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How Sustainability & ESG Create Business Value

A guide for transitioning your organization to a low-carbon energy strategy

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In response to the escalating climate crisis, ever-changing environmental legislation, a global pandemic and the resulting financial crisis, business and financial leaders have been forced to rethink the fundamentals of mainstream business models, shifting their focus more keenly on environmental concerns and organizational resilience.

How Sustainability Empowers ESG

Most organizations are familiar with sustainability—the business programs, products, and practices that support environmental preservation, economic development and corporate social responsibility. But sustainability cannot be achieved in silo. Rather, it is a major influencer in an organization's overall environmental, social and governance (ESG) practices. Sustainability intertwines with social and governance criteria. A renewable energy project, for example, overlaps with social values and outcomes, all of which are driven and supported by corporate governance. Therefore, focusing on sustainability empowers business resiliency and demonstrates corporate social responsibility.

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What is ESG?

ESG is not new. Once thought of as strictly valuation criteria for financial investment, however, private organizations and public enterprises which were not seeking investors considered it to be irrelevant to their businesses. With the climate crisis gaining broader attention and acceptance in recent years, and corporate social responsibility playing a larger role in consumerism, ESG has been thrust into the spotlight for broader consideration.

An organization's ESG plan not only preserves the planet's natural resources, it protects a company's bottom line and demonstrates its core values as they relate to stakeholder accountability, equality, diversity, inclusion, corporate social responsibility, and governance.

Defining the Environmental, Social and Governance aspects of ESG

Environmental

The E in ESG includes the energy your organization uses, the resources it needs, the waste it discharges, and the consequences to the environment. The E considers how each organization affects and is affected by its environment. Sustainability planning is absolutely essential to successfully address the E in ESG.

Social

The S in ESG includes the relationships within your organization and the reputation it fosters with people and the institutions in its communities where you do business. The S considers how a company manages its relationships with employees, suppliers, customers, and communities. It also applies to a company's labor relations as well as its diversity and inclusion policies.

Governance

The G in ESG considers the internal systems, controls and procedures that an organization has in place to govern itself, make effective decisions, comply with regulations, and meet the needs of stakeholders. The G includes C-suite decision makers, the board of directors, managers, shareholders and stakeholders.

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Why is ESG Important?

Sustainability planning is a major player in ESG. However, integrating renewable energy into an organization's energy strategy and tracking the subsequent carbon reductions is only the beginning. The events of 2020 have shined a light on the social and governance practices of organizations, giving ESG even greater relevance—not only for investors, but consumers, suppliers, and the government as well.

CNBC states, "The outbreak of Covid-19 could prove to be a major turning point for ESG investing, or strategies that consider a company's environmental, social and governance ratings alongside traditional financial metrics… But where once the E was arguably the most high-profile of the trio of considerations, a company's social and governance attributes could become increasingly important as investors scrutinize corporations' responses to the pandemic, as well as their viability looking forward." [1]

How Does ESG Create Business Value?

The ESG values and practices of a business can not only impact an organization's resiliency, sustainability, and surrounding community but the global economy and environment as well. Multiple studies indicate that companies considered to be good corporate citizens perform better financially than those that aren't. Here are five ways in which ESG can create business value for organizations in all markets and industries.

1. What's Good for the Environment is Good for Business

If your organization has not yet integrated renewable energy into its commercial energy mix, you are likely seeking best practices to do so because clean energy makes good business sense. Whether it's a wind or solar energy project or buying renewable energy credits (RECs), renewables help to reduce costs and energy price volatility while offsetting carbon emissions and boosting public appeal.

An article by Ellen Jackowski, Chief Sustainability and Social Impact Officer for HP Inc., and Christopher Schell, Chief Commercial Officer for HP Inc., states, "What's good for our world and our communities is also good for business… It's clear that our climate is changing due to human activity. We must significantly increase our efforts to combat these effects and shift the conversation towards how we must all collectively respond—as corporations, as consumers, as communities and as concerned citizens." [2]

Studies indicate that companies considered to be good corporate citizens perform better financially than those that aren't.

[1] Stevens, P. (2020, June 7). *Sustainable Investing is Set to Surge in the Wake of the Coronavirus Pandemic*. CNBC. cnbc.com.
[2] Schell, C., and Jackowski, E., (2021, Feb. 11). *Betting Big in the Fight Against a Changing Climate*. Greenbiz. greenbiz.com.

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2. Energy Independence

The increase in extreme weather events is increasing energy price risk. By shifting from commercial energy supply where possible, and generating your own electricity through renewable energy, or subscribing to a community solar program, you can achieve “energy independence” which helps to stabilize price risk.

Commercial electrical power is a commodity. It is bought and sold based on supply and demand. When an organization draws from the power grid, it’s subject to current market forces and user rates, which does not protect it from future costs—because futures are unpredictable.

Utilizing renewable energy is an investment in a business’s future and bottom line. Besides saving significant energy and overhead costs, renewables provide the assurance of a reliable electric supply regardless of fluctuations in the commercial grid, plus greater long-term budget certainty.

3. Cost Reductions and Financial Incentives

An ESG study by McKinsey & Company states, “Executing ESG effectively can help combat rising operating expenses (such as raw-material costs and the true cost of water or carbon), which McKinsey research has found can affect operating profits by as much as 60 percent. In the same report our colleagues created a metric (the amount of energy, water, and waste used in relation to revenue) to analyze the relative resource efficiency of companies within various sectors and found a significant correlation between resource efficiency and financial performance. The study also identified a number of companies across sectors that did particularly well—precisely the companies that had taken their sustainability strategies the furthest.” [3]

Local, state and federal governments support the move towards renewable, clean energy and lowering greenhouse gases. Therefore, several financial incentives and assistance programs are available to organizations participating in clean energy initiatives. Programs can vary greatly by region, so it pays to understand the clean energy opportunities in your area.

The Federal Investment Tax Credit (ITC) is a U.S. federal government tax relief program that allows consumers and businesses a 26% rebate on the overall cost of the purchase of a solar energy system. The ITC is a one-time credit received when taxes are filed for the year that a solar system is installed. The credit can be rolled over to subsequent years if it is not used in the first year. This tax credit was set to end in 2021, but it was extended until 2023. However, the credit decreases over time, so the time to get involved is now. [4]

[3] Henisz, W., Koller, T., and Nuttall, R. (2019). *Five Ways That ESG Creates Value*, McKinsey & Company. mckinsey.com.
[4] Solar Energy Industries Association (2021). *Federal Investment Tax Credit (ITC)*. seia.com.

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4. ESG Enables a Powerful Return on Investment

When governing authorities trust corporations, they are more apt to award them the access, approvals, and licenses that afford fresh opportunities for growth. Likewise, consumers are more apt to purchase from organizations that are viewed as environmentally and socially responsible.

In a report on sustainability, Guy Battle, Consumer Business Leader for Deloitte UK writes, “The transition to more sustainable patterns of production and personal consumption is not optional. Governments understand this and will regulate and tax accordingly to shape consumer and business behaviors. Leading businesses to recognize this as an opportunity and want to be part of the solution rather than part of the problem, as more and more consumers look to buy smart and will increasingly establish new norms for socially acceptable behavior.” [5]

A study by research team Witold J. Henisz, Sinziana Dorobantu, and Lite J. Nartey found that companies with social-engagement activities that were perceived to be beneficial by public and social stakeholders achieved demonstrably higher valuations than competitors with lower social capital. The group interviewed Yani Roditis, former COO Gabriel Resources, regarding the valuation of ESG. Roditis states, “It used to be the case that the value of a gold mine was based on three variables: the amount of gold in the ground, the cost of extraction, and the world price of gold. Today, I can show you two mines identical on these three variables that differ in their valuation by an order of magnitude. Why? Because one has local support and the other doesn’t.” [6]

Organizations would be wise to explore how they can tell their ESG story more effectively.[7]

[5] Deloitte (2012). *Sustainability for Consumer Business Companies*, A Story of Growth. deloitte.com.
[6] Henisz, W. J., Dorobantu, S., and Nartey L. J. (2014). *Spinning Gold—The Financial Returns to Stakeholder Engagement*. Strategic Management Journal.
[7] Levin, J. (2021, Feb. 9). *Three Unexpected Trends Driving 2021 ESG Inflection*, Forbes, forbes.com.

5. A Strong ESG Proposition Boosts Public Relations

It's not just the government and investors who are analyzing an organization's ESG. It's B2B clients, consumers, partners, brokers, developers, suppliers, job seekers—the list goes on.

According to an article by Joshua Levin, Forbes Business Council, organizations can boost public appeal by sharing their ESG values and plan in an engaging and comprehensive manner. "The missing link in ESG has been translating ESG data for the layperson... Organizations would be wise to explore how they can tell their ESG story more effectively." [8]

A new report by Bain & Company states that ESG isn't just a nice thing to do. It's becoming a critical element in gaining market share, engaging employees and raising capital. "Consumers are taking note: survey after survey shows millennials and post-millennials in particular flock to companies they think act with a high degree of social responsibility. Data from Nielsen estimates that in the US, alone, consumers will spend up to $150 billion on packaged goods they view as sustainable in 2021." [9]

McKinsey & Company reports, "A strong ESG proposition can help companies attract and retain quality employees, enhance employee motivation by instilling a sense of purpose, and increase productivity overall." Correlating ESG with higher job satisfaction, McKinsey states, "Field experiments suggest that when companies give back, employees react with enthusiasm… Just as a sense of higher purpose can inspire your employees to perform better, a weaker ESG proposition can drag productivity down." [10]

Sustainability is not a PR exercise; it is a way of operating.[11]

[8] Levin, J. (2021, Feb. 9). *Three Unexpected Trends Driving 2021 ESG Inflection*, Forbes, forbes.com.
[9] Seemann, A., Hardcastle, D., Diers, D., and Han, J. (2021, March 1). *The Expanding Case for ESG in Private Equity*, Bain & Co., bain.com.
[10] Henisz, W., Koller, T., and Nuttall, R. (2019). *Five Ways That ESG Creates Value*, McKinsey & Company, mckinsey.com.
[11] Weybrecht, G. (2010) *The sustainable MBA*. West Sussex, England: John Wiley & Sons Ltd.

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Conclusion

The stronger an organization's ESG proposition, the greater the chance for long-term success. To remain resilient, competitive, and environmentally compliant, today's organizations, enterprises, institutions and municipalities must develop and execute an effective and public-facing ESG plan.

About NextEra Energy Services

NextEra Energy Services is a wholly-owned subsidiary of NextEra Energy Resources, the world's largest generator of renewable energy from the wind and sun, and part of NextEra Energy, Inc., a Fortune 200 energy company with roughly 45,900 megawatts of generating capacity.

For decades our team has helped customers create specific strategies to better manage their energy requirements. We develop customized energy solutions for more than one million consumers, businesses, institutions and municipalities across the U.S. Our proven processes enable us to successfully deploy renewable energy projects while mitigating risk, which we consider an integral metric in achieving "best value." NextEra Energy Services utilizes a robust communication, command, and control system established to forecast, minimize, and mitigate risk, which has been continually refined over more than 20 years. Accordingly, our approach to mitigating project risk comes from an unparalleled depth of experience throughout our organization and leadership.

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Ready to get started?

There are myriad ways to approach ESG and specific criteria by which organizations are evaluated. If you'd like to develop or strengthen your ESG plan, or you could use additional insight and guidance on sustainability and renewable energy, our energy consultants can help. Contact NextEra Energy Services today to discuss your sustainability, ESG, and business goals and to learn more about our approach to a successful ESG strategy: **800.882.1276**

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