Private equity acknowledges importance of ESG awareness

Private equity investors are taking into account that environmental, social and governance (ESG) awareness and integrated reporting have become crucial in the 21st century.

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This was the key message at the launch of the first Southern African Venture Capital and Private Equity Association (SAVCA) Case Study Compendium in Sandton, Johannesburg.

The Compendium is a collection of sixteen case studies showcasing how private equity investment is resulting in more sustainable business practices and positive community outcomes. The positive outcomes illustrated in the report range from job creation and skills development to reducing environmental impact, the introduction of more sustainable operations and, importantly, the positioning of private equity and venture capital owned companies as compelling investment opportunities.

Stuart Bradley, SAVCA director and senior partner at Phatisa, said that, in Africa in particular, private equity is not about big money getting bigger - it is about contributing to real business growth and community development.

Measuring outcomes

Fellow SAVCA director and managing director of Edge Growth, Daniel Hatfield, noted that the launch of the Compendium presented an opportunity to create a baseline for measuring the outcomes of ESG and impact investing - investments made into companies or funds with the intention of generating positive social and environmental impact alongside a financial return.

Keynote speaker, Professor Mervyn King, chairman of the King Committee on Corporate Governance, said ESG reporting could no longer be done in a separate silo. Sustainability must be embedded into the long-term strategies of companies and their investors, he said, and ESG factors are crucial in determining a company's future prospects.

"Since 2005, we have seen companies producing reports in two silos: financial reporting and sustainability reporting. But from the perspective of the allocation of capital, one needs all of this information in integrated reports to address critical questions about how the company will sustain value creation in the long term. Investors must look beyond the outputs of a company, to its outcomes, because how a company is impacting on society and the environment could have a dramatic effect on its bottom line."

Destroying shareholder value

Professor King noted that there were numerous examples of high-profile companies destroying shareholder value owing to their negative impact on communities or on the environment. In a climate where stakeholder expectations have changed and where businesses need to deal with factors such as radical transparency through social media, greater awareness of the global environmental crisis, and needing to make more with less impact, it is no longer a matter of business as usual.

"None of us who are investing other people's money can ignore these changes. The financial modelling may look good, but it's also important to understand the drivers of change, what the character of a company is, and how the company enhances the positives and ameliorates the negatives for sustainable value creation," he concluded.