Featured Blog Post
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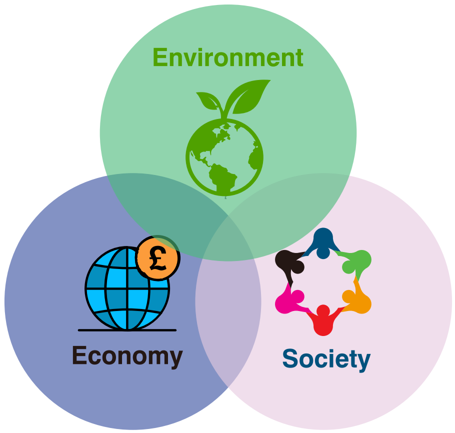
ESG, Sustainability, and Net-Zero Carbon Explained

Here at Polestar we are in the process of looking at where we focus our time and efforts. In part to reflect where the market is moving, but also to reflect our own values. As part of this we have been looking at our sector coverage. We have concluded that we would look to devote a goodly proportion of our business to Sustainability / ESG / Zero Carbon Economy - whatever you wish to call it. Indeed, what we wish to call it got me thinking about what are the differences as we sometimes hear ESG (environmental social governance) and sustainability used interchangeably. So I got reading and have the following observations.

What is Sustainability?

To be sustainable, businesses must be genuine in their desire to have a market position, products and services that are sustainable at their core. Sustainability has three pillars:

The Three Pillars of Sustainability



McGil university goes on to say:

Environmental Sustainability

Environment

Ecological integrity is maintained, all of earth's environmental systems are kept in balance while natural resources within them are consumed by humans at a rate where they are able to replenish themselves.

Economic Sustainability

Economy

Human communities across the globe are able to maintain their independence and have access to the resources that they require, financial and other, to meet their needs. Economic systems are intact and activities are available to everyone, such as secure sources of livelihood.

Social Sustainability

Universal human rights and basic necessities are attainable by all people, who have access to enough resources in order to keep their families and communities healthy and secure. Healthy communities have just leaders who ensure personal, labour and cultural rights are respected and all people are protected from discrimination.

Harvard Business School asks what sustainability means in business. It summarises this as:

In business, sustainability refers to doing business without negatively impacting the environment, community, or society as a whole.

Sustainability in business generally addresses two main categories:
- *The effect business has on the environment*
- *The effect business has on society*

The goal of a sustainable business strategy is to make a positive impact on at least one of those areas. When companies fail to assume responsibility, the opposite can happen, leading to issues like environmental degradation, inequality, and social injustice.

Sustainable businesses consider a wide array of environmental, economic, and social factors when making business decisions. These organizations monitor the impact of their operations to ensure that short-term profits don't turn into long-term liabilities.

What is ESG?

ESG is a corporate governance and investment framework. What this means in practice is companies that adopt ESG principles consider, measure, report and improve the environmental, social, and governance aspects of their business, alongside its financial considerations.

ESG investors consider a company's environmental, social and governance attributes alongside, and as part of, their financial attributes when deciding whether or not to invest.

Brightest says the following:

1. ESG is about company stakeholders, identity, and decision-making — the board, CEO, employees, shareholders, and other stakeholders.

2. ESG is an investment framework that helps external investors assess company performance and risk, whereas sustainability is a framework to make internal capital investments (i.e., installing LED light bulbs or other energy efficiency measures, electrifying a transportation fleet, purchasing sustainability measurement software)

3. ESG is based on standards set by lawmakers, investors, and ESG reporting organizations (e.g., GRI, TCFD, MSCI), whereas sustainability standards — while also set by standards groups like GHG Protocol — are more science-based and standardized. There are dozens of different frameworks for measuring ESG, whereas carbon (CO2) is carbon and we don't need to get too creative with nature and physics.

What is the difference and how are they intertwined?

ESG is about governance, disclosure and reporting; it is measurable. Sustainability is about the relationship between a company and the environment, society and the wider economy.

So ESG is a lens through which to so view a business's sustainability.

Harvard business review said in its report - ESG Reports Aren't a Replacement for Real Sustainability

There is a growing consensus that ESG issues are material to corporate resiliency and competitiveness today. In fact, our research on the return on sustainability investment (ROSI), as reported in HBR, has demonstrated that embedding sustainability core to business strategy can create a competitive moat for business leaders by driving operational efficiency, innovation, employee engagement, supply-chain resilience, risk mitigation, improved sales, and other strategic business benefits.

However, just as with any business activity, competitive advantage through sustainability comes from good strategy, culture, KPIs, and execution. Reporting metrics are the last step, not the first. So how does a company avoid the ESG disclosure morass and develop a robust sustainability strategy that improves the bottom line?

Every company's strategic planning and work plans are different, but there are some useful tools and approaches to embedding sustainability for competitive advantage.

Net-Zero Economy

This is a subset of sustainability and reported on using ESG. Ultimately, it is likely to be the largest driver of sustainable investment in the coming years as we shift to the clean economy. That shift is accelerating with multi-trillion pound investments into the energy, agriculture and food markets, transportation, manufacturing and finance markets.

As Larry Fink, CEO of BlackRock, the world's largest asset manager, wrote last year, *"There is no company whose business model won't be profoundly affected by the transition to a net zero economy… Companies that are not quickly preparing themselves will see their businesses and valuations suffer."*

Conclusion

We will be putting sustainability at the heart of all that we do and focusing a large part of our efforts into working with businesses that seek to thrive in the sustainable environment. Assist with the move to the Net Zero Economy and help others achieve their goals though ESG.