

# Why ESG can have a positive impact on returns

**A**s we move into a new year, it is becoming apparent that the Environmental, Social and Governance (ESG) agenda is influencing the whole business roadmap, including the motor retail industry, with the pace and rate of change increasing significantly.

So what should dealerships be aware of and what steps can they take?

ESG is a position businesses are now having to take seriously, as it is seen as your licence to operate within your chosen marketplace. The concept is not just the preserve of large multi-national motor manufacturers as it starts to play more of a role in business decisions and day-to-day activity of all retailers.

## Environmental

The green agenda is not just about the range of electric vehicles that are available. It is now much wider in terms of demonstrating environmental traits on individual sites i.e. the way in which showrooms and workshops are constructed and how energy- and water-efficient they are. The capital allowances and R&D tax credit regimes recognise this and so, although a cost may be involved here, it can generate a return in tax savings and so, at least, be neutral and, in some cases, produce a positive return in the form of tax refunds or brand development.

*“The green agenda is not just about the range of electric vehicles that are available”*



Chris Bond,  
Tax Partner,  
BDO LLP

## Social change

This is no longer just about supporting a number of local charities, Social now covers a cultural change in terms of transparency around gender equality, diversity and staff policies across the board. The legislation that now exists means retailers have to publish their stance on these issues and be accountable for them.

## Good governance

The Governance agenda is increasing

on a year-by-year basis as more legislation comes into play. This has a cost impact on business as everyone tries to comply with things like GDPR and other digital-based regulations. Tax changes such as the Corporate Criminal Offences or the new IR35 regimes also allow HMRC to gain access to the inner workings of businesses to ensure that each is paying the right amount of tax.

## The bigger picture

But why is ESG important, especially to motor retailers? There is increasing research which suggests that good practice from an ESG perspective also transfers into increased returns.

If sales staff are highly trained on the environmental agenda they will be able to demonstrate the sustainable nature of a vehicle and how it has been made which will translate into brand loyalty.

If showrooms and workshops are more energy-efficient this reduces cost and so adds profitability through margin gains at a departmental level.

There is a lower cost of capital as funders look to reward and be associated with projects and businesses that support ESG.

Numerous national and regional grants are available for ESG projects all of which creates value such that this can be used within the business for the retention or development of current or future talent.

The staff of the future will be very ESG aware. To attract the best talent a clear policy and offering in this context helps demonstrate the whole culture of the business. Importantly, they will hold similar views as the customers they deal with, supporting better and more profitable client relationships.

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