

Microsoft's Business Model and Strategy Adjustment under ESG Standard

Yu Li^{1,a,*}

¹*Broward College, 3501 S.W. Davie Road, Fort Lauderdale, Florida, 33314, America*
a. liy51@mail.broward.edu

**corresponding author*

Abstract: Environmental, Social and Governance (ESG) is an increasingly important consideration in investment and business operations. It covers corporate performance in environmental protection, social responsibility, and good governance. ESG factors can influence the long-term sustainability of a business, positively impacting shareholders, employees, customers, and society. Microsoft, as the world's leading technology company, is also actively paying attention to and practicing ESG principles. The company has undertaken initiatives aimed at reducing carbon emissions, promoting the use of renewable energy, and reducing waste of resources. At the same time, Microsoft is also working to promote diversity and inclusion to ensure equal rights and opportunities for employees. In terms of governance, the company has implemented a sound decision-making and oversight mechanism to ensure transparency and compliance in its business.

Keywords: ESG, Enterprise value, ESG rating, Microsoft

1. Introduction

ESG is an acronym for the English words Environment, Social, and Governance, which are the three key elements of corporate sustainability and social responsibility. The following will be explained the concept of each of them and their importance in the enterprise:

Environmental considerations, first and foremost, are concerned with how businesses affect the environment through their operations. Examples of these include trash production, energy consumption, carbon emissions, and the use of water resources. The health and stability of the ecological environment are directly impacted by the performance of businesses engaged in environmental protection, which is essential to maintaining the ecological balance of the world. Businesses can lessen their reliance on natural resources and the expense of environmental compliance by lowering the environmental burden. Policies about corporate governance, social responsibility, and environmental protection that are effective can lower regulatory and environmental risks and help prevent future fines or legal action. Second, social aspects include an organization's social duty for things like customer happiness, community involvement, human rights, and employee rights. Businesses should have obligations to their workers, the communities in which they operate, and society as a whole as they are a part of it. Companies that focus on social responsibility and environmental issues tend to be more attractive, attracting employees who are more forward-looking and sensitive to social values, and effective social performance may boost community support, retain public trust, strengthen employee loyalty, and preserve company

reputation during difficult times—all of which are beneficial to the long-term, steady growth of businesses. Thirdly, the practice of internal management structure, decision-making processes, and safeguarding the rights and interests of shareholders are all included in corporate governance. Effective corporate governance can lower the likelihood of corruption, increase the legitimacy and transparency of businesses, boost decision-making effectiveness, and safeguard the rights and interests of shareholders. However, strong ESG performance can also result in better stock performance, because investors are increasingly focused on the long-term value and sustainability of companies, and it also provides a foundation of trust for companies to attract investors and partners, enhancing the investment attractiveness of companies. [1]

The impact of ESG factors on enterprises should not be underestimated. Actively fulfilling ESG responsibilities is not only an ethical mission but also the key to enhancing the overall value of the company. First of all, good ESG practices can put enterprises in a more favorable position in market competition. By properly managing environmental, social, and governance risks, companies not only reduce their risk exposure but also improve their stability, making them more resilient in volatile market environments. Second, companies with high ESG performance are more attractive to investors and customers. Such companies are more popular with investors and consumers who value corporate social responsibility, and they are more willing to work with such companies because it represents a higher level of trust and sustainability. This trust is an important asset for companies to build their brands and expand their market share. In addition, compliance with relevant ESG regulations and standards is not only a corporate obligation but also an effective means of mitigating legal risks. Many countries and regions have developed regulations for ESG practices, and compliance operations not only meet legal requirements but also reduce the risk of litigation and fines. However, the impact of ESG extends far beyond the enterprise. It shapes the public image of enterprises, improves their long-term viability, and has a positive impact on society and the environment. This comprehensive consideration of environmental, social, and governance factors not only gives companies a competitive advantage but also makes a substantial contribution to the sustainable development of society. As a result, ESG has become an integral part of corporate strategy and long-term growth.

2. Product Analysis - Microsoft

Microsoft is a multinational technology company headquartered in Washington State, United States, founded in 1975 by Bill Gates and Paul Allen. At first, Microsoft focused primarily on developing microprocessor-based personal computer software. Over time, Microsoft became a leading global technology company with a broad reach across multiple technology sectors.

First, Microsoft is a big player in operating systems. Its Windows operating system has a significant share of the global PC market, supporting hundreds of millions of personal computers and enterprise servers, and has become an essential tool for many people's work and life. Second, Microsoft's suite of office software products is the preferred choice for businesses and educational institutions worldwide. Microsoft Office suite contains Word, Excel, PowerPoint, and other widely used office applications, providing users with efficient and powerful working and authoring tools. In particular, Microsoft's cloud services platform Azure is worth mentioning. As a leader in cloud computing, Azure offers a wide range of services, including Infrastructure as a Service (IaaS) and Platform as a Service (PaaS), to support enterprises in their digital transformation and provide efficient and secure cloud computing solutions. In addition, Microsoft offers a range of enterprise resource planning (ERP) and customer relationship management (CRM) solutions through its product line, Microsoft Dynamics, to help enterprises improve efficiency and optimize business processes. For the personal device market, Microsoft has also been involved, launching the Surface series of tablet computers, Xbox game consoles, and other hardware products, to provide consumers with a variety of choices. Finally, Microsoft's developer tools, such as Visual Studio, provide a wide range

of support for developers to help them build a variety of applications and services that drive technological innovation. Microsoft's reach and continuous innovation across multiple sectors have made it a major player in the global technology industry, impacting the way people live and work every day.[2]

2.1. Environmental

ESG factors have a significant impact on Microsoft and are directly related to the company's sustainability, social responsibility, and long-term value preservation.

From the perspective of "E", Microsoft, as a technology company, although the development of technology is indeed the primary task, Microsoft believes that the application value of technology is multi-faceted, multi-level, and multi-angle; it is committed to reducing carbon emissions and set the goal of carbon neutrality, and promote the use of renewable energy. In their latest Environmental Sustainability Report, Microsoft shares their progress towards achieving the 2030 Carbon, Water, Waste, and Ecosystem Sustainability Goals. To achieve this goal, Microsoft has launched a global Climate Action Plan, which includes reducing the company's carbon footprint by investing in renewable energy projects, improving data center efficiency, and promoting renewable energy purchases. In 2022, their overall carbon emissions fell by 0.5% while our business grew, and they provided clean water and sanitation to nearly 10,000 people already, one of the five pillars on our path to water positivity. In their quest for zero waste, they achieved 82% reuse and recycling of all cloud hardware and diverted more than 12,000 metric tons of solid operational waste from landfills and incinerators. Microsoft also continues to take responsibility for the impact of direct operations on the planet's ecosystems, having contracted to protect 17,268 acres, more than 50 percent more land than was originally used for operations, of which 12,270 acres - the equivalent of about 7,000 football fields - are designated for permanent protection. Because of the annual excess of greenhouse gas emissions from human activity over what the Earth can absorb and the 55 billion tons of waste that humans produce—the majority of which is disposed of improperly—Microsoft started concentrating on carbon mathematics, reducing global waste through recycling centers, and continuously tracking and evaluating the state of the planet. According to Microsoft, artificial intelligence has the potential to significantly accelerate efforts to address the climate catastrophe because of its direct impact on the environment in terms of energy use, carbon emissions, resource management, and other areas.[3]

2.2. Social

From the perspective of "S", affected by the global epidemic in the past few years, people's work and lifestyle have changed a lot. Microsoft Teams thus integrates a digital office platform that can communicate, collaborate, and business applications. On Teams, people can achieve mixed offices, improve the portability of communication, and reduce the use of transportation. The effect of carbon emission reduction is very objective, which can be seen that Microsoft's role in society is very important, including the protection of employee rights, community participation, and the promotion of digital inclusion; Microsoft also encourages employee volunteerism and supports global community development through programs such as the Microsoft Citizen Digital Hero Program, which help increase employee job satisfaction and have a positive impact at the community level, for instance, Microsoft invested in the data center Community Development (DCCD) program in 2017, such as education, digital skills training, infrastructure construction, etc., to support the development of local communities and improve the living standards of community residents, Microsoft actively collaborates with local governments, community leaders and stakeholders through open communication and cooperation. Ensure that the interests and needs of local communities are taken into account in the construction of data centers, providing more active support to communities and

empowering local economic and social development. In addition, by building data centers in the local area, Microsoft has brought job opportunities and promoted the development of related industrial chains, such as construction, logistics, etc., bringing direct and indirect benefits to the local economy.[4]

2.3. Governance

From the perspective of "G", Microsoft's corporate governance structure is crucial for decision-making, transparency, and protecting shareholders' rights and interests. The company has an open and transparent governance structure, with independent board members who do not have operational functions. This ensures that the Board's decisions are independent and objective and that financial information and critical decisions are regularly disclosed to shareholders and the public. Overall, Microsoft's governance structure is designed to promote accountability and transparency, essential for maintaining the trust of shareholders and the public. The company also sets up independent committees, such as the Compensation Committee and the Nominating and Governance Committee, to supervise and make decisions in specific areas. At the same time, Microsoft's leadership focuses on corporate ethics and compliance, is committed to establishing a corporate culture of integrity and transparency, and actively discloses its corporate governance structure, decision-making mechanism, and practices, so that shareholders and stakeholders can understand how the company operates. The company regularly issues governance reports and financial reports to publicly demonstrate its business performance and decision-making process, and work with governments and other stakeholders to ensure best practices in data and privacy protection.

2.4. Analysis

Microsoft, like all businesses, is always reviewing and enhancing its governance procedures to adjust to the ever-changing demands of its stakeholders and the business environment (see Table 1).

Table 1: The 2023 Impact Summary (brief description)

Rank	Company	State	Industry	Score	Environmental Score	Social Score	Corporate Governance Score
1	HP	Delaware	Technology Hardware	93.2	95.9	92.4	91.4
2	NVIDIA	California	Technology Hardware	92.7	94.7	87.6	95.9
3	Microsoft	Washington	Soft & Tele-communications	91.9	91.8	88.3	95.7
4	Cisco Systems	California	Technology Hardware	91.7	97.3	79.1	98.9
5	Qualcomm	California	Technology Hardware	91.5	89.5	85.2	100.0

Newsweek has teamed up with Statista to release its second annual list of America's Most Responsible companies, and while the many companies on the list come from dozens of different industries and vary widely in size, they share the values that evaluators prioritize, which is worth taking seriously in any given year. You can see the top five data in the list above, among which, Microsoft ranks third. From the perspective of the remaining four companies that are all engaged in Technology Hardware, its ESG score is indeed relatively excellent. This is where you can think about the variables used to measure Microsoft's ESG performance.[5]

Besides, MSCI has announced a partnership with Microsoft to launch investment solutions as a service, and this partnership will provide corporations and global investors with ESG Solutions as a Service, a tool that will help them better understand, assess, and analyze the opportunities and risks related to investments and commercial endeavors arising from climate change. The parties involved have made it clear that environmental, social, and governance (ESG) issues are their primary concern.[6]

Using Microsoft's Azure and PowerBI platforms, organizations will be able to assess their risk relative to their peers. Investors will also be able to analyze sectors and organizations with the best ESG analytics worldwide. The service will provide comprehensive insights into how well businesses can handle physical risks, monitor their carbon footprint, and adapt to climate change.

First, on the environment, Microsoft's carbon emissions, including direct and indirect emissions, as well as the company's carbon neutral goal, their energy use efficiency in the production process, such as energy consumption per unit of output, and the proportion of renewable energy used, such as solar, wind, and so on, as well as waste generation and treatment methods and water efficiency, Sustainable management of water resources. Then, socially, employee satisfaction with Microsoft's work environment, compensation, benefits and development opportunities, the implementation of the company's diversity and inclusion policies, as well as Microsoft's involvement in the community and human rights protection practices in the supply chain. Finally, from the aspects of governance, the proportion of independent directors in the board of directors, the independence of the board of directors' decisions, Microsoft's protection measures for shareholders' rights and interests, the company's information disclosure degree, and internal control mechanism to prevent fraud and misconduct, and the company's compliance with regulations and laws.

These variables are key metrics used to evaluate Microsoft's ESG performance. Companies, investors, and stakeholders can use these variables to quantify and compare a company's ESG practices to better understand its performance and accountability. These variables also help establish ESG reporting and rating systems. To comprehensively evaluate the company's sustainability and social responsibility performance.

ESG factors also have a potential impact on corporate performance. First of all, it can create value. Actively fulfilling ESG responsibilities can create value for the company, such as reducing energy costs, improving employee productivity, attracting ESG investment, etc., thus enhancing the company's profitability. Reasonable ESG practices can reduce environmental, social, and governance risks, such as avoiding environmental litigation, improving employee satisfaction, and reducing employee turnover. At the same time, enhancing reputation, and positive ESG practices help enhance a company's reputation and brand image, attracting more customers, investors, and partners. What matters is compliance, which is a fundamental premise of a company's operations, and good ESG practices help ensure compliance with regulations and avoid fines and legal risks. Finally, long-term sustainability. By actively fulfilling ESG responsibilities, companies can create long-term sustainable development for themselves and ensure the steady development of future businesses.

When discussing the relationship between ESG and Microsoft, you also need to consider possible limitations in some of the research and its theoretical and practical implications for the ESG field and Microsoft practice. There may be challenges in the reliability and consistency of ESG data, especially on a global scale, and there may be a lack of comprehensive ESG data, especially on social and governance aspects, which can lead to less accurate analysis in these areas. The second is the research design, the choice of research methods may affect the reliability of research conclusions, for example, whether quantitative or qualitative research is used, and the statistical methods used, etc., whether they consider possible confounding factors or other influencing factors to ensure the validity and accuracy of the research conclusions. Then there are the time and geographical constraints, ESG practices and policies may change over time, which may lead to the timeliness of research results,

while the requirements and practices of ESG standards may vary greatly from country to country, which may affect the universality of research. Finally, sample selection. Whether the sample set adopted in the research can represent the entire ESG field and Microsoft's position in it will affect the generalization of research conclusions. Therefore, Microsoft needs to carefully consider possible limitations and understand and analyze the findings in the proper context.[7]

3. Conclusion

Through the above research on the relationship between ESG and Microsoft, you can deeply understand the practice and performance of enterprises in the aspects of environment, society, and governance, and thus provide empirical support for theoretical research in the field of ESG. This research can also guide enterprises and provide decision-making support for enterprise leaders so that they can better understand and cope with ESG problems. To enhance sustainability and social responsibility, enable companies to manage ESG issues more effectively and incorporate ESG considerations into their corporate strategies. Of course, Microsoft also needs to strengthen ESG data collection and standardization and conduct long-term research to understand the long-term impact of ESG practices on corporate performance and value creation. In particular, it needs to delve into ESG practices in social and governance aspects to track the impact of ESG on enterprises and investors. Provide more effective support and guidance for sustainable development.

References

- [1] Yalin Mo, Yuchen Che. (2023). *Literature review on enterprise ESG and enterprise value*. Chinese Science and Technology Journal database. Issue 1 of 2023, 0090-0092.
- [2] Li Sun, Caiyun Shu, (June 19, 2023) *Microsoft: Great Beauty 2023 World Top 500 ESG rating 5A report*.
- [3] Xiaolei Sun, Shifeng Cui, (November 8, 2022). *Microsoft Research: Strategic Transformation Driving Business Rebirth, global leader in Cloud and Enterprise Services*. China Securities Co., Ltd.
- [4] Nancy Cooper, (2021). *Newsweek*.
- [5] *Microsoft: The 2023 Impact Summary*.
- [6] Sam Wang, Melanie Blanco, Rachel Lai, (July 23, 2020). *MSCI announces strategic alliance with Microsoft to accelerate innovation in the global investment industry*.
- [7] *Microsoft Annual Report*, (July 27, 2023).