Forward thinking supply chains

11 - 14 June 2023

45th Annual SAPICS Conference
Century City Conference Centre, Cape Town, South Africa

Why ESG is important to organisations

Maria du Preez, Petrus Gerber - BIL
Environmental, Social and Governance
Definitions

- **Environmental (E):** Issues relating to the quality and functioning of the natural environment and natural systems.
- **Social (S):** Issues relating to the rights, well-being and interests of people and communities.
- **Governance (G):** Issues relating to the governance of companies and other investee entities.
Adam Smith (1723 – 1790) - Father of Economics and Father of Capitalism - wealth is created through productive labor, self-interest motivates people to put their resources to the best use.

John Maynard (1883 – 1946) Keynes founded Keynesian economics. Keynesian economics argues that demand drives supply and that healthy economies spend or invest more than they save.

Milton Friedman’s (1912 – 2006)
1) voluntary interactions between consumers and businesses often produce results superior to those crafted by government decree;
2) policies have unintended consequences, so economists should focus on results, not intentions.
The Story - Globalisation

- First Globalisation 1870 - 1914
- World War I
- World War II
- Second Globalisation 1945 - 1989
- Collapse of the Soviet Union in 1989
- End of Cold War in 1991
- Third Industrial Revolution – Internet
- Globalisation on steroids
- Globalisation 4.0 – digital economies, e-commerce, 3-D printing, digital devices and threats of cyber attacks and cross-border hacking.

Negative globalisation is expanding too, through the global effect of climate change.
Discrimination occurs when a person is unable to enjoy his or her human rights or other legal rights on an equal basis with others because of an unjustified distinction made in policy, law or treatment. (Amnesty International)

Examples of South African Discriminatory legislation:
- Mines & Works Act 1911
- The Industrial Conciliation Act 1924
- The Liquor Bill 1926
- Mixed Marriages Bill 1937
- Immorality Amendment Act 1950
- Group Areas Act 1950
- Reservation of Segregated Amenities Act 1959
- Natives Labour Act 1953
- Bantu Education Act 1953
- Extension of University Education Act 1959
- Bantu Homelands Act 1970
The Montreal Protocol on Substances that Deplete the Ozone Layer was Adopted on 16 September 1987, the Protocol is to date one of the rare treaties to achieve universal ratification.

September 2007 the Parties decided to accelerate their schedule to phase out Hydrochlorofluorocarbons (HCFCs) – developed countries by 2020, developing countries by 2030.

October 2016 in Kigali, Rwanda agreed to phase down hydrofluorocarbons (HFCs) gradually. To date, the Parties to the Protocol have phased out 98% of ODS globally compared to 1990.
Sustainability

The UN's Brundtland Report (1987) defines sustainable development as follows: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

John Elkington’s (1994) triple bottom line concept – “people, planet and profit” (social, environmental and financial issues) – is a business principle driven by sustainability concerns.

The Global Reporting Initiative (GRI) (USA 1997) aimed to create a framework for guiding companies in generating sustainability reports. GRI released its first standardized framework in 2000 and created the G3 guidelines.
Sustainability Reporting

International Integrated Reporting Committee (IIRC - 2009 UK) introduced integrated reports and took over from the GRI.

➢ Integrated reports forward-looking vs financial report accounts for the past.

➢ Enhanced role played by sustainability reports – explains character and quality of relationship between business and stakeholder.

➢ IIRC aims to provide a framework to (1) improve the quality of information and (2) promote accountability and stewardship of capitals employed by the company.

➢ Blend sustainability reports and financial report to include ESG disclosures.
IIRCs 6 Capitals

The integrated reporting framework identifies six capitals:

1. **Financial capital** - shareholders
2. **Human capital** – employees
3. **Natural Capital** – provided by nature
4. **Manufactured capital** - tools and equipment used in the production process
5. **Intellectual capital** - human knowledge put to good use to create processes enhancing efficiency;
6. **Social and relations capital** secures healthy links between the business and its stakeholders
The Integrated Reporting Council (IRC) of South Africa formed in May 2010.

- Dr Mervyn King – the champion of corporate governance in South Africa instrumental in founding the IRC of South Africa and is the benchmark for integrated reporting in South Africa.

- JSE Socially Responsible Investment (SRI) Index launched in May 2004.

- The JSE one of the first stock exchanges in the world to make integrated reporting a listing requirement.
Although sustainability and ESG issues often referred to as ‘non-financial’, they contribute to financial value in various ways:

➢ **Protect value** – through initiatives taken in response to material social, environmental and governance risks

➢ **Create value** – by stimulating innovation in response to sustainability challenges, delivering profit-led environmental or social benefits at scale.

➢ **Enable value creation** – e.g. by encouraging collaboration with peers (including competitors) and/or regulators to address systemic sustainability risks to the broader market ecosystem.
The Sustainable Stock Exchanges Initiative has identified the following suggested benefits of effective sustainability disclosure:

- **Enhancing access to capital** - effective management of material sustainability risks and opportunities

- **Driving profitability and growth** - increased financial value by cost-saving opportunities, revenue generation and risk mitigation.

- **Improving compliance and risk management** - mandatory reporting.

- **Enhancing corporate reputation and stakeholder relationship** – industry ethical standards, improved stakeholder perception.
## Value drivers for enhanced sustainability performance and disclosure

<table>
<thead>
<tr>
<th>Risk Management</th>
<th>Productivity</th>
<th>Growth</th>
</tr>
</thead>
</table>
| - Operational and regulatory risk  
- Reputational risk  
- Supply chain risk  
- Leadership and adaptability | - Operational efficiency  
- Human capital management  
- Reputation pricing power | - New markets and geographies  
- New customers and market share  
- Product and service innovation  
- Long-term strategy |

- Measurable reduction in exposure to sustainability-related risks to revenue and reputation  
- Total cost saving + avoidance from sustainability-related initiatives  
- Revenue growth from sustainability-enhanced or advanced products and services

---

4. Derived from the UN Global Compact value driver model (https://www.unglobalcompact.org/library/811), as presented in GPW (2021) ESG
All United Nations member states adopted the 17 UN SDGs in 2015. It provides the blueprint for a more sustainable future by tackling some of the biggest and most urgent global challenges, such as poverty, inequality, climate change and environmental degradation. The private sector is recognised as having a significant responsibility to use their global reach and innovative potential to make a meaningful contribution to achieving the SDGs.
The WEF IBC metrics built on the basis of SDGs categorized in four pillars with universal metrics defined for 18 topics. Adopted 2020.
Emergence and Convergence of Global Sustainability and Climate-related Disclosure Standards
Amid the recent turbulence in equity markets, one trend has remained remarkably stable: capital continues to flow into environmental, social and governance (ESG) funds. The continued growth of “green” and sustainable funds means companies must actively monitor and promote their ESG ratings to retain full access to capital and manage the potential impacts on their share price.

Total funds invested in some form of ESG asset are expected to exceed $50 trillion by 2025.

EU fines BMW, VW $1B for running emissions cartel since the 90s

Volkswagen to Cut 30,000 Jobs After Emissions Scandal

Volkswagen has agreed to pay $15 billion under a settlement with U.S. authorities and owners of some 500,000 vehicles.
The Grey side of ESG

- **Greenwashing** is an exaggerated claim about something's sustainability.

- **Social washing** refers to misleading claims about the social responsibility of a company's products or services.

- **Pink Washing** refers to companies lining up to sponsor LGBT pride events whilst not doing anything about discrimination in their workplaces.

- **Blue washing** refers to the practice of businesses signing up for the UN global compact.
Sustainable operations

Why ESG matters?
CLIMATE CHANGE IS HUMANITY’S “CODE RED” WARNING

OUR WINDOW TO AVOID CLIMATE CATASTROPHE IS CLOSING RAPIDLY

DIFFERENT TEMPERATURE SCENARIOS FOR CORAL REEFS

- 70%-90% GONE
- DIE OFF COMPLETELY
- 1.5 °C SCENARIO
- 2 °C SCENARIO

SEA LEVEL WILL RISE 30-60 CM BY 2100

DROUGHT ESTIMATED TO DISPLACE 700 MILLION PEOPLE BY 2030

MEDIUM- TO LARGE-SCALE DISASTERS WILL INCREASE 40% FROM 2015 TO 2030

CORAL REEFS

SEA LEVEL RISE

DROUGHTS

DISASTERS
Energy-related CO\textsubscript{2} emissions increased 6% in 2021, reaching the highest level ever.

Rising global temperatures continue unabated, leading to more extreme weather.
The planet is reaching its limit

Some recent environmental effects
(Southern Africa)

• 2023: Cyclone Freddy Mozambique
• 2022: Tropical storm Ana
  (Madagascar, Malawi, Mozambique, Zimbabwe)
  Floods
  (KZN, South Africa)
• 2021: Cyclone Eloise
  (Mozambique)
• 2020: Cyclone Issa
• 2017: Wildfires (Knysna, South Africa)
The planet is reaching its limit

Some recent human health and wellbeing effects
(Southern Africa)

• 2023: Cholera outbreaks (South Africa, Mozambique)
  Measles (South Africa)
• 2022: Tropical storm Ana
  (Madagascar, Malawi, Mozambique, Zimbabwe)
  Floods
  (KZN, South Africa)
• Humanitarian needs increased by 70% in Southern Africa in 2020-2022 (unocha.org)

unicef.org, 2023
In 2020, for the first time in two decades, the share of the world’s workers living in extreme poverty increased, rising from 6.7 per cent in 2019 to 7.2 per cent, pushing an additional 8 million workers into poverty.
Businesses around the world face obstacles and unfair competition due to corruption. Globally, almost 1 in 6 businesses face requests for bribe payments by public officials.
### Why ESG Matters

**Robust ESG strategy** lowers the cost of capital over time due to the holistic, systemic consideration of the use, management of capital throughout the entire life cycle.

An **ESG strategy embedded** in the organisation culture results in improved operational performance across all resources in an organisation.

The **results of a reduction** in the cost capital and improved operational performance becomes evident in the improvement of share price.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in Cost of Capital</td>
<td>90%</td>
</tr>
<tr>
<td>Improvement in Operational Performance</td>
<td>88%</td>
</tr>
<tr>
<td>Improvement in Share Price Performance</td>
<td>80%</td>
</tr>
</tbody>
</table>

*The percentage of reviewed sources:
Based on study by Oxford University
Study title: “From Stakeholder to stakeholder”*
Research shows that an ESG strategy embedded in the business strategy have positive results. The percentage of business executives and their views:

- **59%** revenue growth
- **48%** improved customer satisfaction
- **38%** improved employee recruitment
- **37%** improved measurable impact

*Deloitte: Business views on environmental sustainability 2020 report*
Conclusion
In conclusion:

**ESG regulations** change dynamically in the best response to the accelerated changes in/due to impacts of climate, society and business environments.

Whilst we have **freedom of the choice** of our response. We do not have the same for the consequences.

**Proactive approach** is more sustainable in the long term given that ESG is implemented within the accelerated, dynamic, complex changes in the environment, in society and in business.

**ESG is a marathon not a sprint** and thus requires a willingness to agility, responsiveness and comfort with uncertainty.