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Integrating ESG Framework in Corporate Strategic Planning: A Proposed Case Study of a Technology Hub Developer

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Abstract. The double disruption of the Fourth Industrial Revolution and the impact of Covid-19 pandemic have caused major changes to the dynamics of the world. These have accelerated some of the key components of the global megatrend that was highlighted by Bloomberg, Deloitte, McKinsey, MWC, WEF and World Bank. The five key trends of the shifting of economic powers, climate change and resource shortage, technological advancement, societal change; and accelerated urbanization are definitely impacting both people and planet as a whole. Organizations nowadays are being pressured by stakeholders to "do good" by reducing its negative impacts to the society and planet. As a non-listed developer for a global technology hub, the organization is also faced with adversity of the changing environment that could jeopardize its business. Currently there is limited research on how ESG concepts can add value to non-listed companies in Malaysia especially for developers of technology hubs. Therefore, this study aims to construct a framework that integrates ESG concepts into the strategic planning of the organization to enhance its competitive advantage.

Keywords: ESG, triple bottom line, stakeholders' value, technology hub developer, responsible investment

1. Introduction

The uncertainty faced by the world now has required businesses to consider more sustainable solutions for long term value. The main goal of a sustainable business is for organizations' business strategy to inculcate positive impacts to both environment and society. Businesses are operating in a capitalist economy where financial performance and the return it provides to shareholders are the epitome of success.

Business decisions and strategic planning are being crafted to maximize profit while reducing costs and risks (Miller and Cardinal, 1994). However, severe major issues on environmental, social and governance in these past few years with the global spread of Covid-19 have raised global concern on sustainability. Globally, the world is experiencing the impacts of climate change with extreme weather in some parts of the world such as super-cyclone Amphan in Bangladesh and Typhoon Vongfong in the Phillipines (United Nations, 2020). Massive loss of employment resulting from the pandemic has widened socio-economic inequalities (United Nations, 2020). Other than that, huge stimulus packages provided by government around the world have raised concern on governance of the available fund.

Therefore, investors have increased their requirements for responsible investments in public listed firms through environmental, social and governance (ESG) disclosures. Although ESG and sustainable development are hot topics that are being discussed globally, for non-listed companies, there is still no mandatory requirements for enforcement of ESG friendly practices. A study concluded that the improved ESG performance of listed companies have improved the market value of the companies with the financial performance as the mediating effect (Zhou, et al., 2022).

ESG is being used by investors to evaluate corporate behaviours and future financial performance. ESG branches from responsible investment which is based on the philosophies for responsible investment (PRI) and is regarded as an approach to include environment, social and governance aspects in investment decisions and active ownership (Landi and Sciarelli, 2018). According to a study by Joel and Gehman (2022) the findings have concluded that there are variations in ESG performance throughout the years. The findings shown that internal factors such as the CEO and the firm itself are the strongest determinants for ESG performance of a company. The impact of the CEO's influence is strong across different areas that are reflected in the continued research done on top management teams' impact (Crace and Gehmann, 2022).

This developmental paper aims to focus on understanding the importance of ESG in the strategic planning of the company while identifying the considerations for value creation under the concept of "triple bottom line" to its stakeholders. Therefore, this study aims to construct a framework that integrates ESG concepts into the strategic planning of the organisation to enhance its competitive advantages against its competitors.

2. Literature Review

2.1. Global trend of ESG and the compulsory requirements for ESG disclosure

The ESG considerations are the factors that are associated with the environmental, social and governance dimensions. The dimensions and factors are being defined as per Table 1 below.

Table 1: ESG considerations

Environmental – Your impact on the world	Social – Your contribution to your communities	Governance – How you conduct yourself
Climate change Natural resource depletion Waste and pollution Deforestation Hazardous materials Biodiversity	Working conditions, including slavery and child labour Impact on local communities Conflict regions Health and safety Employee relations and diversity Products and miss-selling Data protection	Executive pay Bribery and corruption Political lobbying and donations Board diversity and structure Tax structure Data breaches

Source: KPMG, 2021

Due to the recent pandemic, people around the world are at the risk of being left out on the digital advancement because of the growing digital divide that challenges the social standing. In the medium-term, the pandemic will also be impacting the global economy, whilst geopolitical stability is worryingly vulnerable in the coming five to ten years. Environmental risks remain to be a threat and still exist as top risks by likelihood and impact in 2021 survey. All these environmental, social and governance risk factors are being identified as top risks by the World Economic Forum (2021)

The top risks identified are in line with the 2030 agenda for Sustainable Development, accepted by all United Nations Member States in 2015 (United Nations, 2015) which furnishes a shared blueprint for peace and prosperity for people and the planet, now and into the future. The 17 Sustainable Development Goals (SDGs) are developed as an urgent appeal for mobilization by all countries in a global partnership, recognizing that alleviating poverty and other deprivations has to be integrated with action plans to advance health and education, decrease disparity, and foster economic growth, while preserving the earth (United Nation, 2015).

2.2. The importance of ESG implementation for a global technology hub developer

To achieve the aspiration of an effective development of a global technology hub, the inclusion of the ESG agenda in the strategic planning is crucial to improve the company's competitive advantage. The effort is in alignment with the Government's agenda in Twelfth Malaysia Plan [Economic Planning Unit, [EPU), 2021). In the Plan, the Government is committed to deliver initiatives that are radical and game-changing to rejuvenate the economy, strengthening national security, nurturing inclusive societal wellbeing, and ultimately maintaining long term sustainability.

The ESG strategies are to increase the company's value to its stakeholders by reducing its negative impacts to the environment and people while optimising its performance. The economic crisis and unprecedented challenges that have arisen from the impact of Covid-19 have resulted in the difficulty to attract and retain global investors. Businesses around the world are exploring more sustainable business strategies with reduction in operating costs.

The technology hub was developed in accordance with the Seventh and Eighth Malaysia Plan with strategic plan spanning the years from 1995 to 2005 and continues in the subsequent years. The aim was to develop a catalyst in the country for the development of information technology (IT) in Malaysia. The concept of an intelligent city is designed to attract technology related companies to invest in Malaysia while providing the right ecosystem for the industry to grow and thrive (Yusof and van Loon, 2012).

A technology park is typically enclosed by technology-based and knowledge-intensive organizations, government offices and R&D centres. Being in the same vicinity with other industry players allows companies to enjoy various advantages such as improvement on enhanced collaborative innovation capability and potential joint R&D investments (Sarif and Ismail, 2006). The main idea of a technology park is to provide the space for companies to be at the same location to promote innovation through collaboration and drive competition (Robani, 2015).

For the case of the technology hub developer, four significant factors are being considered as the drivers for the implementation of ESG and integration with the strategic planning:

1. Improve and enhance investor relations – The aim is to retain and attract global companies. Currently there are 52 multinational companies locating in the technology hub. There are also anticipated possible future requirements from investors which includes the sustainability factors.
2. Reduce negative impact of technology industry development – In the recent years; the emergence of new technology has been increasing rapidly. There are also requirements for interoperability and digitization due to the changing work landscape globally and widen scope of technology reliance. These

advancements have created more pollution and impacted lives and wellbeing. Therefore, reduction of the negative impact of technology is necessary and will be seen as a responsible initiative (Marsh and Robinson, 2021; Mohammad and Wasiuzzaman, 2021).

3. Provide a sustainable living lab for testing and piloting of technology – this is relevant to the smart city initiative that has been implemented since 2014. Technology is the heart of the creation of sustainable living and can be implemented in the development of the technology clusters. This will also help to revitalise the city as a sustainable development (Marsh and Robinson, 2021) and
4. Effective city management to the stakeholders – Alignment of ESG initiatives in the technology hub developer's strategies and activities is the key to enhance its stakeholders' value. With one of its core roles on city management, this will enhance the community's trust and confidence therefore increase in the number of referrals (Sciarelli, et al., 2021)

3. Conceptual Framework

This section explains the proposed conceptual framework which will be used to study the perception of the expert panels of the stakeholders of the technology hub developer for the integration of the ESG components in its strategies. A study mentioned that a solid ESG proposition is associated with greater equity returns from both a tilt and momentum perspective (Khan, et al., 2016). ESG Tilt strategy put more emphasis on stocks with higher ESG ratings while the ESG Momentum strategy emphasizes stocks that have improved their ESG rating over recent time periods. The conceptual framework works on the integration of ESG into the strategy based on the technology hub developer core activities.

3.1. ESG considerations

The technology sector is accountable for 2-3% of global greenhouse gas emissions (Marsh and Robinson, 2021). As of 2019, the mining of cryptocurrency Bitcoin by data consumed up to 0.3% of the world's electricity in 2019. However, there is an increase in the demand of hyperscale data centres to cater for the rising data requirements (Santhanam and Keller, 2018). To reduce the negative impact of technology towards the planet, big corporations such as AWS, Microsoft, Google and others have brought 'green IT' initiatives to the forefront (Marsh and Robinson, 2021; Mohammad and Wasiuzzaman, 2021). From the business perspectives, the top four investments for companies in sustainability are in the areas of privacy and data protection; health, safety, and labour standards; wages and benefits and energy efficiency [15]. These top investments set the tone for the requirement of the businesses to be more sustainable with implementation of ESG initiative (Mohammad and Wasiuzzaman, 2021). One in three consumers have the preference to purchase electronic devices that are produced in a more environmentally stable business practice. 87% of the consumers are willing to buy environmentally safe devices. Based on this, the demand and market preferences has shifted to more environmentally friendly products and services (Mohammad and Wasiuzzaman, 2021).

3.2. Competitive advantage

More companies are integrating ESG into its investment decisions and it is found that lower risks, increased engagement, and better governance are tied with those with competitive advantage. There are companies which take advantage of ESG disclosures as a way to ease regulatory constraints on their investment portfolios (Mohammad and Wasiuzzaman, 2021). As the intention is to build company's reputation and investor's acceptance, companies fail to recognize the impact of ESG efforts and the symbiosis between corporate vision, ESG value and organizational performance. For firms with competitive advantage, an increase in ESG disclosure will lead to enhanced firm performance. Contrariwise, increased ESG disclosure in firms without competitive advantage is found to result in lower firm performance (Mohammad and Wasiuzzaman, 2021).

To gauge the performance of the companies, there are several standards and structures being established to achieve the desired level of sustainability based on each company's requirements such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Carbon Disclosure Project (CDP). These rating agencies produce the range of ESG indicators for companies to measure its sustainability performances against multiple dimensions of ESG. Evaluation is being done to the sustainability practices that are assessable with worthy outcomes (Crace and Gehman, 2022). However, there are debates and arguments by researchers that the ESG rating agencies do not put emphasis on the actual results that could provide the environment and society but more on the evaluation of the practices done by the companies (Barnett, et al., 2020)

3.3. Stakeholders' value creation

Stakeholders' theory is used to explain stakeholder's value creation in this study. The stakeholder theory is a theory which argues that the actions and decisions of a business organization will have an impact on numerous parties such as employees, customers, creditors, investors suppliers, communities and the government. Freeman, 1984 defined the stakeholders as those who are the parties that are being affected or those having an impact by an organisation is considered as stakeholders. Investors' demand ESG information when making investment decisions based on the measures used (Khan, et al., 2016). Value creation is a set of interrelated business activities aimed to develop innovative products and services which offers greater value and usefulness to the consumers.

In value creation, it is vital that all stakeholders' interests are being considered and companies must not be selective in attending to the stakeholders' needs and requirements (Sciarelli, et al., 2021). Corporate Social Responsibility (CSR) is being used extensively as a strategic instrument to generate positive stakeholders' opinions and to ensure that these opinions are not being influenced negatively by unsustainable actions (Khan, et al., 2016). Those companies that implements the right ESG strategies will be favourable to investors, attractive to good talent and brings value to its other stakeholders. In the following section, triple bottom line theory is used to further explain the types of values created for the stakeholders.

3.4. The value creation of ESG practices to a company's worth

Positive results in the performance of companies that are deemed more responsible in the way they manage their ESG risks and making sure that their businesses reduced its negative impacts to the society and the environment (Saetra, 2021). Firms which adopt environmentally responsible practices are more likely to generate favourable stakeholder perceptions (Correia, 2019). Environmental performance also had a positive influence on economic performance, but with a lesser effect. However, extant studies found little evidence for a significant relationship between governance and economic performance. Nevertheless, in emerging markets such as Malaysia, long-term environmental strategies will entice the best talent and genuine customers through efficient governance structures (Mohammad and Wasiuzzaman, 2021; Boze, et al., 2019)

Based on the factors mentioned above, there are two underlying theories that have been considered for the development of the conceptual framework, namely the 1) stakeholder theory and 2) triple bottom line theory.

Stakeholder theory iterated that all business entities have stakeholders, and the businesses are required to meet its numerous commitments to these stakeholders (Correia, 2019). Some study argued that executives use CSR as a device to achieve competitive advantage and boost market value (Landi and Sciarelli, 2018). Failing to consider the interest of all stakeholders will have a negative impact to businesses. On the other hand, managing stakeholders successfully will eventually lead to greater benefits to shareholders. Studies have found positive relationship between the involvement of businesses with stakeholders and economic performance (Sciarelli, et al., 2021)

Triple bottom line (TBL) theory argues that instead of primarily focusing on financial profitability or the standard single `bottom line', firms should also strive to measure their business's social and environmental impact (Correia, 2019). These three bottom lines are classified as `three Ps': profit (or financial performance), people (social impact), and the planet (environmental impact). TBL emphasizes equal value on the relationship between the three components and a company must be responsible for all these aspects in business. There were criticisms on the TBL due to the difficulty and unrealistic nature to measure the performance of social and environment and the inability to quantify these items in monetary terms (Correia, 2019).

Based on a study, researchers focused on a single bottom line that contributes to the profitability of the company while ignoring other factors. However, the outcomes derived from all the factors that are relevant either it contributes directly to the bottom line or other external factors (Crace and Gehman, 2022). With the considerations and theories being identified, the conceptual framework is developed to reflect the alignment of ESG with the technology hub developer's strategy. This alignment is related to the value creation to its stakeholders from the triple bottom line theory. The conceptual framework is presented in Figure 1 below.

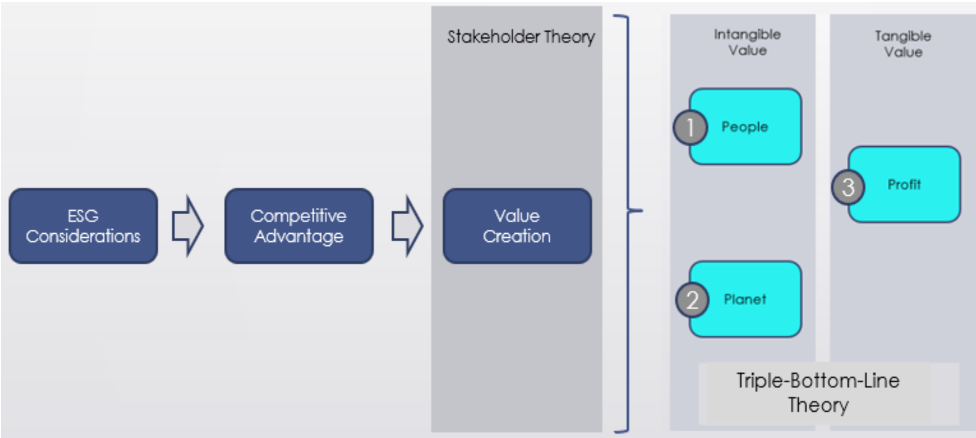

Fig. 1: Conceptual framework for alignment of ESG with strategic planning.

4. Conclusion

Currently there is limited knowledge to explain a successful integration of ESG framework in corporate strategic planning to a technology hub developer since the company is not a listed company. This research aims to explore deeper into the stakeholders' value creation that could increase the technology hub developer's intangible and tangible values. Preserving, correcting, and maintaining the positive impacts of the ESG elements are consolidation of collective efforts by all parties. As mentioned in the early part of this paper, there are no requirements for non-listed companies to include sustainability as part of the strategies. However, deeper analysis of the value creation will provide the justification on the need of all companies to contribute to sustainability initiatives. The influence of each ESG consideration is important to ensure that tangible values are created. As a result, voluntary involvement of non-listed companies will be able to foster change that is more sustainable with real outcomes.

A technology hub is the central base for technology companies to operate and innovate, therefore, the value created by the technology hub developer will create ripple effects to other companies operating within the technology hub perimeter. This paper will be a model for other technology hubs or parks to embark into its sustainable journey with tangible outcomes to benefits its stakeholders especially the technology hubs community.

Authors' Contributions

N.D.I.Z has made major contributions to the conception and design of the study. Both N.D.I.Z and A.A have been involved in drafting the manuscript and revising it critically for important intellectual content. Both N.D.I.Z and A.A agreed to be ethically accountable for all aspects of the work.

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