

# ***ESG Transformation Strategy Case Analysis: Taking Sands China Limited as an Example***

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**Abstract:** Sands China Limited is a comprehensive entertainment company operating in Macau. This paper evaluates the sustainable development of Sands China by analyzing its performance in environmental, social, and governance (ESG) aspects, as well as financial performance indicators. In terms of the environment, Sands China has implemented multiple measures to improve energy efficiency, reduce carbon emissions, and prioritize water resource management. In the social aspect, the company focuses on employee welfare, community development, and social responsibility, enhancing its social impact through various projects and activities. Regarding governance, Sands China is committed to establishing a transparent and responsible corporate governance system. In terms of financial performance, Sands China achieved relatively stable growth from 2017 to 2019 and addressed market challenges through cost control and risk management measures. However, the company's performance was severely impacted by the COVID-19 pandemic. To adapt to the current uncertainty, Sands China needs to embrace market changes, diversify its business, strengthen risk management, and actively explore new markets. Through these efforts, Sands China will maintain a stable development trajectory and contribute to the economic recovery of Macau.

**Keywords:** Sands China, sustainable development, ESG, financial performance, gambling industry

## **1. Introduction**

The global gambling industry has garnered widespread attention as a controversial and risky business activity. Since the second half of 2014, the Macau gambling market has faced various challenges due to policies implemented by the Chinese mainland and Macau governments. These factors include China's economic recession or uncertainty, global trade tensions, restrictions on outbound visas for Chinese mainland and Hong Kong visitors to Macau, anti-corruption campaigns, currency transfer controls, border currency declaration systems, and capital outflow policies. These policies can potentially impact the number of Chinese mainland tourists and capital outflows. Additionally, the performance of the Macau gambling industry has also been affected by smoking restrictions in the mass gaming and VIP areas.

Furthermore, the gambling industry has often been viewed through a biased lens as one of the Sin Stocks, with people associating it with vice and various criminal issues. Some unscrupulous

individuals even exploit the gambling industry for illegal money laundering, leading to an increase in economic crimes and illicit market transactions. Stanley Ho, the founder of Sun City, was convicted on January 18, 2023, and sentenced to 18 years in prison for alleged illegal online gambling operations, fraud, and money laundering, obscuring the illegal source of funds and integrating them into the legitimate economic system. Disputes and violent incidents among gamblers due to gambling addiction are also not uncommon. Therefore, effectively regulating the gambling industry, establishing friendly relationships with surrounding communities, providing gambling addiction prevention and treatment services to the public, and enhancing efforts to combat illegal activities are pressing concerns for the Macau gambling industry to fulfill its corporate social responsibility and improve its public image.

Faced with these challenges, Macau gambling companies are eager to find new paths for development by innovating, diversifying their businesses, and exploring new markets to reduce their reliance on the gambling industry. Diversification has become their primary objective, as they seek to mitigate risks associated with the gambling sector and explore new growth opportunities in different fields by expanding their business portfolios.

## 2. Literature Review

Most scholars agree that a strong environmental performance has a positive impact on a company's financial performance. Firstly, by providing high-quality environmental disclosure, companies can improve investors' understanding [1]. This enables investors to better assess the environmental risks and opportunities of a company, leading to more informed investment decisions [2]. Companies can enhance investors' perception of their value and trust, thereby increasing their chances of obtaining financial support and other resources, promoting their development and sustainable growth [3], and gaining a competitive advantage [4], resulting in improved financial performance [5]. Taking proactive environmental responsibility and investing in environmental management and protection technologies help companies build a good reputation and reduce the risk of environmental litigation. Moreover, optimizing and improving resource utilization allows companies to generate better returns [6].

Secondly, strengthening environmental management and increasing efficiency contributes to good environmental performance [7]. A strong environmental performance enhances a company's brand reputation and social influence [8]. Additionally, it enables companies to enjoy more support and preferential policies from the government in terms of subsidies, taxation, etc. [9], which further promotes financial performance improvement [10].

## 3. Motivation for ESG Transformation Strategy

The "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" clarifies Macao's development positioning. According to the plan, Macao is committed to becoming a global tourism and leisure center and a platform for China's cooperation with Portuguese-speaking countries in trade and services. It aims to promote diversified economic development and establish a hub for cultural exchange and cooperation with Chinese culture as the mainstream. The integration of resources in the Greater Bay Area provides favorable conditions for the diversified development of Macao's economy [11].

In this context, major Macau casino operators, including Sands China, have also introduced ESG transformation strategies, actively responding to the call for sustainable development. Environmental, social, and governance (ESG) factors have become important considerations in their business operations. By implementing ESG transformation strategies, these companies aim to balance economic development with environmental protection, social responsibility, and good governance.

The year 2021 marked the beginning of a new reporting cycle for Sands China, and they have set new targets for 2025. Therefore, this paper will study and explore the specific measures and financial performance indicators of Sands China's ESG transformation based on the disclosed information in their 2022 ESG Environmental, Social, and Governance Report.

#### 4. Company Overview

Sands China Limited (1928.HK) is an investment holding company primarily engaged in the development and operation of integrated resort businesses in Macau, China. The company operates multiple business segments, including gaming areas, convention facilities, venues for hosting large-scale meetings and exhibitions, retail and dining establishments, and entertainment venues. Additionally, the company operates through six business segments, namely The Venetian Macao, Sands Cotai Central, The Plaza Macao, Sands Macao, Ferry and Other Operations, and The Parisian Macao. The company's subsidiaries also provide high-speed ferry transportation services, including Cotai Water Jet, Apartment Hotel (Macau) Limited, and Lotte Tour Development Limited.

#### 5. ESG Performance

Compared to traditional corporate social responsibility indicators, ESG (Environmental, Social, and Governance) comprehensive indicators provide a more comprehensive evaluation of a company's fulfillment of its social responsibilities. ESG comprehensive indicators incorporate the crucial aspect of corporate governance, forming a comprehensive assessment system that includes non-financial indicators. This allows for a more comprehensive evaluation of a company's performance in fulfilling its social responsibilities [12].

According to the latest data from Wind ESG database as of July 18, 2023 (see Figure 1), Sands China Limited performs above the industry average in terms of corporate governance and social indicators for the Hotel, Restaurant, and Leisure III industry. The company's performance in social indicators is significantly higher than the industry average. However, in terms of environmental indicators, the company's performance is slightly below the industry average. This data reflects Sands China Limited's overall performance in ESG. The strong performance in corporate governance and social responsibility helps enhance the company's reputation and social influence. However, there is still room for improvement in the environmental aspect, which Sands China Limited needs to focus on and strengthen. By further optimizing environmental management, Sands China Limited has the opportunity to enhance its ESG performance and achieve greater success in sustainable development.

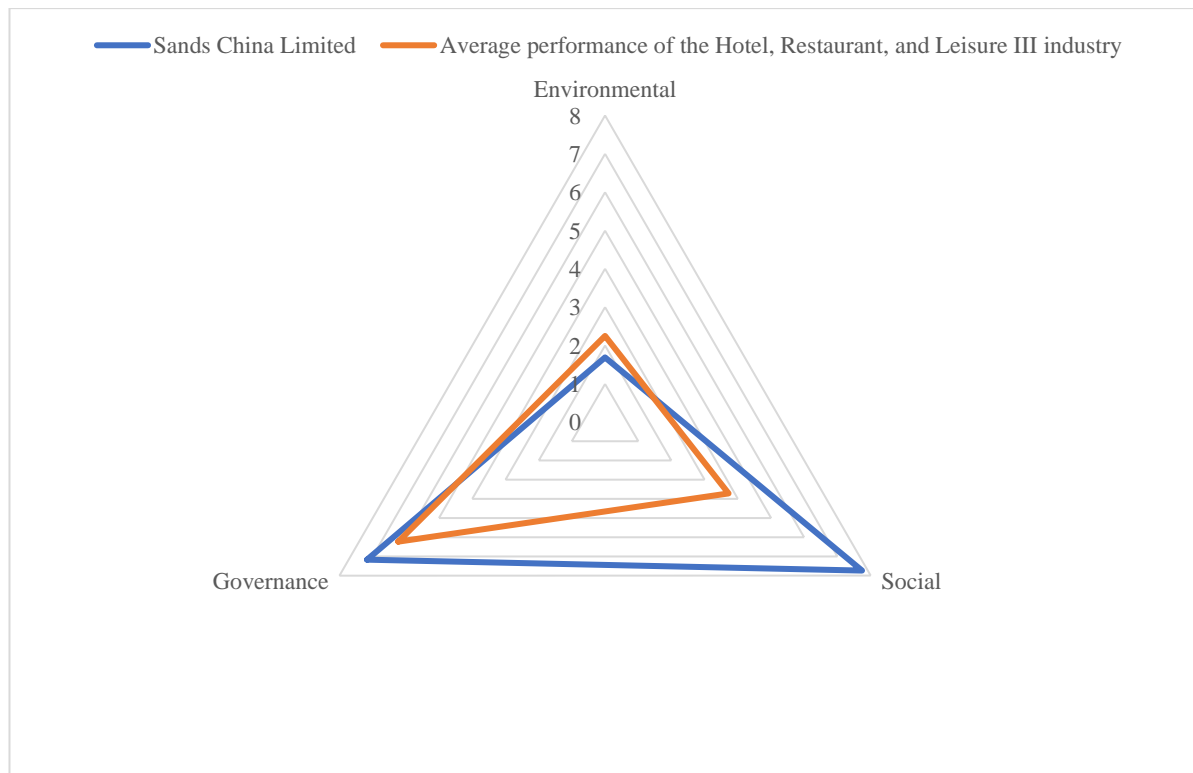


Figure 1: Comparison of ESG Performance.

(Data source: Wind ESG database)

## 5.1. Environment

### 5.1.1. Low Carbon Transformation

Sands China Limited is taking measures to combat climate change, improve energy efficiency, and adopt renewable energy sources. Low-carbon transformation is a strategic priority for the company, aiming to reduce environmental impact, contribute to sustainable development, enhance company value, and change industry image. The transformation includes the use of efficient LED lights to replace traditional bulbs, installation of new high-temperature heat pump systems for hot water supply, and continued use of renewable energy sources such as hydroelectric power, wind power, and solar thermal units. Additionally, the company has made progress in electric vehicles by installing EV chargers and increasing the number of electric taxis.

According to the company's report, Sands China's carbon dioxide emissions decreased by 56% in 2022, with plans to further reduce by 17.5% by 2025 (see Figure 2). Despite the impact of COVID-19 on energy consumption and greenhouse gas emissions, the company continues to strive for low-carbon transformation.

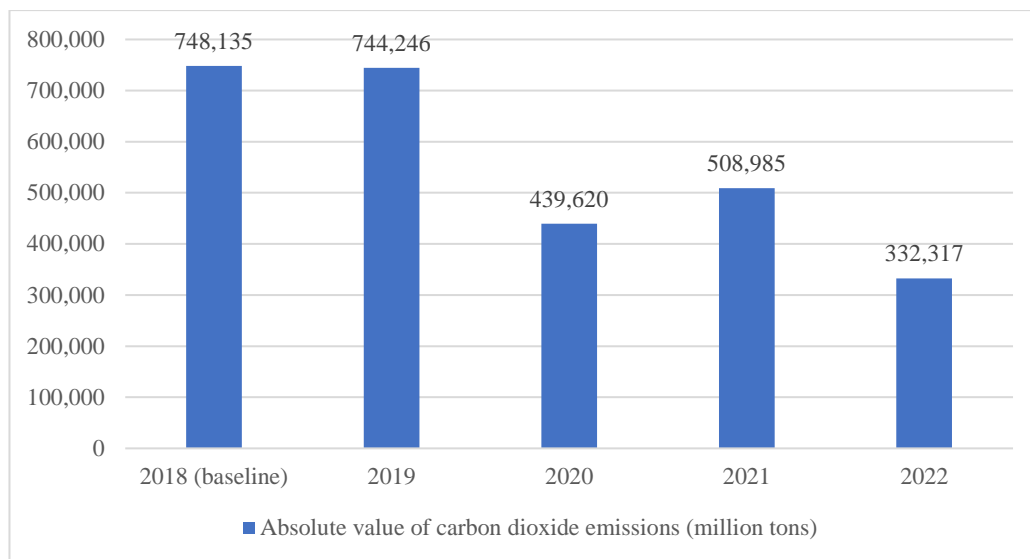


Figure 2: Absolute value of carbon dioxide emissions in million tons.  
(Data source: Sands China 2022 ESG Report)

Although carbon emissions have decreased over the past three years due to the pandemic, with the easing of the pandemic and the resumption of travel policies, Sands China's carbon emissions will increase with the growth in visitor numbers. Therefore, Sands China needs to take more measures to address energy consumption issues and achieve carbon reduction goals.

### 5.1.2. Water Resources Management

Sands China regards water resources as one of the important aspects of sustainable development. Water plays a crucial role in various aspects of Sands Cotai Resort, from showers in guest rooms and water coolers in offices to cleaning and cooking services in restaurants.

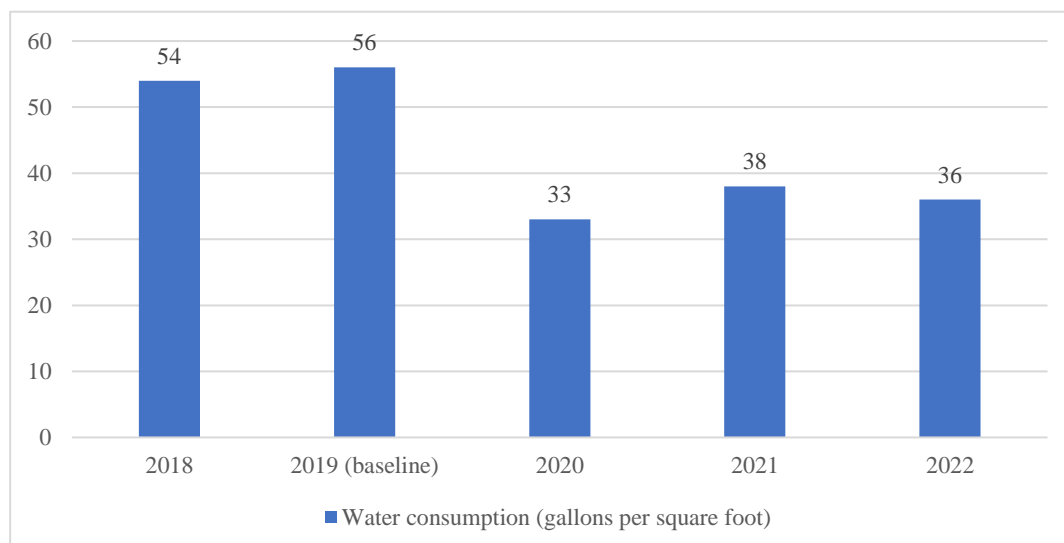


Figure 3: Annual water consumption of Sands China.  
(Data source: Sands China 2022 ESG Report)

The COVID-19 pandemic has impacted the number of tourists and hotel occupancy in 2022, resulting in a 36% decrease in water consumption, as shown in Figure 3. In order to conserve water

and protect the environment, Sands China has partnered with Clean the World to support local conservation programs through the "Drop by Drop" project. They have also funded research at the University of St. Joseph in Macau, focusing on wetland and mangrove protection. Additionally, Sands China's team supports the planting of mangroves along the coast of Macau, with 1000 saplings already planted.

To support environmental protection, Sands China organizes an annual green product roadshow, enabling their team members to purchase local eco-friendly products and providing free exhibition space for businesses to sell water-saving products. While Sands China has reduced operational costs and fulfilled environmental, social, and governance commitments, the impact is not significant. Sands China needs to continue implementing cost-effective projects, seeking energy-efficient and water-saving alternatives, setting strict efficiency goals, and utilizing innovative technologies to scale up solutions and meet future demands.

### 5.1.3. Plastics and Packaging

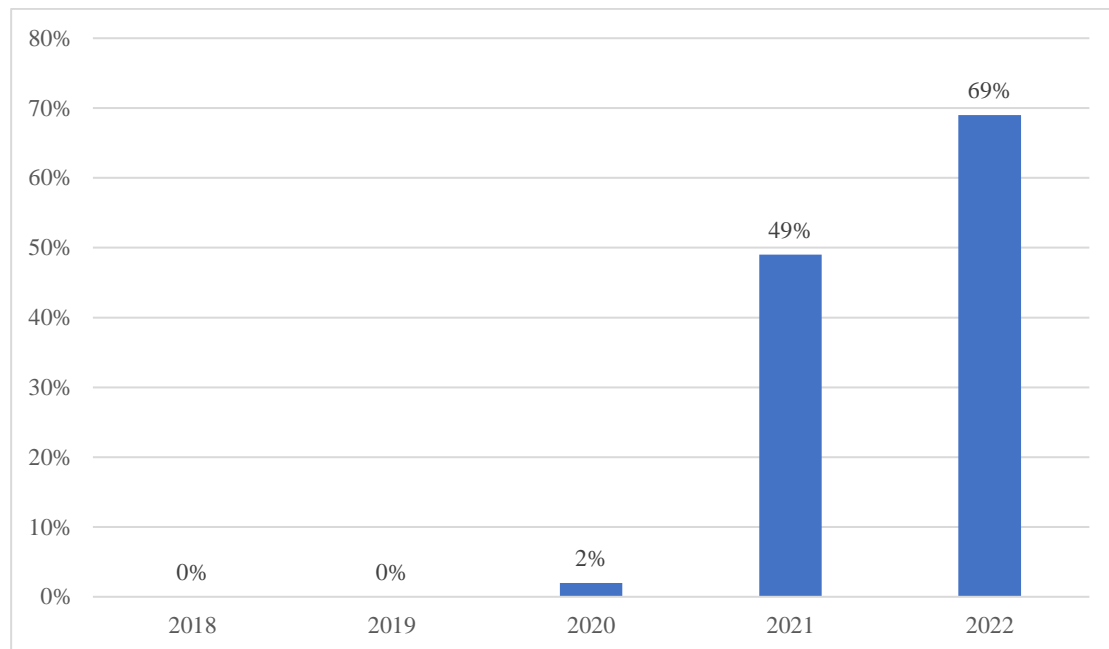


Figure 4: Reusable Sands China branded water bottle.

(Data source: Sands China 2022 ESG Report)

See Figure 4, Sands China is committed to reducing plastic and packaging waste by using recyclable and sustainable alternatives. Approximately 69% of Sands China branded water bottles are now made with sustainable solutions, reducing reliance on plastic and packaging. They have also taken other measures such as replacing disposable bottles with refillable ones for bath products, minimizing secondary packaging in guest rooms, and using bamboo toothbrushes and plant-based packaging for bathroom amenities.

Additionally, they have reduced the use of plastic bags and the number of garbage bins, and donate funds to the Environmental Protection Bureau through an additional fee on plastic bag purchases. They are actively seeking plastic-free alternatives, including mini bars and convenience items. As early as 2019, they stopped providing plastic straws in their food and beverage operations and eliminated plastic packaging for toothbrushes in guest rooms.

## 5.2. Society

### 5.2.1. Responsible Gambling and Prevention of Financial Crimes

To alleviate public bias towards the gambling industry, the Macau gambling sector needs to implement internal changes and response measures, as well as develop effective solutions. Responsible gambling is one of Macau's important initiatives to address negative events and impacts in the gambling industry.

Responsible gambling requires gambling operators, the government, and society to ensure players have a fair and safe gambling experience, while avoiding negative consequences. The core concept is to promote healthy gambling behavior, prevent addiction, and provide support and assistance to those affected by gambling issues [13].

Sands China promotes a safe gambling environment by implementing a responsible gambling strategy. They invest in measures to prevent illegal financial activities and reduce gambling risks. Their strategy includes providing information and resources, visible slogans, and a Responsible Gambling Ambassador program. They educate players about the risks and encourage wise decisions. The program also trains employees to provide support. These efforts aim to minimize risks and ensure a safe gambling experience for individuals and society.

In 2022, Sands China's properties, The Venetian Macao and The Londoner Macao, received the local Responsible Gambling Index Certification in Macau. They organize events to promote responsible gambling and financial management knowledge to families, communities, schools, and social service organizations. Sands China also donated HKD 56,039 to support local organizations' responsible gambling and financial management initiatives.

In terms of preventing financial crimes, Sands China continuously updates its policies and procedures to comply with local regulations and industry practices. It has also completed anti-money laundering risk assessments to identify potential risks related to money laundering and terrorist financing and has submitted them to the local gambling authorities.

To ensure that all team members possess the knowledge and skills of responsible gambling, Sands China provides comprehensive training to them every year. Additionally, becoming a Responsible Gambling Ambassador of Sands China requires the completion of an advanced training course, which focuses on helping ambassadors better identify signs of pathological gambling and providing appropriate support and assistance.

Sands China is committed to creating a more responsible gambling environment and culture in the Macau community. As early as 2004, Sands China became the first gambling operator in Macau to introduce a self-exclusion program, and in 2007, it established a comprehensive Responsible Gambling Program.

The introduction of the self-exclusion program was an important milestone for Sands China in the field of responsible gambling. Through this program, players can voluntarily set personal gambling limits to control their betting behavior. At the same time, Sands China has established a robust monitoring and evaluation mechanism to ensure the effective implementation of players' set limits and provide necessary support and assistance in a timely manner.

From 2021 to 2022, Sands China's responsible gambling training has accumulated a total of 19,854 hours, with plans to reach 80,000 hours by 2025.

## 5.3. Governance

### 5.3.1. Risk Management

Sands China has an independent board of directors and audit committee responsible for overseeing risk strategies and goals, and evaluating the effectiveness of risk management processes. The



Enterprise Risk Management Committee consists of members from different departments to assist in supervising risk management processes. The management team is responsible for developing, supervising, and implementing enterprise risk management methods, and reporting significant risks to the board. Sands China adopts the COSO Enterprise Risk Management framework, regularly updates risk mitigation plans, and includes major risks in annual reports and the website. Non-major risks are managed by respective business departments. Additionally, environmental and social assessments are included in major issue evaluations to manage low-level risks and support the company's responsibility platform strategy.

Sands China's enterprise risk management plan provides detailed descriptions and explanations of management structure, evaluation processes, responsibility allocation, and the frameworks and tools used, demonstrating the company's rigor and comprehensiveness in risk management. Sands China has made efforts to ensure business operations in a safe and sustainable environment. This information helps investors understand Sands China's risk management measures and commitments, and supports the company's transparency and sustainability.

## 6. Financial Performance Indicators and Comparison of ESG Overall Scores

Due to the impact of the COVID-19 pandemic, the number of tourists visiting Macau drastically declined, resulting in a decrease in hotel business volume, and the Macau gaming industry suffered severe setbacks, experiencing three consecutive years of losses. To exclude the influence of the pandemic, this article will explore Sands China's financial performance indicators for the years 2017, 2018, and 2019.

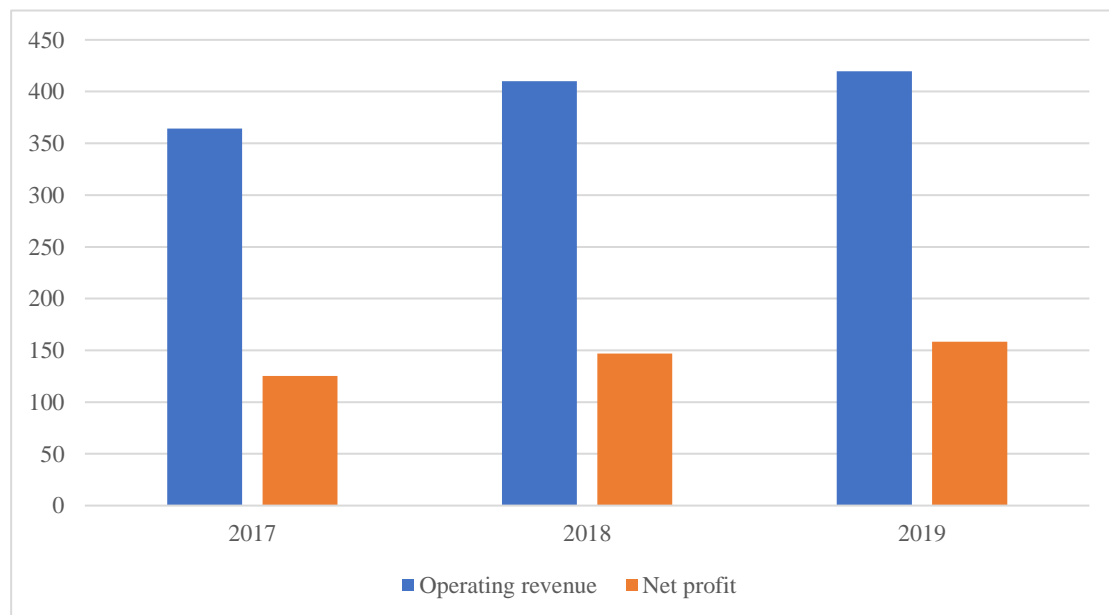


Figure 5: Financial performance of Sands China.  
(Data source: Sands China Annual Reports for 2017, 2018, and 2019)

As shown in Figure 5. In 2017, Sands China achieved remarkable results. The company's revenue reached HKD 36.42 billion, representing a year-on-year growth of approximately 13.8%. This growth was mainly attributed to the successful implementation of marketing and business diversification strategies. In terms of net profit, Sands China achieved a net profit of HKD 12.52 billion, representing a year-on-year growth of 31.9%. This growth reflects the company's excellent performance in cost control and operational efficiency.



In 2018, due to the continuous growth of the Macau gaming market and an increase in visitor numbers, all business segments experienced revenue growth. Sands China continued to attract VIP and high-end customers through providing luxury facilities and top-notch services, driving profitable gaming operations. Furthermore, the company achieved industry leadership in non-gaming sectors by increasing revenue from MICE (Meetings, Incentives, Conferences, and Exhibitions), hotels, retail, and entertainment. The company's revenue rose to HKD 40.99 billion, representing a year-on-year increase of 12.5%. Despite facing market pressure, Sands China maintained relatively stable net profit. The company achieved a net profit of HKD 14.68 billion, representing a year-on-year growth of 17.2%. This was mainly due to the company's active efforts in cost control and risk management.

In 2019, Sands China further improved its financial performance. The company's revenue reached HKD 41.96 billion, representing a year-on-year growth of 2.37%. This growth was mainly attributed to the continuous expansion of business segments and market share. In terms of net profit, Sands China achieved a net profit of HKD 15.84 billion, representing a year-on-year growth of 7.92%. This growth reflects the company's ongoing improvements in operational efficiency and risk management.

According to data from the Wind ESG database, this paper gets Figure 6. When compared with four Macau gaming companies that hold gaming licenses, Galaxy Entertainment (0027.HK), Wynn Macau (1128.HK), MGM China (2282.HK), and Aobo Holdings (0880.HK), all companies have performed well in implementing ESG transformations. Sands China ranks second among them. This data reveals the overall performance of Macau gaming companies in ESG aspects. They have taken proactive measures and demonstrated excellence in environmental, social, and corporate governance. In particular, Sands China's implementation of ESG transformation strategies deserves recognition. Macau gaming companies, by focusing on ESG factors, not only enhance corporate reputation and social responsibility but also contribute to sustainable development. This data provides inspiration and reference for other industries and companies to undergo ESG transformations, driving the overall sustainable development of the industry.

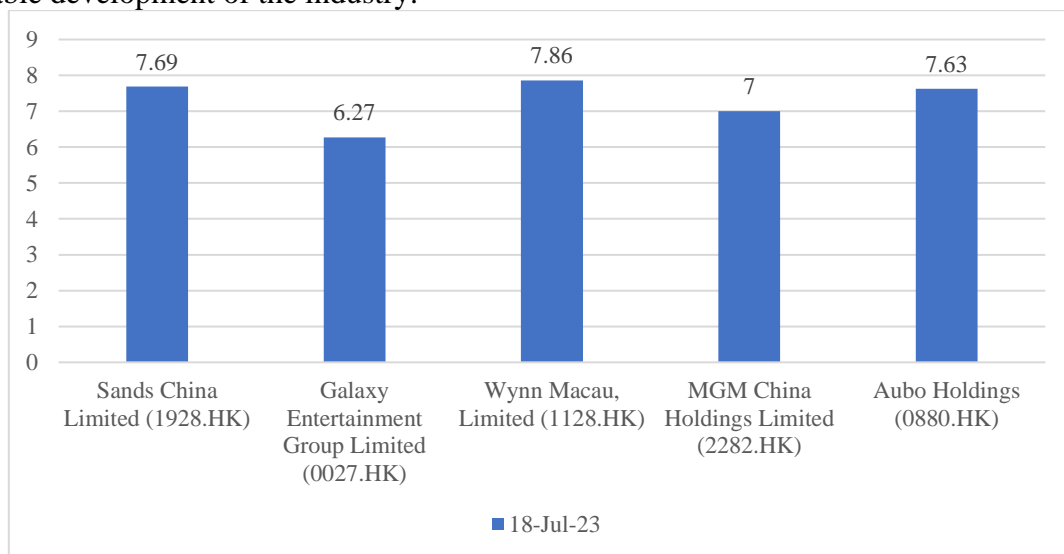


Figure 6: Comparison of ESG composite scores among five gaming companies.  
(Data source: Wind ESG database)

## 7. Conclusion

In summary, Sands China achieved relatively stable financial performance from 2017 to 2019 with growth in revenue and net profit. The company successfully addressed market challenges through optimizing cost control, diversifying business, and managing risks. However, the COVID-19

pandemic had a severe impact on Sands China. In the current normalcy of the pandemic, the company needs to adapt to market changes and take innovative measures.

To avoid the ripple effect of the Russia-Ukraine conflict and the US-China trade war on Macau's economic recovery, Sands China needs to take a series of measures. Firstly, strengthen risk management, closely monitor the international situation, and promptly adjust business strategies. Secondly, further diversify the business and reduce dependence on the gaming industry by developing non-gaming sectors such as conventions, hotels, retail, and entertainment. Additionally, actively explore new markets, seek international cooperation opportunities, expand overseas operations, and reduce reliance on a single regional economy. It is crucial to enhance internal management, improve operational efficiency, and ensure financial stability to cope with external risks and challenges. Through these measures, Sands China will be able to address uncertainties, maintain stable development, and contribute to the economic recovery of Macau.

### Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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