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# DESG

Your questions  
answered



Now, for tomorrow



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## 1 What is Environmental, Social and Governance (ESG)?

ESG stands for Environmental, Social and Governance. It refers to the three key priorities when measuring the sustainability and ethical impact of a business, in parallel to financial performance and decision-making. The Environmental, Social and Governance factors are underpinned by the principles of Climate Change and Innovation (Environment), Internal and External Trust (Social), Workforce and Supply Chain (Corporate Governance). ESG must be measured and embedded within business structure.

## 2 How does ESG differ from CSR, apart from the acronym?

It is a common misconception that ESG, like the previous CSR approach, is limited to environmental issues such as resources scarcity and climate change. Yes, the 'E' in ESG stands for 'Environmental', so protecting our planet is a key element. However, ESG also covers social issues such as how a company treats its workforce and neighbours, manages its supply chain and upholds health and safety standards. The Governance aspect of ESG includes issues such as board diversity, sector-comparative salaries and business ethics.

ESG encompasses more than many realise, making it relevant to any company that uses natural resources, engages with the environment in any way, needs good talent and values its reputation and competitive advantage. In effect, all businesses. The fundamental difference is that ESG, unlike CSR, is data driven and comes with transparent accountability standards.

## 3 Why are we having this conversation?

In today's world, businesses simply cannot not have this conversation. There is a positive link between Environmental Social & Governance (ESG), business performance and financial performance or value creation.

In 2010, an article in Institutional Investor Magazine noted that corporate institutions and not for profit organisations 'have historically not considered ESG factors to be important. Most believed looking at these issues to be at odds with what they did'. Today, that is no longer the case.

Schroders (2017) through its Global Investment study, found that 78% of participants felt that investing in sustainable companies was more important than five years ago. From a third sector perspective, two thirds of charities in the UK, in 2019, believed that company ESG performance impacts on investor returns.

## 4 Where is the evidence that my business will suffer unless I invest in this initiative?

Consumers, customers, stakeholders, staff and suppliers are increasingly demanding high standards of sustainability and quality of employment from businesses of all sizes and types. Regulators and policy makers are interested in ESG because they need the corporate sector to help solve social problems, environmental pollution and workplace diversity.

Businesses are increasingly judged by consumers and corporate customers on their purpose (evolving or otherwise), including:

- Do you respond to, pro-actively plan for, and conform to the standards and requirements of your customers in terms of environmental and supply chain expectations?
- Have you integrated sustainability risks into your business strategy and management processes? Do you know the costs of lost profitability?

## 5 What are the specific benefits to my business of ESG over CSR?

CSR stands for Corporate Social Responsibility. It describes a company's socially responsible commitment, efforts and practices. ESG provides a set of standards for investors and other stakeholders to evaluate a company's environmental, social and governance performance. It's business sustainability.

The benefits are clear:

1. ESG is data driven and used to identify superior risk-adjusted returns. CSR is a convenient, yet inaccurate, substitute for other related but indistinct terms such as 'corporate responsibility or 'greening'.
2. CSR aims to make a business 'accountable'. ESG makes a business both accountable and measurable which, in turn, can quantify value.
3. ESG strategy is embedded company-wide into core strategy. It is 'purpose-led' which in turn means it can transform a business, keeping it competitive and relevant in today's world.



**6 Why is this a priority at a time when my staff might be laid-off and stemming losses might be our primary concern?**

Businesses may be cutting costs and making redundancies but the future must still be considered. Leading organisations have identified ESG related risks and opportunities, embedded them into their long-term value-creation 'story' and are generating competitive advantage as a result. Companies can right now ask the ESG questions of themselves and properly assess their impact on their present and future business models. By being a forward-thinking organisation that integrates ESG values, goals and metrics into business strategies, companies can place themselves in a stronger business position to generate profit and returns.

**7 What about statutory compliance capture?**

MHA is a highly ranked firm of chartered accountants, specialising in Audit, Tax and Advisory with clients spanning all manufacturing and services sectors. Little wonder then that its DESG service is fully compliant with industry standards and business reporting obligations.

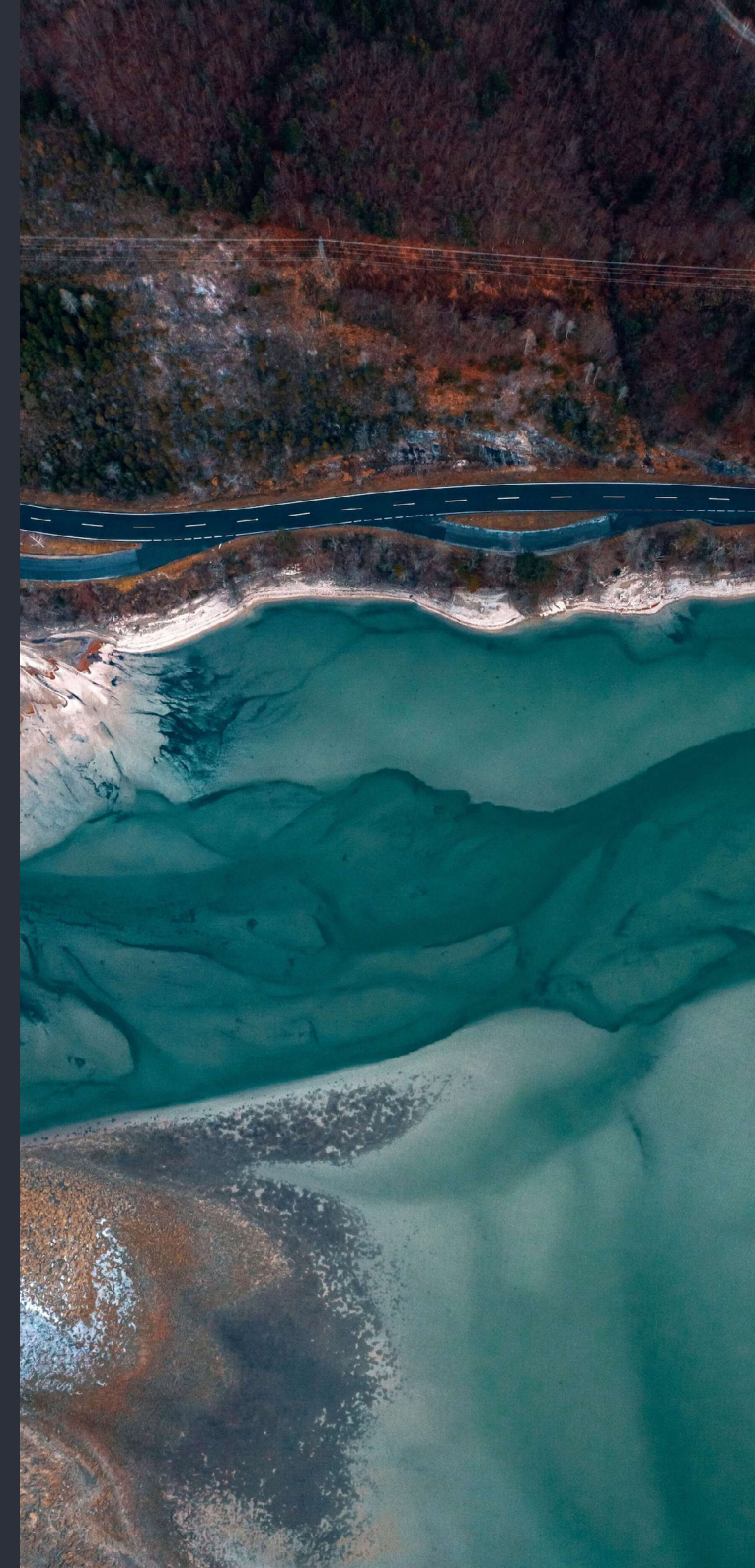
**8 What is the value of ESG to me?**

One way to answer this question is to ask how a lack of commitment to ESG might affect your business. Increasingly consumers and customers are basing their purchase decisions and supplier selections on ESG criteria; top grade staff are choosing to work for ESG committed organisations, investors are prioritising ESG compliant companies and senior managers are valued in accordance with their ESG values and actions.

**9 How would I convince our shareholders that this is a good use of management time?**

ESG is now fundamentally associated with the rise of attention towards environmentally and socially governed corporate 'purpose'. It is a business-critical topic within consumers' and customers' decision-making processes. It is now part of a company's 'licence to operate' and it is here to stay.

If the future profitability and sustainability of your business is not reason enough, or if you are at an early stage of your ESG decision-making and commitment, we offer a hybrid service termed DESG Lite. This service focuses on core ESG elements and provides implementation guidance as opposed to collaborative delivery. It is fully refundable against the full DESG service from MHA MacIntyre Hudson and can often deliver the proof-of-effectiveness that senior managers require.



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