

# Energy, Utilities & Resources NewsFlash

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Responding to Climate  
Change and Creating Value  
through Implementing an  
ESG Strategy <sup>P1</sup>

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## Special Edition - Responding to Climate Change and Creating Value through Implementing an ESG Strategy

### Introduction

Climate change is an increasingly urgent global issue with far-reaching implications for businesses. It encompasses environmental challenges such as rising temperatures, extreme weather events, and sea-level rise. Simultaneously, businesses face mounting pressure from stakeholders, particularly investors, who now factor sustainability criteria into their investment decisions. Governments worldwide are also introducing regulations aimed at addressing climate change and sustainability. Consequently, companies must adapt their practices by embracing sustainable management and operations in response to climate change's impacts.

To navigate this landscape effectively, businesses require a structured approach. One of the most effective methods is through the adoption of an ESG (Environmental, Social, and Governance) strategy. ESG principles should permeate a company's strategy, guiding its efforts to mitigate climate change risks, meet stakeholder expectations, and comply with relevant government regulations on climate change and other sustainability issues. This article provides an overview of ESG Strategy as a framework to guide sustainability efforts and explores the benefits companies can derive from its implementation. Additionally, it delves into a real-life case study, highlighting the challenges and opportunities faced by a company in developing an ESG Strategy.

### ESG strategy as a framework for sustainability

An ESG strategy serves as a practical starting point for companies embarking on their sustainability journey. It offers a comprehensive, top-down approach that helps companies manage risks - both physical and transition-related, meet stakeholder expectations, and create long-term value. Moreover, it guides the integration of ESG components into a company's operations, culture, and values.

Formulating an ESG strategy begins with defining a company's stance and strategic vision on sustainability. This should not exist in isolation but should instead draw from the company's overall corporate strategy, vision, and mission, as well as ESG materiality issues, stakeholder expectations, and external factors such as sustainability trends and relevant national regulations. ESG strategy should be uniquely tailored to the company's characteristics, aligned with its strategic objectives and direction.

A robust ESG strategy cascades into ESG initiatives that facilitate the realization of sustainability strategic visions. Furthermore, establishing ESG governance is vital. This involves creating an ESG function within the organizational structure, developing policies, procedures, tools, and metrics for measuring, monitoring, and reporting performance and impact resulting from these initiatives. Lastly, transparency in the ESG journey is crucial, with companies reporting their commitments and progress to stakeholders.

## Value creation through ESG strategy

Implementing an ESG strategy is often seen as an additional cost and burden. However, this is a misconception. ESG strategy can yield both short-term and long-term benefits, allowing companies to create value across their organizations. Here are examples of value creation through ESG strategy:

**Operational efficiency:** Sustainable companies tend to be more energy-conscious, resulting in lower energy and fuel consumption. ESG strategy also encourages efficient resource and material usage and higher asset utilization.

**Access to funding opportunities:** Companies with an ESG strategy in place often have better access to green or transition finance, as the financial industry increasingly considers ESG factors in investment decisions.

**Enhanced corporate governance:** ESG strategy promotes transparency within organizations, leading to improved business ethics, compliance, sustainability disclosure, and ESG rating scores.

**Unlocking new market opportunities:** Adapting to climate risks often requires exploring new products and services, driving innovation and revenue generation.

**Employee satisfaction:** Companies with a clear sustainability vision and culture tend to improve employee engagement, talent retention, and skills development.

## Challenges and opportunities: A case study

In Indonesia, the integrated marine logistics company ("company A") initiated its sustainability journey to support national carbon emission reduction goals by 2030. Company A began by developing an ESG strategy with implications for its subsidiaries. Challenges during the strategy's development included the absence of an embedded ESG function, a lack of ESG-related initiatives, and data availability issues.

To address data availability challenges, securing management buy-in was essential. This involved enlisting support from relevant teams during data collection, sharing existing documentation, and conducting workshops and interviews to gather insights. Additionally, company A focused on governance improvements, defining an ESG-specific function, forming an ESG task force, and implementing an ESG data management and monitoring dashboard.

As a result of these efforts, company A identified several opportunities. Implementing green vessel standards would reduce green house gas emissions, increase efficiency, and enhance compliance with global standards. Integrating ESG criteria into their capital expenditure and investment policy would guide sustainable investments, improving their reputation and access to green or transition finance.

## Conclusion

In conclusion:

- **ESG strategy** provides a practical approach to address climate change risks.
- Implementing an **ESG strategy is an investment, not a burden**, offering value creation opportunities.
- Companies must **tailor their ESG strategy** to their specific strategic direction, while identifying and addressing potential obstacles and challenges.

ESG strategy is a powerful tool that enables businesses to navigate the complex landscape of climate change, enhance sustainability efforts, and create long-term value for all stakeholders.

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