet quarterly earnings targets that result in environmental or social degradation or come at the expense of investment in future growth will harm performance over time. Shareholders' economic interests are better served by a commitment to ESG and a long-term view of value creation that takes broad stakeholders into account. A **Harvard Business School study reviewing 2,000 companies** over 21 years found firms that improved on material ESG issues outperformed their competitors. On average, publicly traded companies with strong ESG profiles also tend to outperform the stock market and have lower volatility. **Research from Rockefeller Asset Management** indicates that ESG"improvers" — firms that show the greatest improvement in their ESG footprint — have greater potential for generating returns uncorrelated to the rest of the market over the long term.

CAPTURE THIS BENEFIT: A long-term strategy that captures the needs of a wider group of stakeholders will likely drive stronger long-term shareholder returns. As you shift your focus from short-term to sustainable returns, engage shareholders in a proactive dialogue on the benefits of ESG, as well as corresponding commitments, milestones and progress reports. To bring more transparency to your efforts, develop and report ESG metrics in alignment with an established ESG reporting framework. Bear in mind that material ESG risks or missteps may pose a significant barrier to winning or maintaining investor backing.

Drive Higher Profitability

As companies shift their focus away from optimizing for short-term profits, profitability actually increases over the long term. There may be short-term cost increases incurred when shifting to sustainable sourcing, investing in research and development, or raising pay, but those costs are offset by the advantages they may bring. Stronger ESG practices correlate to higher margins, according to a study from Institutional Shareholder Services. The study shows that high ESG performers spend more on research and development, but less on capital expenditures. How? Adopting ESG measures can save costs by using resources more efficiently, lowering overhead expenses and reducing waste.

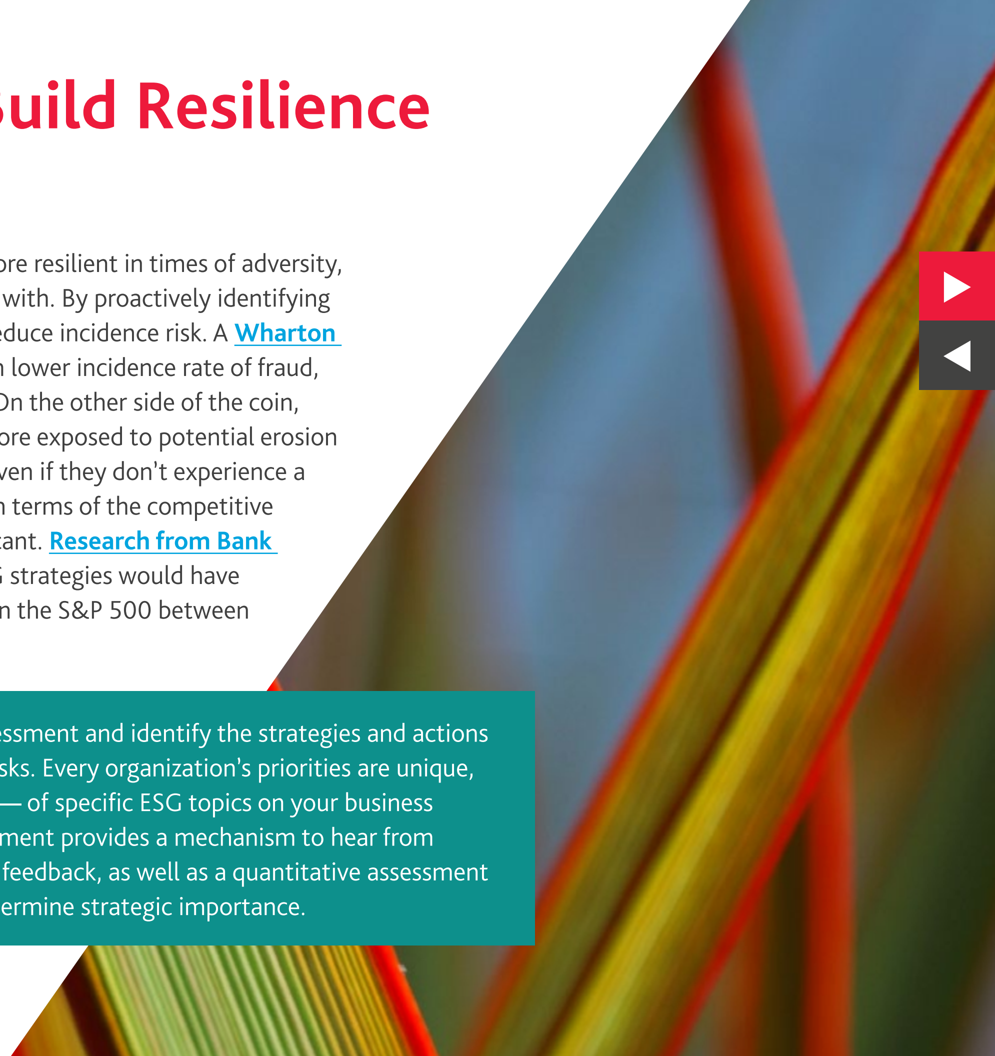
CAPTURE THIS BENEFIT: Review your operations and identify opportunities to streamline resource usage, reduce water and energy consumption, and eliminate harmful waste, such as unnecessary travel or on-site data storage. Collaborate with stakeholders up and down the value chain to assess where there may be critical issues and opportunities to design new products and services that deliver ESG outcomes and redesign existing offerings by integrating ESG practices. For example, many companies are redesigning their products — and the packaging for their products — to be recyclable and reusable.



Mitigate Risk and Build Resilience

Companies with strong ESG practices are not only more resilient in times of adversity, they also face fewer material adverse events to begin with. By proactively identifying and addressing ESG-related threats, businesses can reduce incidence risk. A Wharton study found that strong ESG performers have a much lower incidence rate of fraud, litigation, customer attrition and revenue shortfalls. On the other side of the coin, companies with unaddressed ESG-related risks are more exposed to potential erosion in financial and operational performance over time, even if they don't experience a business or reputational crisis. The opportunity cost in terms of the competitive landscape and market perception may also be significant. Research from Bank of America Merrill Lynch suggests that stronger ESG strategies would have helped prevent as much as 90% of the bankruptcies in the S&P 500 between 2005 and 2015.

CAPTURE THIS BENEFIT: Conduct a materiality assessment and identify the strategies and actions needed to mitigate your organization's priority ESG risks. Every organization's priorities are unique, based on the potential impact — positive or negative — of specific ESG topics on your business and your stakeholder ecosystem. A materiality assessment provides a mechanism to hear from stakeholders about what matters most to them. That feedback, as well as a quantitative assessment of the potential impact of ESG issues, is critical to determine strategic importance.



BDO PAKISTAN OFFICES

KARACHI
2nd Floor, Block C, Lakson Square Building No. 1, Sarwar Shaheed Road,
Karachi – 74200
Telephone: +92 21 3568 3030
Telefax: +92 21 3568 4239

ISLAMABAD
3rd Floor, Saeed Plaza, 22-East Blue Area,Jinnah Avenue, Islamabad – 44000
Telephone: +92 51 260 4461-5
Telefax: +92 51 260 4468

LAHORE
F-2, First Floor, Grace Centre, Canal Bank Road, 1-B Canal Park, Gulberg-II,
Lahore – 54660
Telephone: +92 42 3587 5709
Telefax: +92 42 3571 7351

KABUL
2nd Floor, Muslim Business Plaza, Haji Yaqoob Square, Shahr-e-Naw, Kabul
Afghanistan
Telephone: +93 0 20221 2428
Telefax: +92 21 3568 4239

E-mail: info@bdo.com.pk
Website: www.bdo.com.pk