A portrait of a man with a beard and mustache, wearing a dark suit, white shirt, and a patterned tie. He is looking directly at the camera. Overlaid on the left side of the image is a graphic consisting of several overlapping rectangular boxes in blue, green, and grey. Inside these boxes are various white line-art icons: a microscope, a beaker, a person's head with a brain, a magnifying glass, a virus/cell, a gear, a line graph, and a speech bubble with a hashtag. The text 'Anticipating challenges, identifying opportunities' is written in a sans-serif font within the blue box.

Anticipating challenges,
identifying opportunities

COVID-19 AND ESG/SUSTAINABILITY INTEGRATION



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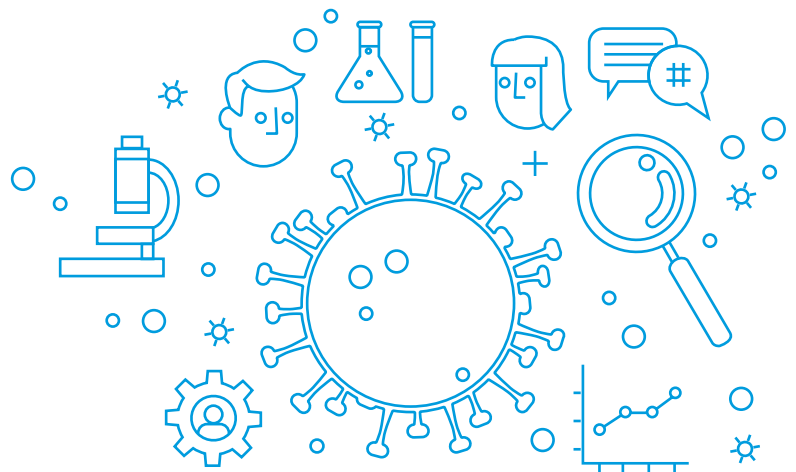
1. Overview



The global pandemic of coronavirus disease (COVID-19) imposed an economic crisis to all businesses owners of various sectors, where it has become a challenge to run a business, and nevertheless sustain its performance prior and post the pandemic.

Despite of the COVID-19 crisis, over the past years, there has been a change in the businesses' mindsets regarding non-financial performance, especially in terms of how a company is sustainable and how it embeds ESG (Environmental, Social and Governance) factors.

Although, there has been always a debate that ESG / Sustainability do not have high financial returns, COVID-19 has proven now more than ever that ESG / Sustainability practices are key drivers of long-term growth and performance, as evidence by how it increased the resilience of business in times of crisis.



2. Sustainability/ESG

Often, we hear two popular terms—“Sustainability” and “ESG”—in today’s business world. Although both terms are related, the term “Sustainability” in business is referred to as: The process in which the company manages its operations by considering three aspects, the environment, economy and community¹. On the other hand, “ESG” means: the utilization of Environmental, Social and Governance factors, to evaluate the company’s performance and its sustainable status. The Environmental factor includes the impact a company has on resources and waste management, energy efficiency, carbon footprint, etc. The Social factor covers how the business is

contributing to the community, workplace wellbeing, employee development, social activities, etc. Finally, the Governance factor, refers to the policies, standards, responsibilities, compliance, and leadership between different stakeholders in the company, among others. In essence, whether the company is using the term “Sustainability” / “ESG,” it has to maintain and manage a balanced approach in addressing the above-mentioned factors. Otherwise, sustainability / ESG will be considered as ad hoc or standalone practice without a robust roadmap or targets.

3. Integrating the ESG/Sustainability factors

Traditionally, investors and business owners worldwide usually aimed at increasing profits and returns to shareholders, which was done mainly by considering financial factors. Luckily, with the rise of the ESG / Sustainability movement and responsible investment terms, business leaders are more aware of the importance of non-financial factors and are shifting from a passive status to a proactive one.

This movement has played an integral role in adopting ESG / Sustainability as key drivers towards achieving an excellence edge. As other recent act in advancing the ESG / Sustainability, many proactive companies have integrated their corporate strategy with ESG / Sustainability elements, aiming to shift the focus of all involved stakeholders into one integrated target of being responsible and profitable.

3.1. Methods of integration

There are several methods in which a company can incorporate ESG / Sustainability factors into its business. Noting that, when the concept of ESG / Sustainability is being integrated to an advanced level, the company should develop management strategies and measurements that support the added value of such integration. Such methods and measurements include:

- Strategy
- Reporting
- Assessments
- Business performance metrics

The first method of integration is “Strategy,” which involves identifying and embedding ESG / Sustainability factors into the company’s strategy, throughout which they become integral parts of the company’s strategic management, financial performance measurement, business planning, and operations².

Regarding the second method, “Reporting,” this involves disclosing and capturing the company’s non-financial data

and its performance in reference to ESG / Sustainability areas, and then reporting these results to stakeholders.

As for the third method of integration, “Assessments,” these involve assessing the gaps between the company’s current and future ESG / Sustainability status in terms of its performance, operations, and impact. Furthermore, steps include designing and prioritizing action items in a constructive roadmap with clear resources, time and budget plan.

Last but not least, the final method of integration is “Business performance metrics,” which involves developing empirical explicit assumptions and key performance indicators that influence the success of the company in ESG / Sustainability areas.

3.2. Potential outcomes

Integrating ESG / Sustainability factors not only serves as a basis for a company to understand and manage its risks and opportunities, but also creates a positive impact from multiple facets. Such impacts include – but are not limited to:

- Enhancing brand image and reputation
- Increasing accountability with stakeholders
- Maximizing the indirect financial outcomes
- Engaging and empowering the community
- Preserving and sustaining of environmental natural resources
- Creating innovative and advanced technologies
- Advancing the workplace culture and inclusion

In addition, some of the key outcomes of ESG / Sustainability integration are that the integration attracts investors, raises the financial and/or stock performance of the company, and most importantly provides exposure to ESG raters.

¹ (Bose., 2018)

² (Krechovska)

4. COVID-19 effect on ESG/Sustainability

The emergence of the COVID-19 resulted in a multi-dimensional impact, affecting not only our health but the economy as well; it also marks the real test of how effective ESG / Sustainability can be, especially in terms of a company's resilience. Furthermore, the COVID-19 dilemma highlighted key topics that are significant to ESG / Sustainability, and how valuable and crucial they are. These key topics concern mostly the "S" (Social) and "G" (Governance), and whether companies are taking the correct actions and measures, as presented below.

4.1. Key Topics

Several companies tend to disregard or perceive the social part in ESG as of less significant or as merely only in terms of volunteerism and social works. The crisis has proved that the social factor is crucial in combating the effects of the COVID-19, particularly speaking regarding employee performance. Furthermore, in terms of Governance, the crisis highlighted the importance of responsible capitalism. Lastly speaking, the COVID-19 highlighted the inevitable positive correlation between a company's stock price and its ESG rating. Each key topic is presented in further details in the following.

Employee Performance

COVID-19 has forced the culture of remote working, which has its own challenges, especially in terms of employee performance and quality of work delivered. Remote working requires that a company has established innovative and virtual tools to facilitate the flow of work and accessibility to the company's services and database.

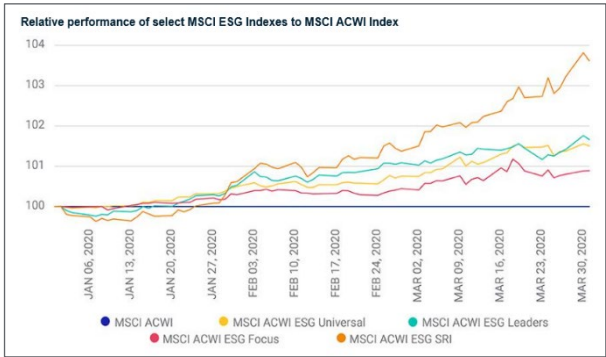
Responsible Capitalism

Another major challenge for remote working lays in management, especially in terms of employee empowerment, trust, supportive leadership, and managing performance. Another issue would be the ability of managers and team leaders to uphold the commonly accepted labor standards in the workplace, which include working hours, minimum wage policies, and performance evaluations³.

Financial Performance

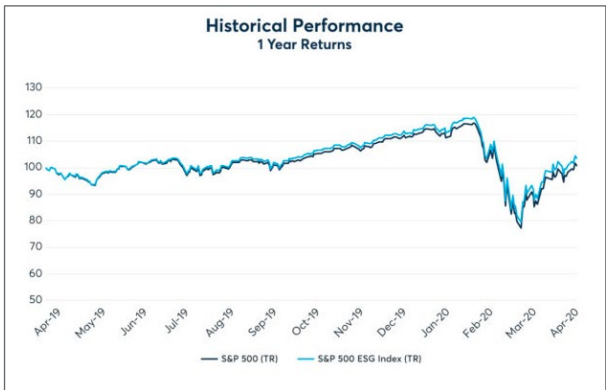
There are several examples that show how companies that incorporated ESG / Sustainability prior to COVID-19 are now less impacted by the crisis. According to Forbes, the Nuveen Winslow Large Cap Growth ESG Fund (NVLIX), fell only 7.4% relative to the 13.7% fall in Standard & Poor's (S&P 500) index, from December 2019 to April 2020⁴.

The Morgan Stanley Capital International (MSCI) factsheet illustrated below⁵, indicates that MSCI ESG indexes were less affected by risks and more resilient to the crisis, in terms of performance, compared to the MSCI All-Country World Index (ACWI). The figure also indicates that ESG funds registered a record growth in Q1 2020.



Data from Dec. 31, 2019, to March 31, 2020. MSCI ESG Universal Index represents an ESG weight-tilt approach; MSCI ESG Leaders a 50% best-in-class sector approach; MSCI SRI a 25% best-in-class sector approach; and MSCI ESG Focus an optimized approach designed to maximize ESG exposure.

Also, when comparing both the S&P 500 and S&P 500 ESG indexes as illustrated in the below figure, one can notice that the S&P 500 ESG index exhibited returns nearly 3% above the benchmark S&P 500⁶. Therefore, one can conclude that ESG / Sustainability integration adds great value to the financial performance of the company and great exposure to investors.



³ (M., 2020)

⁴ (Forbes, 2020)

⁵ (2020)

⁶ (Lakhani, 2020)


5. How should you respond?

This COVID-19 crisis has surely strengthened the integration of ESG / Sustainability factors into strategies, investment decisions, stakeholder relations and corporate affairs. Moreover, it has transformed ESG / Sustainability into becoming a strategic priority for a company's agility.

Therefore, it is important to articulate and develop an assessment of the company's maturity and ratings' status regarding ESG / Sustainability matters. The results of such assessment will ultimately improve the business's performance and serve as a benchmark tool in increasing the ESG score of an entity and the opportunity for potential investors exposure.

Ultimately, it is important develop strategic thinking and to ask yourself: whether or not your company is already disclosing ESG / Sustainability elements in its strategy? Does your Annual Report articulate ESG / Sustainability topics while presenting them to stakeholders? Are any of your Key Performance Indicators rely on ESG / Sustainability factors? Does your business continuity plans have ESG / Sustainability elements embedded in them?

We at RSM Kuwait – Sustainability Advisory Services, can help you identify and strategize your ESG / Sustainability practices through our **preliminary free ESG assessment survey**. Such assessment will help your business in the ESG screening process and ratings status. Moreover, it will provide your company with key ESG / Sustainability focus areas that either already exist in your company or that require in-depth attention.



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