ESG investment: What does good look like?

By Mamedupi Matsipa

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While most private equity managers undertake investments on the premise of adding value to the companies in which they invest, they should not only consider ways to improve their portfolio company's environmental, social and governance (ESG) or green credentials, but also ensure that their investments reduce harm in the long term.

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Including ESG principles into your investment strategy is the first important step in ensuring that your investments do as little harm as possible or reduce harm in the long-term. With ESG rapidly becoming the new normal, an important next step is the mobilisation of private equity with the strategic intent to make a measurable contribution to building a better and more sustainable future for all.

One way is for ESG policies to broaden their focus in order to encapsulate broader societal objectives is by including relevant company or industry specific guidelines, regulations and legislation, including South Africa’s transformation and empowerment targets.

Pushing the boundary beyond compliance

Navigating ESG compliance and performance requirements can be tough for portfolio companies and is a long-term journey. While private equity managers can provide companies with the right tools and frameworks required to improve ESG compliance, they can further enhance performance in a number of ways. Private equity managers can be more intentional throughout the process by driving compliance, change and transformation; being actively engaged in the inner workings of the company and having a seat at the table to drive strategic initiatives. In doing so, private equity managers are able to hold themselves accountable for driving improved ESG performance within portfolio companies.

In order to push the boundary beyond mere ESG compliance and to ensure that the portfolio company is able to achieve meaningful and lasting change, private equity managers must become the driving force behind leveraging ESG principles to bring about impactful change within the business.

Measuring impact

Equally as important as implementing ESG performance targets within a portfolio company, is tracking the progress and measuring ESG compliance against a portfolio company's ESG targets.

Tracking and measuring of ESG impact can be difficult. While some ESG principles are quantitative in nature and easier to measure, others may be more qualitative in nature, and more difficult to measure.

As a result, it is important to set clear performance indicators right from the start, as this will assist in monitoring and measuring compliance and allow one to course correct when necessary.

In learning and gaining insight into the broader impact of their investment, private equity managers could start to track and measure the true impact and success of their investment by judging success on aspects beyond just financial returns.

Sustainable, value-driven business investments in a post Covid-19 era

While the Covid-19 pandemic has brought to light the urgent need for companies to be able to operate in a sustainable economy and deliver products and services that have the lowest impact on the environment and society, it has also brought to light the need to build back better post-Covid.

In South Africa, which already faces a number of social challenges, the pandemic has placed further attention on the need to address social issues such as inequality, human rights, diversity and inclusion, and transformation.

Now is the time to pause, reset and 'rebuild' on a more sustainable footing. As private equity investors, we can use this opportunity to support businesses that seek to add value to the economy and drive Africa's transformation agenda.

ABOUT THE AUTHOR

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