

Has sustainability become critical to business? (1)

1/15/23



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Today's understanding of sustainable growth is based on the idea expressed in "Our Common Future", a 1987 report from the UN World Commission on Environment and Development: Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs. This means that countries globally must plan their development in a way that not only boosts their economic development rates but also maintains the quality of life and prevents environmental degradation and overexploitation of natural resources.

So the word "sustainable" describes practices that are essentially fair and oriented towards equality, considering the needs of others. The last five decades globally have seen a very fast economic growth supported by an extremely high consumption of natural resources, especially non-renewables, significantly affecting the environment. Yet social welfare isn't growing equally, and the income gap between rich and poor keeps widening.

Sustainable development is one of the goals of the Treaty on European Union, influencing EU policies and actions. Sustainable development is based on the principles of democracy, gender equality and solidarity, the rule of law, and respect for fundamental rights (including freedom and equal opportunities). Sustainable development aims to improve the quality of life and wellbeing of the current and all future generations.

Sustainability is also essential in business and covers three areas: environmental, social, and governance (ESG).

As an element of the social development concept, sustainability goes back a long way. Yet today it's receiving increased attention in the business space, too, because citizens and investors demand a higher level of transparency, policymakers impose new requirements for sustainability reporting, and choices made by consumers who care are much better informed.

We could say that sustainability or ESG has become a critical element of business.

The ESG framework

This framework offers insights into how companies respond to climate change – one of the biggest environmental problems facing society and significantly affecting the safety of energy, food and water, as well as human health and safety globally.

A company's attitude to its staff should be viewed from an ESG perspective as well. Respectful, inclusive and equal treatment of workers improves their working conditions and wellbeing. Satisfied and valued employees work longer for the same employer and do their best to help their company achieve better performance, so the benefit is mutual.

ESG includes the governance of value chains and supply chains. A value chain denotes a range of business

activities and processes involved in producing goods or supplying services. A supply chain means all activities that are necessary to help those goods or services reach the customer. The value chain gives companies a competitive advantage in their industry, while the supply chain creates overall customer satisfaction.

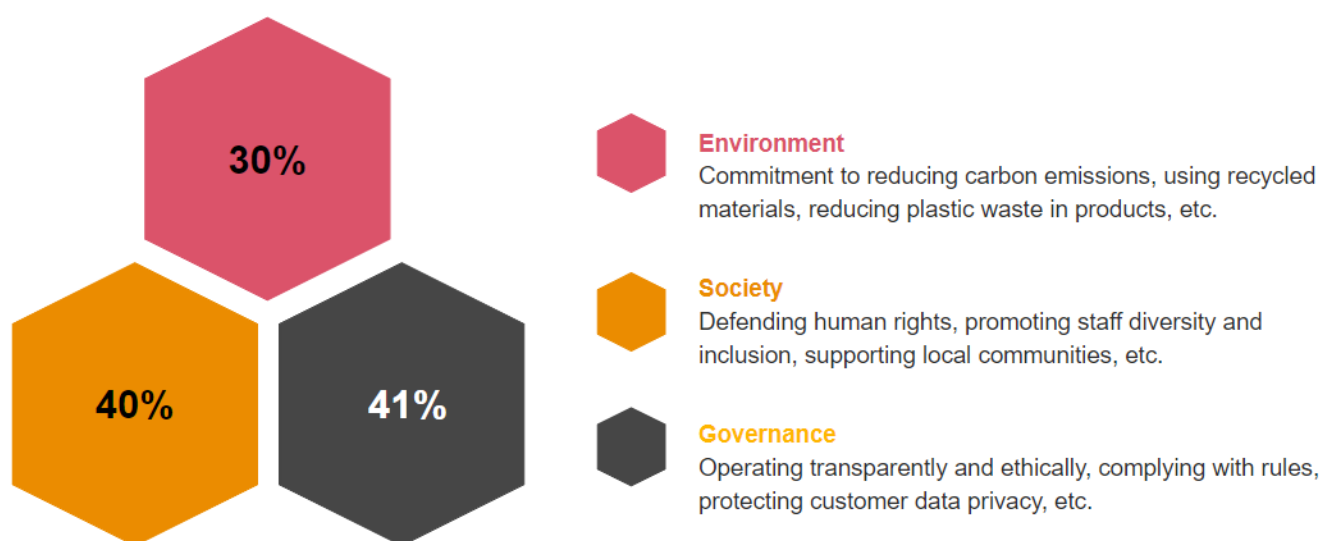
ESG also includes transparent and responsible governance that boosts a company's performance, helps it become more stable and productive, and may improve its reputation and build stakeholders' trust.

ESG's significance in today's business model

The ever-growing burden of sustainability regulation (e.g. the Corporate Sustainability Reporting Directive) means companies are facing increasingly tighter requirements for integrating sustainability aspects in their business and making disclosures or filing sustainability reports, which certainly increases the significance of ESG today.

Stakeholder pressures are forcing companies to revise their business model and promote eco-friendly goods and services. For example, PwC's Global Consumer Survey 2022 shows that ESG factors have an increasing impact on shopping habits, as consumers attach more importance to sustainability aspects in production, packaging and marketing processes.

ESG factors continue to affect consumer habits



Source: June 2022 Global Consumer Insights Pulse Survey

The availability and quality of ESG information are taking on more significance in the eyes of financial institutions and investors as well. If your company is not gathering sustainability information or if your information is inferior, then you may find it difficult to access affordable capital, which slows down your growth.

Key benefits from making ESG a part of your business strategy is clarity about the way forward, considering the new circumstances and influences. This demonstrates your company's willingness to be transparent, to communicate and to answer questions asked by customers, suppliers, funders and other stakeholders, thereby minimising the adverse impact of external factors. And promoting responsible consumption of resources can help your company cut its costs, making it more efficient and competitive. Embracing ESG practices may help your company create more added value for the public by producing

goods or providing services that are seen as socially responsible.

(to be continued)