

Sustainable Financial Performance Session 1

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

Overview of Session 1

- Introduction to Sustainability
- Sustainability, FP Theories and Ecosystem
- Sustainability, FP and Stakeholders
- Sustainability, ESG and Finance Game

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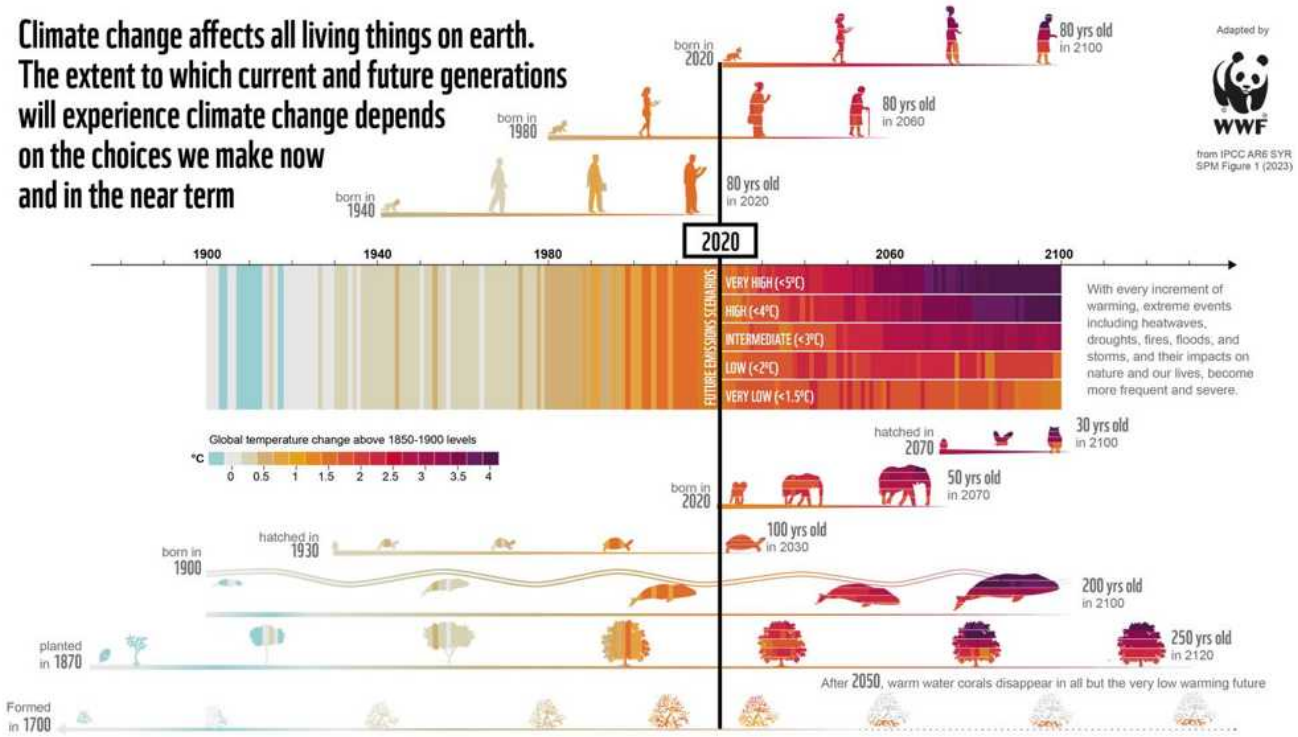


Let’s get started

- **Wooclap**
- **https://app.wooclap.com/**
- **Code: OBAZTX**

- **What do you understand by the term sustainability?**
- **Your KWL journey on Sustainable Financial Performance**

Why does Sustainability matter to you?



- **The extent to which current and future generations will experience a hotter and different world depends on choices now and in the near-term.**

- This figure shows observed increases in global surface temperature (1900-2020) on the left of the bar and projected increases on the right.
- The vertical bands of colour represent degrees of global warming and the horizontal bands marked in white indicate different scenarios based on the amount of carbon we collectively emit.
- Even in scenarios with ‘very low’ emissions (which is not the track we are currently headed towards), warming is more likely than not to reach 1.5 degrees in the near future, the threshold that scientists have identified as necessary to avoid the worst impacts.
- This image highlights the issues of intergenerational justice in the climate crisis.



Sustainable business, and sustainable economic development seek to create new ways of doing business in which business success is measured in terms of economic, ethical and environmental sustainability, often called the Triple Bottom Line approach.

Planet



- Focuses on how a company performs as a steward of nature. It considers how a company uses natural resources and how their operations impact the environment. It includes not only a company's direct operations, but also all activities across their supply chains.

- **Examples** include: the contribution a company or government makes to climate change through greenhouse gas emissions, along with waste management and energy efficiency. Given renewed efforts to combat global warming, cutting emissions and decarbonizing is become more important.

- **Why:**

❑ Climate change adds an extra layer of environmental risk. The global regulatory response to the threat of environmental risks has been mixed.

❑ With governments all over the world pledging new and more stringent green standards, companies are looking more closely than ever at their environmental impact.

People



- In a business context, it examines all people interactions against principles of ethics, justice, and care for wellbeing.
- **Examples** include human rights, labor standards in the supply chain, any exposure to illegal child labor, and more routine issues such as adherence to workplace health and safety. A social score also rises if a company is well integrated with its local community and therefore has a 'social license' to operate with consent.
- **Why:**

❑ recognize that business operates within the context of a society that is intrinsically inequitable. Businesses have a responsibility to address the inequities within their locus of control. Otherwise, they become participants in a system that upholds them.

❑ In many parts of the world, social issues have been enacted into law (e.g., minimum wage, worker health and safety standards, anti-slavery regulations, whistle-blower protections, data privacy, etc.)

Profit



- Governance refers to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations.
- **Examples** include Executive compensation, legal compliance, composition of the board of directors, bribery and corruption, political lobbying, ethics

- **Why:**

❑ A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long-term strategy.

❑ They provide the basis upon which corporate social responsibility and sustainability activities can be built and evaluated.

Deep Dive into Planet, People, Profit

- You're requested to work in **pairs**.
- You are provided with **10 mins** to draft one slide on a component.
- Kindly refer to the card to identify the component allocated to you
- Link to slide : https://docs.google.com/presentation/d/1QIeFgI3tCodVBdo-xkgcDF78jvpL-3IT/edit?usp=sharing&ouid=115119484403257383495&rtpof=true&sd=true
- For example : Climate Change

What is it: Sustainability in the context of climate change refers to environmentally sustainable practices undertaken by companies in order to mitigate their negative environmental impact while continuing to make profit.

How is it measured: It can be assessed through the physical hazard, alignment to 1.5 degree or emissions level

Any example of news or case study link?

You may include photos to make it more illustrative



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Why should companies focus on Sustainability and Financial Performance?



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Sustainable Financial Performance Theories and Ecosystem

Theories on ESG and FP

- **Stakeholder theory -successful companies need to manage for a wide variety of stakeholders such as employees, civil society, suppliers and investors**. In 1984, R. Edward Freeman originally detailed the Stakeholder Theory of organizational management and business ethics that addresses morals and values in managing an organization.

- **Shared value -companies that create shared value for all stakeholders do better financially**. Companies can move beyond corporate social responsibility and gain competitive advantage by including social and environmental considerations in their strategies. Treating societal challenges as business opportunities, they suggested, is the most important new dimension of corporate strategy and the most powerful path to social progress.

- **Legitimacy theory -a social contract between the corporation and society, which, if broken, leads to consumers reducing demand or governments imposing regulatory restrictions**. Legitimacy itself is a psychological state of partiality of people and groups of people who are very sensitive to the symptoms of the surrounding environment. Community legitimacy is a strategic factor for the company in order to develop the company in the future.

- **Resource-based view-emphasizing internal resources such as employees and intangible assets for achieving a competitive advantage.** The resource-based view focuses on the internal strengths and weaknesses of the firm in contrast to the external environmental model of competitive advantage where the focus is on the opportunities and threats.

Example

In the past, companies rarely perceived themselves as agents of social change. Yet the connection between social progress and business success is increasingly clear.

Consider these examples: The first large-scale program to diagnose and treat HIV/AIDS in South Africa was introduced by the global mining company Anglo American to protect its workforce and reduce absenteeism.



Source: Harvard Business Review and Anglo American

Example

MasterCard has brought mobile-banking technology to more than 200 million people in developing countries who previously lacked access to financial services.



Mastercard Community Pass

Our secure global technology network and network of public and private sector partners, gives us a unique ability to deliver digital solutions to marginalized communities.

Today, the **marginalized communities lack** access to critical services, as it is **difficult for providers to service them** at scale, being too expensive to reach them

- There is **no digital infrastructure** by which service providers can deliver solutions easily, cheaply and efficiently.
- The majority of these **communities have no or limited connectivity**

Community Pass looks at the individual, and all her roles. The platform provides a common safe, secure and intuitive experience for her, by enabling partners and technology experts to offer her robust products.

Interoperable Infrastructure
A shared digital infrastructure for use across sectors and service providers.

Designed for Remote Communities
Overcomes barriers, such as inconsistent power, connectivity and high cost to serve.

Safe and Secure
Leverages the highest standards of data privacy and security to give users informed control.

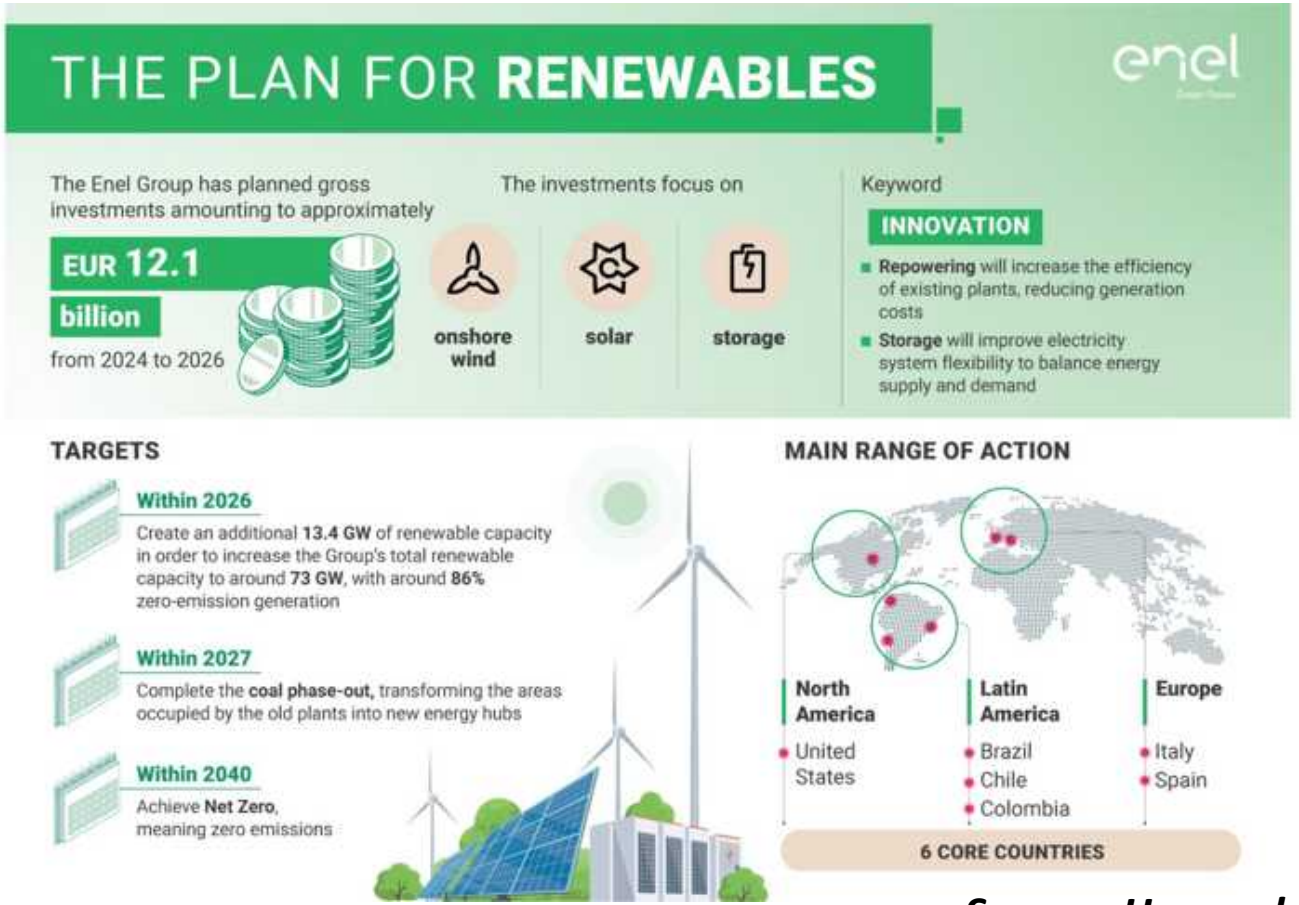
Seamless User Experience
Designed to be used across sectors and service providers, putting the user at the centre.

2

Source: Harvard Business Review and Master Card

Example

The €76 billion Italian energy company Enel now generates 45% of its power from renewable and carbon-neutral energy sources, preventing 92 million tons of CO_2 emissions annually.



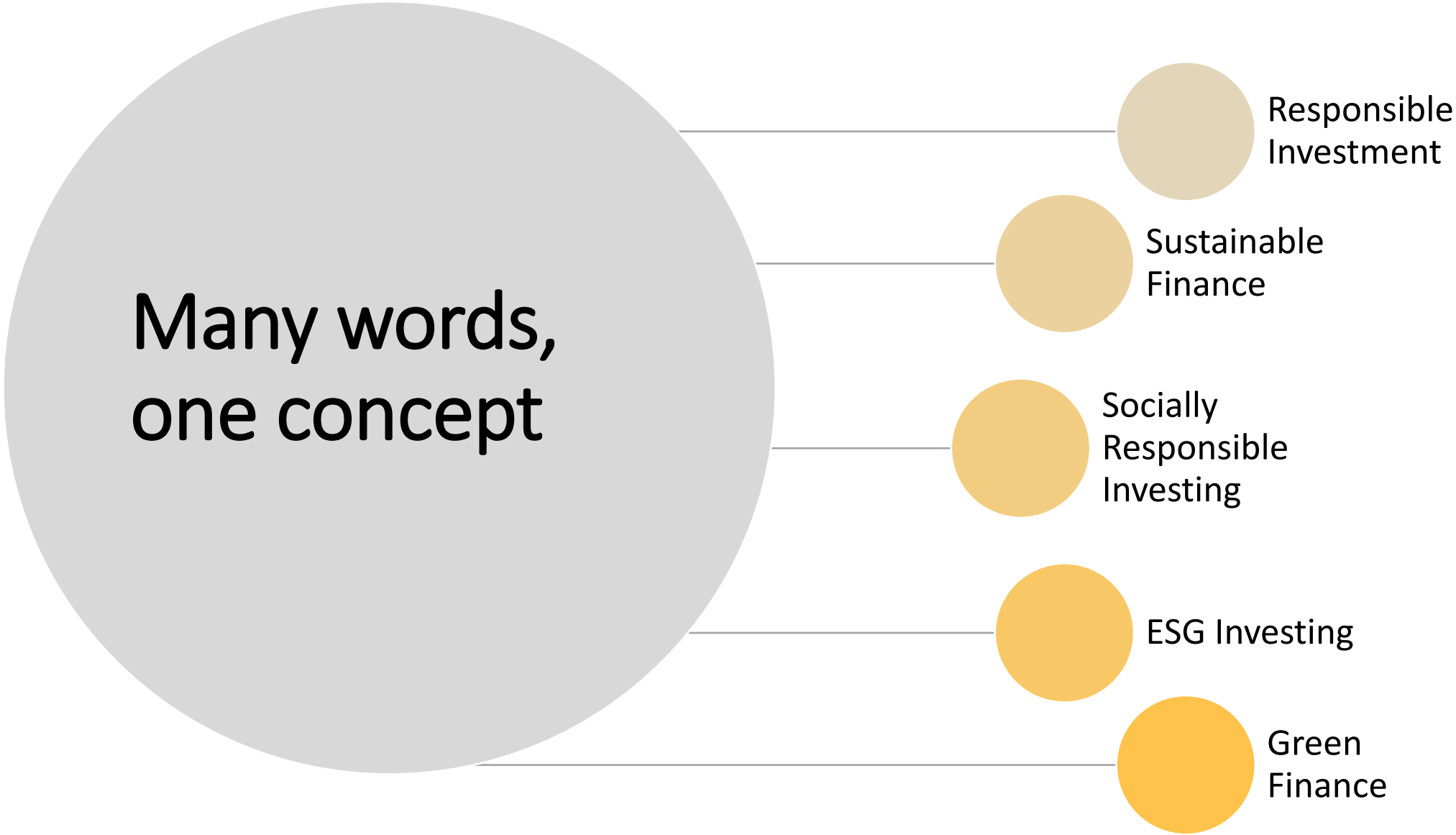
Source: Harvard Business Review and Enel


Break
time



Please share good examples that you have come across, it can be:

- By a business
- Engagement in your local community
- Engagement by the school
- And more…..


Many words, one concept
Responsible Investment
Sustainable Finance
Socially Responsible Investing
ESG Investing
Green Finance

The Spectrum of Sustainable and Financial Investing

	Philanthropy		Social Impact Investing		Sustainable and Responsible Investing[8]	Conventional financial investing
	Traditional Philanthropy	Venture Philanthropy	Social Investing	Impact investment	ESG investing	Fully commercial investment
Focus	Address societal challenges through the provision of grants	Address societal challenges with venture investment approaches	Investment with a focus on social and/or environmental outcome and some expected financial return	Investment with an intent to have a measurable environmental and/or social return	Enhance long-term value by using ESG factors to mitigate risks and identify growth opportunities.	Limited or no regard for environmental, social or governance practices
			Use of ESG metrics and methodologies			
Return Expectation	Social return only	Social return focused	Social return and sub-market financial return	Social return and adequate financial market rate	Financial market return focused on long-term value	Financial market return only
	Social impact ←→		Social and financial		←→	Financial returns

Source: stylised adaptation from OECD (2019), "Social Impact Investment, the Impact Imperative for Sustainable Development," based on earlier versions from various organisations; for illustrative purposes only.

Which Sustainability and Finance actors (players) have you come across?



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Sustainable Financial Ecosystem

Firms that are engaged in sustainability

Issuers

Rating Providers

Firms that rate sustainable Issuers

Firms that construct sustainable indices

Indices

Disclosure organisation

Organisations that determine information to disclose e.g TCFD, IFRS

Rules & Requirements

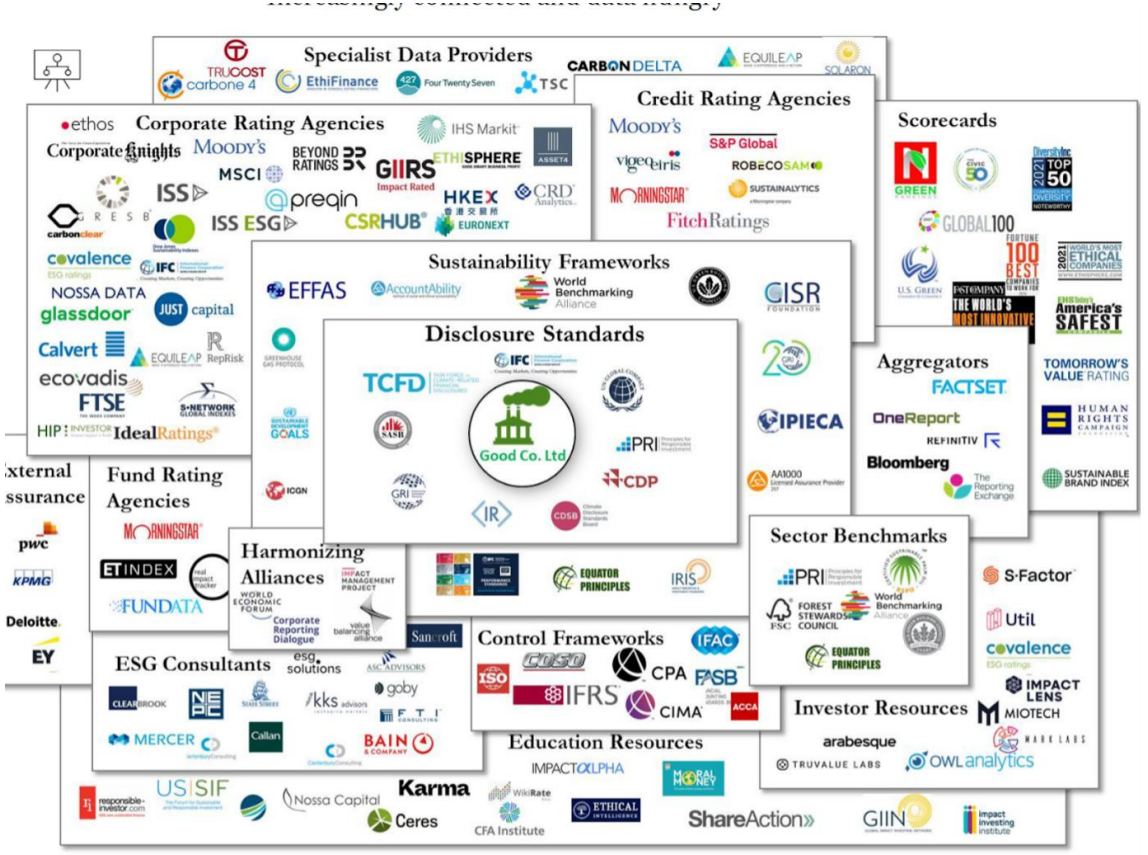
Asset managers

Firms that construct market and Sustainable Funds

International bodies e.g OECD and UN that provide guidelines

Ethical Standard Setters

End Investors



Drivers for Sustainability

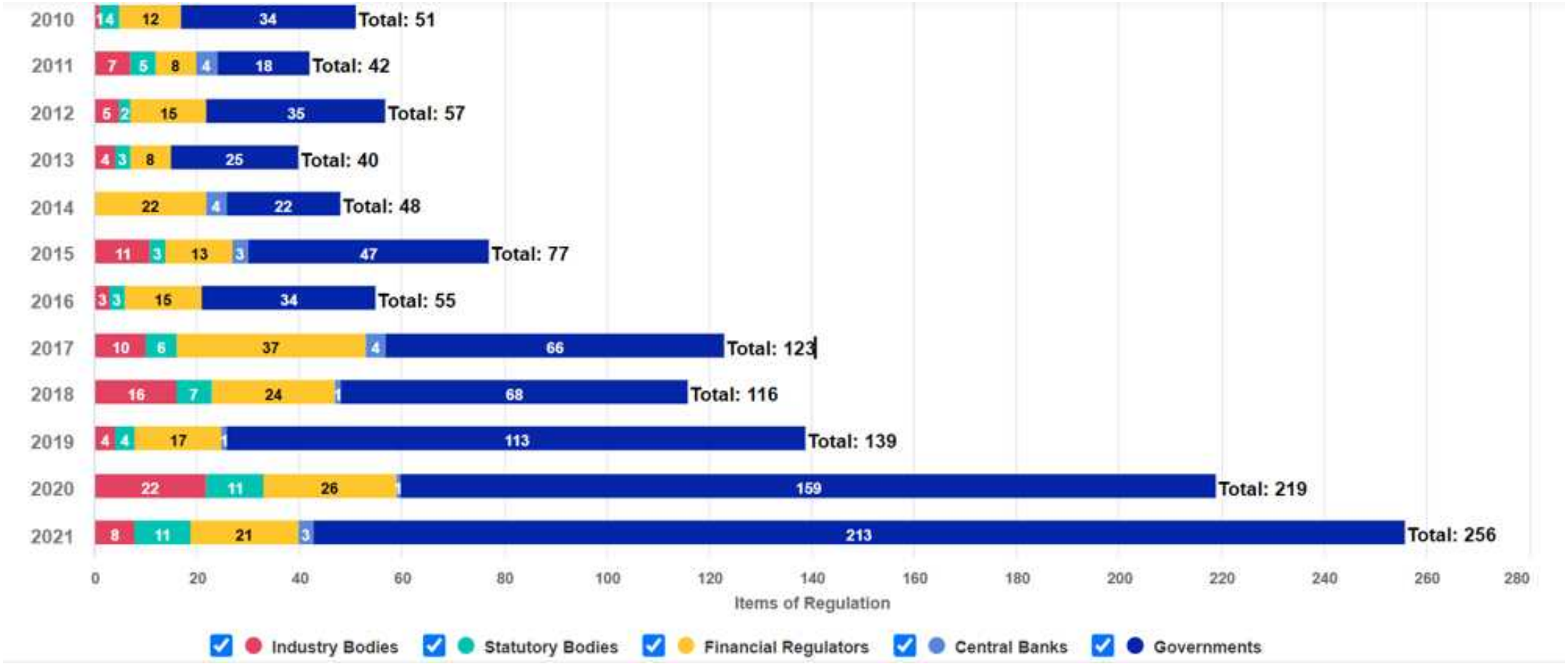
- **Stakeholder expectations -** growing demand and pressure from various stakeholders, such as customers, investors, employees, regulators, suppliers, communities, and civil society. Businesses that fail to meet these expectations risk losing their reputation, trust, loyalty, and market share, while those that exceed them can gain a competitive edge, enhance their brand value, and attract and retain talent **(we will discuss this later during the session)**
- **Recognition of the potential business opportunities** - arise from addressing environmental and social challenges. These opportunities include developing new products and services, entering new markets, improving operational efficiency, reducing costs and risks, fostering innovation and creativity, and creating positive social impact**. (will also be covered in next sessions)**
- **Regulatory frameworks-** These frameworks include laws, regulations, policies, and incentives that address various aspects of environmental and social performance, such as emissions, energy efficiency, waste management, health and safety, labor rights, and anti-corruption. **(will also be covered in next sessions).**
- **Organisational culture-** can influence how a business defines its purpose, vision, mission, and goals, as well as how it makes decisions, communicates, and interacts with its stakeholders. A strong organizational culture can foster a sense of commitment, ownership, and accountability for sustainability among the leaders and the staff of a business.

Sustainability sits within a complex regulatory landscape



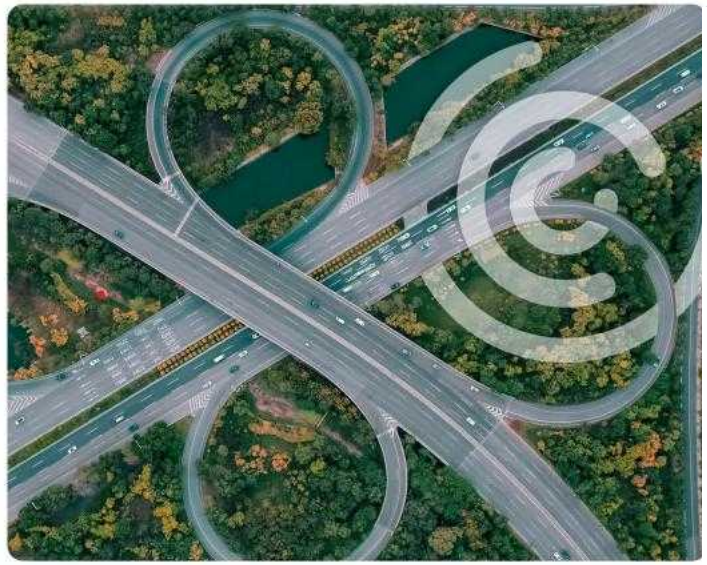
United Nations Intergovernmental Panel on Climate Change **(UN IPCC)**, United Nations Environment Programme **(UNEP)**, Sustainability Related Disclosure in the Financial Services Sector Regulation **(SFDR)**, The Sustainability Accounting Standards Board **(SASB)**, The International Integrated Reporting Council **(IIRC)**, Non-Financial Reporting Directive **(NFRD)**, The Task Force on Climate-Related Financial Disclosures **(TCFD)**, and Streamlined Energy and Carbon Reporting **(SECR)**, the Carbon Disclosure Project **(CDP)**, Taskforce on Nature-related Financial Disclosures **(TNFD)**.

Sustainability Regulations



Source MSCI: https://www.msci.com/who-will-regulate-esg

Catch up with the global trend



CLARITY AI

March 2025

Sustainable Finance Regulatory Outlook 2025

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- https://insights.clarity.ai/hubfs/[eBook]%20Sustainable%20Finance%20Regulatory%20Outlook%202025/Sustainable%20Finance%20Regulatory%20Outlook%202025_Final.pdf

Sustainable Finance Strategies

INTEGRATION

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide.

AIM:
Financial objectives
+ risk management improvement



STEWARDSHIP

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers.

AIM:
Financial objectives
+ financial system improvement



INVESTMENT

Allocate to sustainability themes or impact investments for new opportunities — for example, renewable energy, water and social housing.

AIM:
Financial objectives
+ positive social and environmental impact



SCREENING

Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from.

AIM:
Alignment with values/reputation/risk management or longer-term financial expectations



Sustainable Finance Strategies

- **ESG Integration**

This strategy incorporates ESG data along traditional financial analysis into the securities selection process and investment decisions. Rather than simply applying exclusionary or inclusionary screening based on ESG information, investment decisions are made by taking financially material ESG information into account. Material ESG issues are those that are considered highly likely to affect corporate and investment performance



How to achieve it:

•Use ESG data providers (e.g., MSCI, Sustainalytics).
•Perform climate scenario analysis (aligned with TCFD).
•Assess carbon intensity of portfolio companies.

Sustainable Finance Strategies

- **Stewardship**

- Stewardship is about investors taking **active responsibility** for how the companies they own are managed. Instead of being passive shareholders, they **use their influence** to push for better governance, environmental practices, and social outcomes.
- **What it Involves:**

1. **Voting rights** – using shareholder votes at annual general meetings (AGMs) to support or reject policies, board members, or executive pay linked to sustainability.
2. **Direct engagement** – ongoing dialogue with company boards and management to encourage improvements (e.g., climate targets, diversity policies, supply chain transparency).
3. **Collaborative engagement** – joining forces with other investors through initiatives like *Climate Action 100+* or *Principles for Responsible Investment (PRI)* to amplify pressure.
4. **Policy engagement** – investors also influence regulators and policymakers to improve sustainability disclosure rules, carbon pricing, or ESG reporting standards.

Sustainable Finance Strategies

Negative Screening

- Negative screening, also called exclusionary screening, is the process of excluding specific companies or sectors from a fund or portfolio. This is executed by determining the criteria for exclusion upfront based on a specific goal.
- For instance, if the goal is to decrease climate change's impact, you may exclude all fossil fuel from the portfolio

Positive Screening

- Positive screening, also called best-in-class screening, is the process of selecting a subset of top-performing companies from a defined industry and a set of characteristics to invest in.
- For example, you may invest in the 10 apparel companies with the lowest carbon footprint or the five appliance companies with the most diverse boards of directors.

Video on negative screening: https://www.youtube.com/watch?v=_h6B1VO23Zk

Sustainable Finance Strategies

- **Impact Investing**

Impact Investments are investments made into companies, organisations and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances. Investments are often project-specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investment includes microfinance, community investing, and social business/entrepreneurship funds.

- **Sustainability themed**

Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability themed investments inherently contribute to addressing social and/or environmental challenges such as climate change, eco-efficiency and health. Funds are required to have an ESG analysis or screen of investments in order to be counted in this approach.

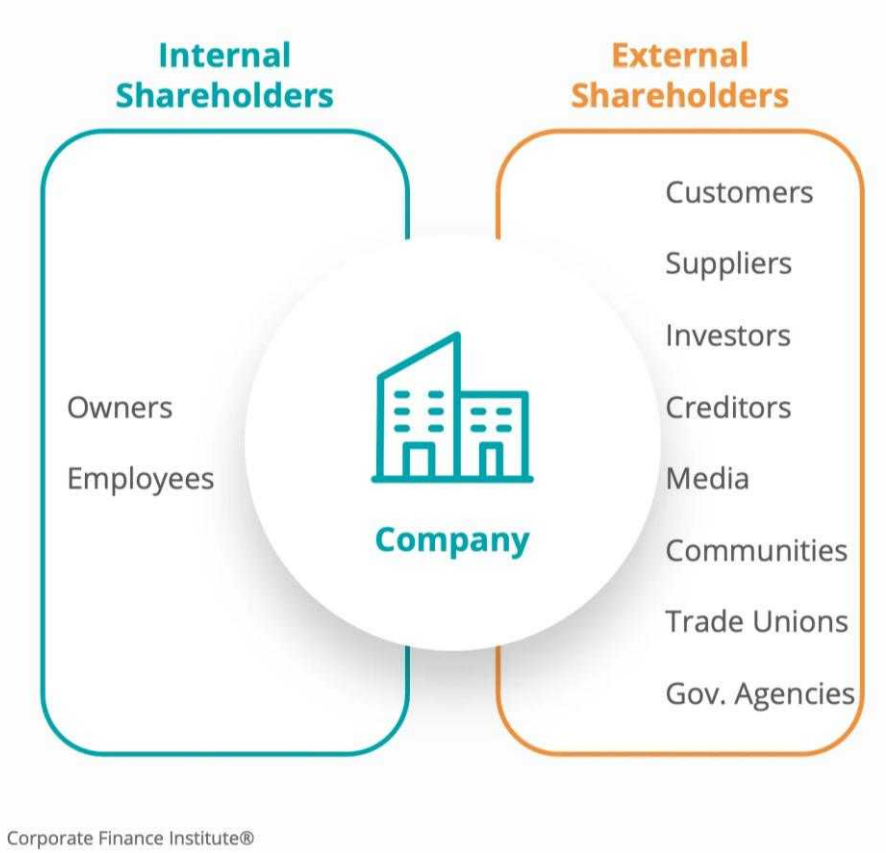

Break
time

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Sustainability, Financial Performance and Stakeholders





Sustainability and Stakeholders

Importance of Sustainability and Stakeholders

- Consumers and employees expect businesses to do more, be responsible regarding sustainability, and want to do business with and work for companies that support issues they care about

- By conducting stakeholder engagement and sentiment monitoring, the firm will be able to identify and prioritise environmental and social issues that must be addressed, as well as develop solutions that meet their needs.

- Additionally, stakeholders can serve as a powerful force for change within an organization. They can help to raise awareness of sustainability issues and encourage others to get involved in the effort.

Inclusion of Stakeholders in Sustainable Strategy

- Identify the key stakeholder groups to evaluate the sustainable issues together.
- Take the time to create a solid communication plan and all the materials that will be required, as well as schedule the engagement activities.
- Be open to different perspectives: Not everyone will see eye-to-eye on every issue. Dealing with difficult stakeholders and understanding why they may have different views is an essential step to building positive relationships.
- Be clear about the firms' goals and objectives : What is your organization trying to achieve? Why is this important? Be sure to communicate these things clearly to your stakeholders.

Deep Dive into Sustainability and Stakeholders

- You are provided with 15 mins to draft one slide on an ESG and stakeholder component.
- Divide yourself in group of 5-6 students
- Kindly refer to the card to identify the component allocated to you
- Link to slide : https://docs.google.com/presentation/d/1UNxv06nmfpvvY9ZpTuwbVZZlrmUru-Kt/edit?usp=sharing&ouid=115119484403257383495&rtpof=true&sd=true
- For example : Employees



Sustainability and Employees

Sustainable performance's impact on workforce sentiment can be a source of competitive advantage.

Satisfied employees work harder, stay longer with their employers, and seek to produce better results for the organization. Equally important, enthusiastic prospective employees strengthen a company's talent pipeline and ensure the availability of crucial human capital.

By 2029, the Millennial and Gen Z generations will make up 72 percent of the world's workforce, compared to 52 percent in 2019. These generations place greater importance on environmental and social concerns than their predecessors do – and will expect more from employers on these issues.

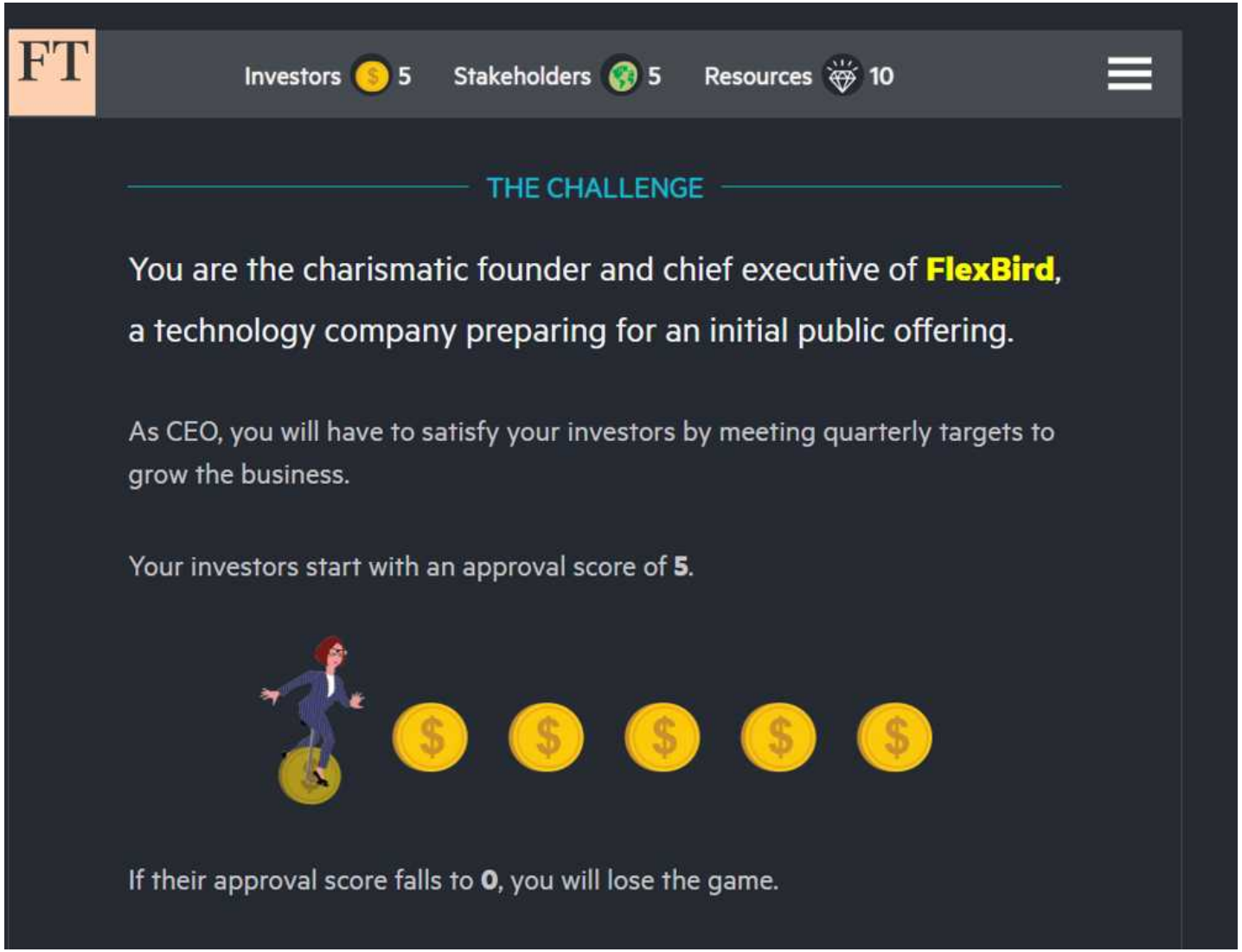
Link to article: EY podcasts on how to engage employees in ESG https://www.ey.com/en_gl/podcasts/sustainability-matters/2021/05/season-3-episode-3-how-to-engage-employees-for-esg-goals

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The Sustainable Finance (Purpose and Profit Game)

(by Financial Times)



Instructions:

- ❑ Form a group of 5 students
- ❑ Discuss your choices for each situation and provide arguments for them. Provide screenshots of your decisions in the report
- ❑ Reflect and conclude based on the results provided by Financial Times on your choices.
- ❑ Submit your reports after the exercise by email to your teacher.

https://ig.ft.com/esg-purpose-profit-game/