Businesses to increasingly integrate sustainability within company strategy

By Cathy Duff

10 Jan 2023

The role of business has shifted over the past few years, with companies understanding the need to respond to the accelerating climate crisis, deepening social inequality, and increasing pressure from consumers, employees and investors.

Cathy Duff, director, Trialogue

A growing demand for environmental, social and governance (ESG) products has driven investment managers towards more responsible investment, and those same managers are also taking on stewardship roles to coax companies towards greater compliance.

While this is not new, and companies are accustomed to referencing ESG impacts in their sustainability reports, we foresee a greater shift from reactive reporting to proactive efforts to embed sustainability within company strategy. This will also impact corporate social investment (CSI) which will continue to become more aligned to company strategy. We believe these two macro trends, which are explored in this article, will influence companies this year.

#BizTrends2023: Companies expected to play increasingly significant role in making the world a better place

Tshego Bokaba 9 Jan 2023

Shift from sustainability reporting to integrated thinking

ESG disclosure is vital, but have companies truly understood that sustainability should be an integral part of their core strategy? Many view the plethora of codes and standards as the ‘regulatory cost’ of doing business – a mindset that guarantees that adoption will be superficial (perhaps superficially referencing the Sustainable Development Goals, for example). At best, this is inefficient; at worse, it is disruptive and does not lead to behaviour change.

The alternative to thinking about ESG adoption as a cost is to recognise it as a means to generate long-term sustainable value. The Task Force on Climate-Related Financial Disclosures (TCFD) has released guidelines that compel companies to embed ESG in their organisations, marking a shift from disclosure and reporting to integrated thinking. Integrated thinking involves incorporating the stakeholder view and considering ESG issues in all that a company does – in its strategy, operations and processes, and not just in its reporting. Companies need to ask themselves how they can align ESG with strategy and purpose.

The next few years will mark a transition from disclosure to action as companies change their mindsets. For example, PricewaterhouseCooper's 2021 remuneration report shows companies are increasingly incorporating ESG into short-term and long-term incentive structures. Shoprite Holdings, for example, links incentives to the group's strategy to reduce its carbon footprint, reduce electricity consumption, and recycle. Trialogue's own research shows that 72% of companies are already integrating material ESG issues into strategy and that 56% of them expect ESG matters to be fully integrated across every department in the next two to five years.

Articulating the business case for ESG helps companies to incorporate it into their strategy. The benefits are significant and may include reduced costs; market opportunities as sectors transition; improved risk management and mitigation; reduced cost of compliance; access to capital; and better performance on the back of improved stakeholder relations.

#BizTrends2023: The road to ESG - how SA can use 'social impact' to make environmental progress

Ravi Naidoo 9 Jan 2023

Aligning corporate giving practices with company strategy

Corporate giving practices have changed enormously since the 1970s. The early years of CSI in South Africa – what we term 'CSI 1.0' – saw the private sector increasing philanthropic giving, but it lacked strategic intent. Giving was reactive and only incidentally part of a transformative effort.

This changed with the publication of the second King Report in 2002, which underscored the fact that social responsibility and corporate citizenship could inform how companies thought about their business. Companies began to fund projects that aligned with their values and strategies (CSI 2.0).

With a multitude of metrics against which to benchmark their CSI initiatives, companies are now acknowledging the complexity of the development landscape, along with the need to partner with other stakeholders to bring about meaningful change.

As with ESG, what we term ‘CSI 3.0’ will increasingly align with business strategy. Companies will take a more holistic approach to development, considering the entire ecosystem in which they operate. We will see growing collaboration and cross-sector engagement, driven by innovative and outcomes-based finance.

Many companies will also be more willing to support legitimate and lawful advocacy work to tackle injustice and inequality. A good example of this is Woolworths, which has announced its intention to rethink CSI in the context of inclusive justice in South Africa.

Integrated thinking provides a roadmap for change, which will become increasingly important as the focus on impact intensifies. Company leaders have a limited time in which to set their businesses on the right path, so the sooner they focus on transforming their businesses practices by embedding ESG, the sooner they will reap the rewards inherent in that transformation.

ABOUT CATHY DUFF

Cathy Duff is a director of responsible business consultancy Trialogue. She has more than 20 years' experience in responsible business, sustainability, social investment, and philanthropy research and advice.

- #BizTrends2023: Businesses to increasingly integrate sustainability within company strategy - 10 Jan 2023

View my profile and articles...