Is your organisation ready for the ESG revolution?

Today's business leaders often have a mixture of anxiety and enthusiasm about environmental, social, and governance (ESG) issues, which is driving them to ask two different kinds of questions depending on which emotion is in the driving seat.

The questions, which are driven by anxiety, that business leaders are asking include:

- "What risks are we sitting on?
- How do we measure and manage them when there are no common standards?
- Where should we focus, when the list of potential issues is a mile long?"

And critically, the questions driven by enthusiasm include, "As we take a hard look at our business, what opportunities can we identify to solve big problems and create value in new ways?"

The answers to these questions are interrelated, as are the initiatives those answers will motivate: reimagined reporting, strategic reinvention and ultimately, wholesale business transformation.

The underlying forces at work are also well known. Investors, lenders, and rating agencies expect greater visibility of an ever-broader range of non-financial metrics to better understand diverse social and environmental risks. Governments' ambitious, top-down commitments to limit carbon emissions are increasingly backed by new regulations and new taxes. More—much more—can be expected. Institutional investors are urging companies to build ESG considerations into their long-term strategy, bringing it up during engagements and sometimes using shareholder proposals to force companies to take action. Some of the world's largest asset managers have voted against directors at companies that, in their view, lag on ESG. They say that identification and management of the ESG issues material to a company are essential to resiliency and risk mitigation, as well as strategy execution. They also say it leads to long-term increases in shareholder value. Activist shareholders, among many other stakeholders, are advocating for net-zero policies and for tighter linkages between ESG targets and executive compensation packages. Socially conscious consumers are more inclined to vote with their wallets, encouraging businesses to reappraise their products and purpose, including their role as employers of diverse, engaged workforces. And the global pandemic has created significant additional momentum for change.

Some regulators in countries such as United Kingdom, United States of America and South Africa have already incorporated elements of ESG into mandatory reporting regimes. In Ghana, the Bank of Ghana, has launched the Sustainable Banking Principles (SBPs) to offer guidance on responsible lending and overall sustainable business for the banking community.

Against this backdrop, the ESG maturity level of companies varies widely. When PwC segmented executives responding to a recent survey according to their awareness and prioritisation of ESG issues, their personal commitment, and their belief in the potential for business to positively impact society, it became clear that leaders in most organisations (nearly three-quarters) were in the early stages of their ESG journey.

A few companies, though, have begun reorienting their business toward a value creation ecosystem that adds environmental sustainability, employee engagement, external partnerships, and broader societal impact to financial imperatives as measures of success.

Whatever the starting point for the ESG dialogue, the project will result in changes in all dimensions of a business, including strategic decision-making, implementation of the new direction, and reporting of progress and outcomes.

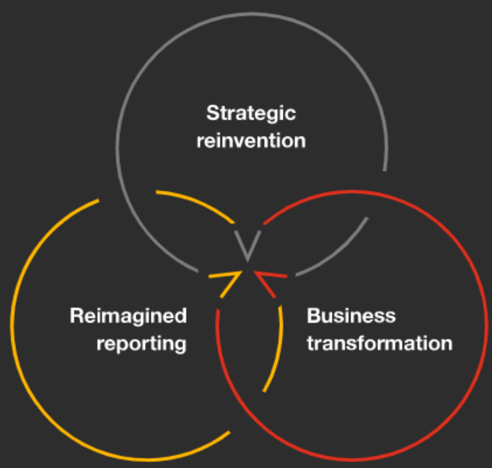
The ESG agenda encompasses reporting, strategy, and business transformation

The three dimensions of the ESG revolution translate ESG aspirations—What must we do? What should we do? What could we do?—into a blueprint for where and how to compete.

Not only are those dimensions interdependent, but each of them can create momentum that helps fuel the others. In industries as varied as oil and gas, consumer goods, telecommunications, manufacturing, hospitality and other services, companies are striving to build trust among, and deliver sustained outcomes to, their stakeholders. They are doing so by tackling these imperatives:

Translates ESG aspirations—What must we do? What should we do? What could we do?—into a blueprint for where and how to compete

Enables the measurement and management of ESG factors such as carbon emissions, workforce diversity, and supply chain sustainability



Drives ESG strategy and reporting into the heart of the business, often informing and extending ongoing digital transformation

Reimagined reporting

The most immediate call for action often is some combination of heightened regulatory requirements, risk awareness, and demand for data and transparency to enable the management and disclosure of ESG factors. Everything from carbon emissions to racial and gender balance to the sustainability of sourcing strategies is under the microscope; investors, governments, and other stakeholders are interested in assessing whether businesses have identified and are managing ESG risks. As companies re-evaluate what they report publicly, formal non-financial disclosures are starting to augment or replace nonbinding frameworks.

Strategic reinvention

In some cases, reimagined reporting will convince companies that to make progress against new metrics, they must rethink basic strategic questions about where and how to compete. In other cases, companies are moving aggressively to redefine their strategy with ESG at its core before grappling with changes in the reporting environment. Management teams are taking a fresh look at difficult strategic trade-offs in response to both new opportunities and external pressures, such as concerns about heavy carbon emissions (very much on the radar, for example, of energy companies and cement manufacturers) and about a range of social concerns, including health, race, gender, and inclusion and inequality. If its current strategic priorities are resulting in outcomes that are increasingly viewed as unsustainable (or even unacceptable), a business needs a strategy that addresses such concerns, exploits different opportunities, and, ultimately, redefines not only what the business does, but how it does it.

Business transformation

A business that begins to report against broader non-financial metrics will quickly find that it needs to define objectives to manage these metrics, and therefore to drive change—transformation—to achieve these objectives.

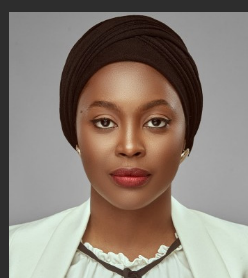
Similarly, a business that has had to redefine its strategic priorities to ensure its sustainability and relevance will urgently need to transform if it is to deliver on the new strategic objectives. Either way, businesses will have to actively manage ESG outcomes by internalising ESG into strategy, by transforming to implement the related change, and by reporting on both progress and outcomes. Senior leaders have a critical role to play in driving this agenda for transformation, which is not separate from ongoing digital transformations, but which will inform and build on them, redefining their context (and their purpose).

Every company is uniquely situated, and so is the scope of change it needs. Regardless of the motivations—an ambitious emissions target that inspires strategic reinvention; deals to exit or restructure businesses that are unsustainable; ambitious diversity, equity, and inclusion (DEI) priorities; or supply chain overhaul—the resulting ESG agenda will eventually encompass reporting, strategic, and business transformation initiatives. It all adds up to a new equation for business: behaviours based on purpose and trust that create value by finding solutions to the challenges society is facing.

The impetus for business to address ESG issues and opportunities is likely to continue to grow, spurred by investors and shareholders, governments and policymakers, employees, suppliers, customers, and citizens more broadly. There is a heightened awareness of the risks that need to be identified and managed, but there is also a growing sense of the huge opportunities offered by the scale of the transformation society is now facing. Whether your journey starts as a response to a new reporting requirement or reflects a top-down strategy refresh, it will lead to a pervasive reappraisal of operations, activities, and (especially) outcomes throughout the business. It will also create opportunities to identify and realise significant new sources of value creation.

This article is culled from PwC's Strategy+Business magazine. Read the full article here: https://www.pwc.com/gx/en/issues/esg/esg-revolution.html

For more insights, please contact:



Richard Ansong	**Rukaiya El-Rufai**
richard.ansong@pwc.com	rukaiya.el-rufai@pwc.com
Partner PwC Ghana	Partner, Sustainability & Climate Change Leader

For more information visit:

www.pwc.com/gh
https://twitter.com/PwC_Ghana
https://www.facebook.com/PwCGhana
https://www.linkedin.com/company/pwc_ghana
gh_pwc@pwc.com