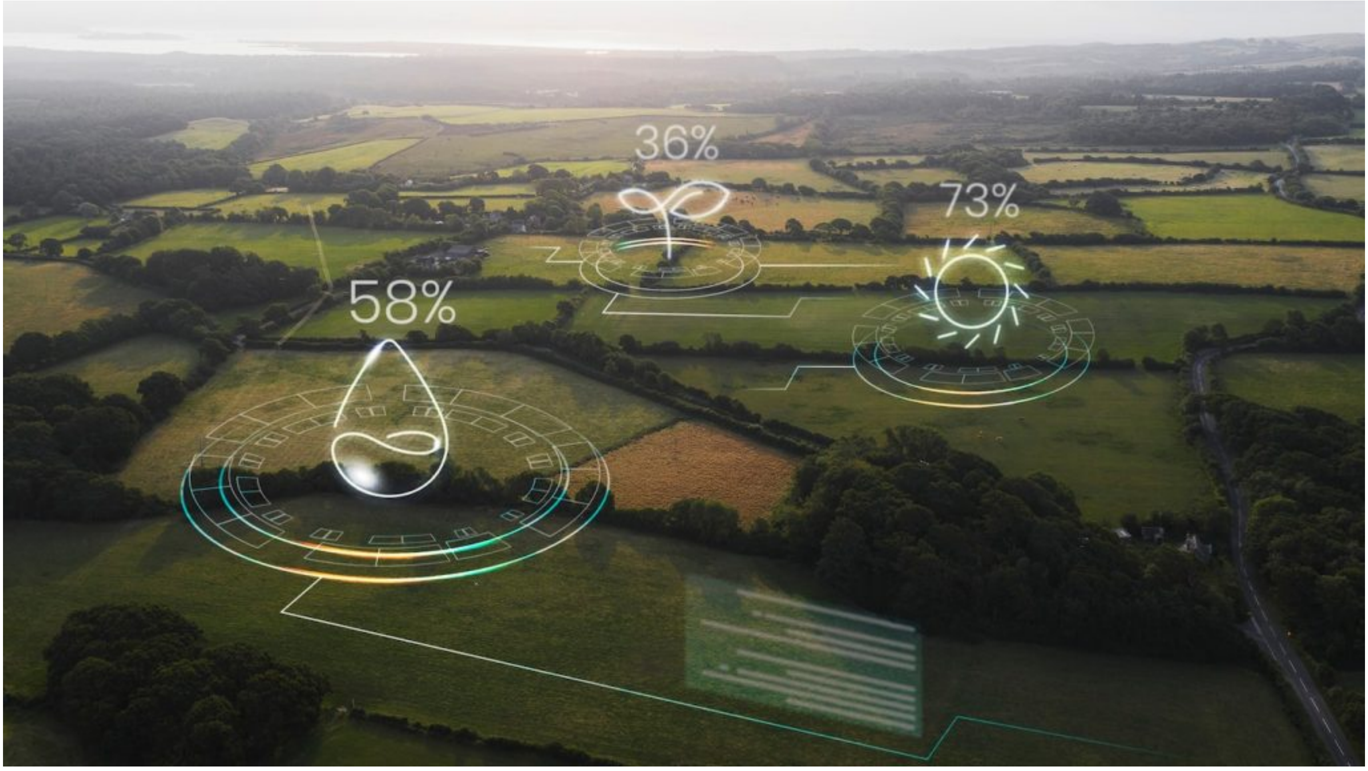
Three steps to kickstart your ESG strategy today



Around two decades ago, environmental, social and corporate governance (ESG) was somewhat of a tick-box exercise; the main point of which was to avoid bad press. No one wanted to deal with the kind of blow that an oil spill or human resource disaster could bring to their business. But over the past few years, there's been a distinct step change. As Harley-Davidson CEO Jochen Zeitz put it: *"Sustainability is no longer about doing less harm. It's about doing more good."*

ESG is now fundamental to future investment and business sustainability. Natalie Kolbe is a YPO member and the Managing Partner at Norrsken22, a new tech growth fund focused on Africa with a first close of $110M. She says that while risk mitigation was initially a key theme across the investment landscape, it's has now broadened to become more about impact.

"Around 15 years ago, the burning question was, *'how can I avoid trouble through my policies and practises?'* Several years later, this shifted to an emphasis on doing less harm: *'how can I reduce my negative footprint?'*

"Now, the industry has pivoted to impact. *'How can we actively do more good?'* is the question continuously being asked" she says.

Former JP Morgan investment banker Fleur Heyns is also a YPO member and co-founded Africa's largest equity trading platform, Global Trader. Today she heads up Proof (formerly known as Proof of Impact), the world's leading impact and ESG data intelligence platform for private markets.

Heyns provides historical context: "The term 'ESG' was only coined in 2006 when the criteria for company valuations were developed, along with the catchphrase, *'who cares wins'*. However, at the time – and quite ironically – the market believed that if you cared, you actually *lost* money."

Fleur highlights that in 2008, four global problems were identified at an Oxford University event, which businesses needed to solve. These were pegged to provide enormous growth opportunity and included climate change, education (with the use of technology being key to democratising access), poverty, and a need for sustainable food and agriculture. "It has taken 14 years, but today no smart investor would see these are concessionary themes – they're now high-growth investment industries," she says.

There are a couple of factors driving this shift, Heyns explains. "Firstly, is market demand, underpinned by growing consumer consciousness. People want to know that they're supporting companies that are not only *not* doing harm, but which are *actively* doing good."

Now she says, ground-breaking new European regulation means that businesses will need to toe the ESG line or not be feasible for public investment. "As of 2023, new reporting standards want private fund managers to define their ESG policies backed up by hard data from their portfolio companies. As an asset manager, if you are unable to provide this data, you won't be able to access pension fund investment."

Finally, is the matter of performance. A BNP Paribas global survey showed that the percentage of asset owners who put more than a quarter of their funds towards ESG had increased from 48% in 2017 to a massive 75% in 2019 – evidence that the link between ESG and business performance has become clear. Says one report from KPMG, *"The investors' demands are in line with multiple studies suggesting that ESG and corporate performance are intrinsically intertwined. Companies with higher ESG performance are likely to have better financial performance, talent retention, and long-term value creation."*

With ESG firmly rooted in Norrsken22's DNA, Kolbe says that the financial benefits to companies are evidenced in her line of work every day:"We can buy and sell a company with ESG at its core for far more profitable outcomes. One will always get a better valuation on a 'clean' business with sustainability principles demonstrably in place. It's not about the warm and fuzzy; there's a significant financial value attached."

Kolbe and Heyns provide three easy steps to follow, for businesses that are looking to integrate ESG into their operations.

Set your strategy. Then just start.

Kolbe says that the ESG and corporate social responsibility (CSR) programmes that have the most longevity and resonance are those aligned to your core business values or operations. "For example, if your business is a renewable energy company, it may not make as much sense to centre your CSR programme around building schools, as it might to provide schools with solar panels to generate their own electricity. That is where your expertise lies, and where you have the biggest capacity in your business," she says.

And then just get started. "Pick one or two things to focus on and expect that they will evolve as time goes on. You will likely end in a different place from where you started – but you won't get there if you don't start somewhere."**Assess your progress.**

Heyns says you can only improve what you measure. "This provides the line of sight that'll allow you to make the necessary tweaks as you go, moving you closer to your targets.

"Give this data as much weighting as you do to the other financial metrics that you use to track a successful business, she advises. "Much of this data will be correlated to your financial performance – you already have these indicators, so you can easily optimise for these. If I know that hiring more women, for example, reduces stress levels in my business and bolsters productivity, which in turn, improves output, I am going to keep hiring more women," she explains. This brings us to the next point…

Understand your impact.

Finally, to ensure the sustainability of any ESG strategy, it is vital to understand the materiality of what is derived; both from both a financial and an impact perspective. "Seeing the financial return from having made sustainable decisions will keep you focused on your goals and ensure that you lead with impact – something that is very much aligned to the YPO philosophy," concludes Heyns.