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# Integrating ESG into Your Strategy Formulation: A Practical Guide for Sustainable Success

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Article Abstract

The integration of Environmental, Social, and Governance (ESG) principles into organizational strategies has become a trend – and is becoming a requirement – in the recent years due to increasing regulatory requirements, investor, and stakeholder demands, risk management considerations, and the need for competitive advantages. Unfortunately, many organizations struggle to understand the concepts of ESG and how to effectively incorporate ESG and sustainability into their strategy formulation process. The objective of this article is to propose a structured approach to help organizations integrate ESG principles and related activities into their strategy formulation processes for sustainable success.


# INTEGRATING ESG INTO YOUR STRATEGY FORMULATION

BY **YULIYA ZHEVNO**

The integration of Environmental, Social, and Governance (ESG) principles into organizational strategies has become a trend – and is becoming a requirement – in the recent years due to increasing regulatory requirements, investor, and stakeholder demands, risk management considerations, and the need for competitive advantages. Unfortunately, many organizations struggle to understand the ESG concepts and how to effectively incorporate ESG and sustainability into their strategy formulation process. The objective of this article is to propose a structured approach to help organizations integrate ESG principles and related activities into their strategy formulation processes for sustainable success.

## THE WHY AND WHAT OF ESG

The roots of ESG principles trace back to the socially responsible investing (SRI) movement of the 1960s, when investors began excluding organizations involved in controversial industries such as tobacco, weapons, and apartheid-era South Africa (Eccles *et al*., 2012). Over the decades, the focus expanded beyond exclusionary practices.

By the 2000s, frameworks like the UN's Principles for Responsible Investment and the Triple Bottom Line (Table 1) pushed businesses to consider ethics alongside profits. In the 2010s, ESG became central to governance and investment, responding to climate change, inequality, and corporate misconduct. Today, ESG is no longer optional; it's part of regulation, investor expectations, and strategy. Organizations integrating ESG into operations benefit from enhanced reputation, reduced

| | TYPE OF RESPONSIBILITY | WHAT IT IS | KEY PRACTICES |
|---|---|---|---|
| **E** | **Environmental** | Businesses being held accountable for their impact on the planet. Organizations must adopt sustainable practices to mitigate climate change, protect ecosystems, and reduce resource depletion. | • Carbon footprint reduction, energy efficiency, waste management, and pollution control<br>• Circular economy principles, sustainable resource use, and biodiversity conservation |
| **S** | **Social** | Focuses on an organization's relationships with employees, customers, suppliers, and the wider community. Businesses that prioritise social responsibility build stronger stakeholder trust, enhance employee satisfaction, and improve brand loyalty. | • Employee well-being, fair wages, labor rights, diversity, equity, inclusion (DEI) initiatives, and workplace safety<br>• Ethical supply chain management, human rights, and responsible sourcing<br>• Community engagement |
| **G** | **Governance** | Refers to the ethical and structural aspects of organization leadership and decision-making. Strong governance ensures transparency, reduces fraud, and enhances investor confidence. | • Board independence and diversity, executive compensation, and ethical leadership<br>• Corporate transparence and anti-corruption measures<br>• Risk management and regulatory compliance |

**TABLE 1:** EXPLAINING ESG

risks, improved financial performance, and access to sustainable investment opportunities.

Currently, there are several established ESG frameworks that help organizations align with sustainability goals and improve reporting transparency. The most popular among them include the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB). GRI focuses on comprehensive sustainability reporting, covering economic, environmental, and social impacts (GRI, 2021). It promotes transparency and accountability by encouraging organizations to disclose their ESG performance based on universal, sector-specific, and topic-specific standards. GRI key concepts are stakeholder inclusiveness and materiality assessment, as well as balanced and accurate sustainability disclosures. Common GRI tools include specific reporting guidelines, materiality assessment tools, and sustainability disclosure databases.

SASB provides industry-specific sustainability disclosure standards tailored to financial materiality (SASB, 2020). The framework focuses on providing investors with decision-useful ESG information by identifying financially relevant sustainability issues across industries. SASB concepts include financial materiality and sector-specific disclosures, integration with financial reporting standards, and industry-specific sustainability impact assessment. SASB tools include the materiality finder for industry-specific ESG factors and investor-focused disclosure templates.

Despite the growing recognition of ESG's importance, many organizations encounter challenges in its integration. Common pitfalls include:

- Greenwashing – Some organizations misrepresent their sustainability efforts to appear ESG-compliant (Pabon, 2014).
- Lack of standardization – With multiple frameworks and differing regulations, organizations struggle with consistent ESG reporting (Damodaran, 2023).
- Data and measurement gaps – Many businesses lack the tools or expertise to track ESG metrics effectively, leading to unreliable data.
- Short-term focus – ESG efforts can be driven by regulatory compliance rather than long-term strategic planning.
- Cost and resource constraints – Implementing ESG initiatives requires financial and human capital being a barrier for smaller organizations.
- Difficulty in integrating ESG into corporate strategy – Many organizations treat ESG as a separate compliance function rather than part of their strategic decision-making processes. This leads to missed opportunities and a lack of measurable impact.

## HOW TO INTEGRATE ESG IN THE STRATEGY FORMULATION PROCESS

The aim of the strategy formulation process is to develop a sound strategy. A sound strategy formulation process encompasses five key activities: conduct external environmental scan, conduct internal environmental scan, establish strategic direction, establish strategy, and complete strategic plan (*Hadaya, Stockmal et al., 2024*). ESG provides valuable insights to the strategy formulation process by aligning business objectives with sustainability principles, helping organizations mitigate risks and enhance long-term value creation. To understand how ESG actions and tools can be embedded into each of the five strategy formulation activities, see Table 2.

The first activity of the strategy formulation process, **Conduct External Environmental Scan**, assesses the external factors that may impact an organization's strategic direction (market trends, competition, and regulatory changes). Integrating ESG into this analysis ensures businesses proactively address risks and capitalize on sustainability opportunities.

One of the recommended ESG actions is *Identify industry-specific ESG risks and opportunities*. Identifying ESG risks, such as climate change exposure or social impact concerns, enables organizations to mitigate threats while leveraging new opportunities. This action can be effectively implemented using the *PESTLE Analysis* tool. Adding ESG factors to the PESTLE analysis aids in the evaluation of macroeconomic factors influencing an organization, categorizing them into Political (e.g., climate change policies, government ESG incentives), Economic (e.g., ESG investment trends, sustainability-linked financing), Social (e.g., consumer behavior changing to preferring sustainable products, workforce diversity), Technological

| STRATEGY FORMULATION ACTIVITY | KEY ESG ACTIONS | TOOLS |
|---|---|---|
| **Conduct External Environmental Scan** | Identify industry-specific ESG risks and opportunities | PESTLE analysis (including ESG aspects) |
| | Assess competitor ESG performance to understand benchmarks | ESG benchmarking reports |
| **Conduct Internal Environmental Scan** | Assess internal capabilities to implement ESG initiatives | ESG audit |
| | Map current ESG initiatives and their performance | ESG capability assessment |
| **Establish the Strategic Direction** | Define ESG vision and mission aligned with business goals | Visioning workshops, strategy alignment frameworks to include ESG-related goals |
| | Set long-term ESG priorities | Strategic roadmap including ESG initiatives |
| **Establish the Strategy** | Align ESG objectives with organizational strategy | Strategic goal-setting templates, Balanced Scorecard |
| | Develop specific ESG objectives and KPIs | |
| **Complete the Strategic Plan** | Finalize ESG-related policies and initiatives | Strategy documentation templates |
| | Communicate the ESG aspects of the strategic plan to key stakeholders | Stakeholder communication tools |

**TABLE 2:** RECOMMENDED ACTIONS AND TOOLS TO INTEGRATE EGS INTO THE STRATEGY FORMULATION PROCESS

(e.g., green technologies, artificial intelligence), Legal (e.g., ESG disclosure regulations, anti-corruption laws), and Environmental factors.

For example, Unilever uses PESTLE analysis to monitor factors such as evolving environmental legislation and increasing consumer demand for ethical products. This process in action led to initiatives like reducing plastic use and committing to net-zero emissions by 2039.

Another ESG action to be used is *Assess competitor ESG performance to understand benchmarks*. Benchmarking helps organizations gauge industry best practices, regulatory expectations, and investor preferences in ESG. This action can be done by deploying tools such as *ESG Benchmarking Reports*.

ESG benchmarking reports compare organizations' ESG performance based on key indicators such as environmental impact, social responsibility, and governance effectiveness. Devising ESG benchmarking reports entails five steps (Dimapilis, 2024):

- Identify Relevant ESG Metrics for Benchmarking
- Gather ESG Benchmarking Reports.
- Compare Competitor and Industry ESG Performance
- Identify Emerging ESG Trends and Regulations
- Define ESG Priorities Based on Insights

For instance, Nestlé uses ESG benchmarking reports to assess its standing on issues like water usage and responsible sourcing compared to global food industry peers. This has driven actions such as enhancing supply chain transparency and committing to regenerative agriculture practices.

The second activity of the strategy formulation process, **Conduct Internal Environmental Scan**, involves assessing an organization's current state in its core competencies, work environment, processes, location, and resources. Incorporating ESG into this activity would include evaluating internal ESG performance, identifying gaps, and determining the organization's readiness to implement sustainability initiatives.

One of the key ESG actions here is *Assess internal capabilities to implement ESG initiatives*. This action ensures that organizations can set realistic ESG goals and invest in the necessary resources. To implement this action, organizations might use *ESG Internal Audit* as a tool. The ESG Internal Audit is a structured evaluation of an organization's sustainability policies, processes, and performance to identify compliance gaps, risks, and areas for improvement.

For example, Siemens regularly conducts internal ESG audits to evaluate compliance with its own sustainability policies and identify risks in areas like energy efficiency and human rights practices.

The second action to support the process of conducting internal environmental scan is *Map current ESG initiatives and their performance.* ESG audits and surveys provide insights into an organization's current sustainability initiatives and areas for improvement.

The tool commonly used for this action is the *ESG Capability Assessments*. The ESG Capability Assessment is the evaluation of an organization's ability to implement ESG strategies by assessing its existing resources, skills, and infrastructure. It ensures that ESG initiatives are realistic and aligned with capabilities. The Capability Assessment framework includes defining key ESG capabilities to assess, identifying assessment criteria, gathering data through stakeholder engagement such as internal interviews and employee surveys, scoring ESG capabilities, and developing an ESG capability improvement plan (*Institutional Limited Partners Association, 2021*).

A good example is BP (British Petroleum), which uses ESG capability assessments to evaluate internal readiness for achieving sustainability goals, such as transitioning to low-carbon energy. The past results helped them identify skill gaps which led to upskilling programs in renewable technologies.

The third activity of the strategy formulation process, **Establish the Strategic Direction**, envisages setting up company mission, vision, values, strategic goals and objectives, and overarching long-term goals. At this stage, organizations define their ESG vision, mission, and long-term priorities aligned with business objectives.

Within the activity, one of the recommended ESG actions is *Define ESG vision and mission aligned with business goals*. A clear ESG vision guides decision-making and ensures stakeholder alignment. The second action is *Set long-term ESG priorities* for the company: establishing clear priorities ensures focus and resources for impactful ESG efforts.

The recommended tools to support the actions are *Visioning Workshops, which are* structured, collaborative sessions where leaders and key stakeholders define the company's long-term ESG vision, mission, and goals; and *Strategic Roadmaps,* which are visual step-by-step plans to achieve ESG goals. The ESG visioning workshops are usually part of general strategic visioning workshops and are followed by developing a Strategic Roadmap sequencing the ESG initiatives.

A famous leader in ESG, IKEA, conducts visioning workshops with key stakeholders to align on long-term ESG ambitions and builds strategic roadmaps to guide implementation. This collaborative approach results in clear milestones for circular product design, renewable energy use, and supply chain transformation.

The fourth activity of the strategy formulation process, **Establish the Strategy**, includes selecting the company strategy based on its competitive positioning, core customer value proposition, and key drivers of success. When it comes to ESG implementation, this activity transforms the ESG vision and priorities into concrete objectives and performance indicators.

To execute ESG principles as part of this activity, organizations are recommended to *Align ESG objectives with organizational strategy* and *Develop specific ESG objectives and KPIs*. A tool to ensure these two actions are done efficiently is *Balanced Scorecard*. The Balanced Scorecard aligns business goals with key performance indicators (KPIs) across four perspectives: financial, customer/stakeholder, operational efficiency, and learning and growth. For example, SAP regularly uses balanced scorecards to integrate ESG objectives into its corporate strategy.

> **WITH THE RIGHT APPROACH, BUSINESSES CAN ALIGN WITH STAKEHOLDER AND REGULATORY EXPECTATIONS AND FINALLY ATTRACT INVESTMENT INTO STRATEGIC PROJECTS.**

The fifth activity, **Complete the Strategic Plan**, is the final step in the strategy formulation process formalizing ESG strategies into policies. One of the key ESG actions in this step is *Finalize ESG-related policies and initiatives*. Clear ESG policies and initiatives are easier to pursue by company employees further responsible for such complex strategic initiatives. Some of the tools to support the action are *Strategy Documentation Templates*. Commonly used templates include strategic planning documents, policy frameworks, and sustainability reporting guidelines (e.g., GRI standards).

The second recommended ESG action is *Communicate the strategic plan as relates to ESG to key stakeholders*. Transparent communication builds trust and ensures stakeholder engagement in ESG efforts. This action can be done using *Stakeholder Communication Tools*. These tools include presentations, interactive dashboards, ESG newsletters, media campaigns, and stakeholder engagement platforms.

One of the outstanding examples here is Schneider Electric's use of strategy documentation templates to standardize how ESG goals are embedded across business units. They pair this with stakeholder communication tools (like ESG dashboards and sustainability reports) to transparently share progress with stakeholders.

## CONCLUSION

Integrating ESG into strategy formulation process is complex. It demands clear objectives, effective tools, and strong change management. With the right approach, businesses can align with stakeholder and regulatory expectations and finally attract investment into strategic projects. However, further research is needed to address ESG integration into other strategy management activities of organizations (Transform organisation, Execute strategy, Engage stakeholders, and Govern strategy), to finally ensure such transformations sustainability and efficiency.

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