Navigating the ESG Landscape: A Comprehensive Guide for Corporate Ethos and Social Responsibility

The Environmental, Social, and Governance (ESG) concept is a framework used to assess an organisation's business practices and performance on various sustainability and ethical issues.

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It provides a way to measure business risks and opportunities in those areas and allows stakeholders to understand how an organisation is managing risks and opportunities related to environmental, social, and governance factors.

The term ESG, was coined by the United Nations (UN) Secretary General and UN Global Compact in 2004 in a report titled "Who Cares Wins". This is widely considered the first mainstream mention of ESG in the modern context. However, the notion of incorporating all non-financial factors in business and reporting the same has been around for much longer.

Today, ESG factors are reflected in various ways such as governments enacting regulations to drive organisational (and consumer) behaviour, and consumers strongly indicating a preference to engage with sustainable organisations and financial institutions in their investment strategies.

It is important to note that investors and companies interact with ESG criteria differently. For instance, investors focus on the integration of ESG criteria into their investment decisions, and companies have an added responsibility of integrating and disclosing ESG data to stakeholders, particularly investors.

ESG can be described as a set of practices (policies, procedures, metrics, etc.) that organisations implement to limit negative impact or enhance positive impact on the environment, society, and governance issues while running their businesses.

Mombasa County Officials and residents participate in a beach clean up exercise at the Nyali Public Beach ahead of the Blue Economy Summit in Mombasa in this photo taken on 28th October 2023.

Environmental: Refers to an organisations' impact(s) and risk management practices on the environment. These include the organisation's energy usage, pollution, waste, management's stewardship over natural resources, and the firm's overall resilience against physical climate risks (like climate change, flooding, and fires).

Social: The Social pillar correlates to an organisation's impact on society and company stakeholders. Social factors that a company can be measured against include product safety, human capital management metrics like employee treatment, diversity, fair wages, employee engagement, equity, charitable initiatives, supply chain relationships and organisation's impact on local communities in which it operates.

Governance: Corporate governance refers to how an organisation is led and managed. This details how leadership's incentives are aligned with stakeholder expectations, how shareholder rights are viewed and honoured, and what types of internal controls exist to promote transparency and accountability on the part of leadership. Metrics for governance might include board diversity, accounting policies, executive pay and compensation, ownership structures, and ethical behaviour among employees across the organisational structure.

In recent years, investors have become more aware of the importance of ESG criteria in their investment decisions. As a result, many businesses have begun to integrate ESG into their operations and business strategies.

By businesses interacting with the community beyond just making a profit, organisations benefit from this approach through earning social licences to ensure their growth or expansion and continuation of their success.

The ESG framework helps businesses identify, organise, analyse, prioritise, and accordingly guide business decisions on various business options, which if left unaddressed can prove costly to the functioning and sustenance of businesses. ESG framework, when used for risk management, supports sustainable and long-term growth.

Many organisations have continued to confuse ESG with Corporate Social Responsibility (CSR) which has been a term used for a lot longer. CSR is driven by considerations and commitments internal to a corporation while ESG is driven by external requirements, such as international frameworks and standards. The European Commission has defined Corporate Social Responsibility (CSR) as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders'.

ESG, on the other hand, uses environmental, social, and governance metrics to evaluate sustainability efforts, placing a strong emphasis on data-driven reporting. The ESG policies are led by specific criteria, and utilise standards and frameworks often administered by external bodies that allow for project comparison through ESG scores and ratings.

It is important however to note that the two concepts are not in conflict, both seek to set goals for and report on how businesses and organisations are responding to different dimensions of societal well-being and sustainability.

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The ESG concept has gotten traction in the last few years with companies engulfing this approach within their business strategies and operations. Sasini PLC, a leading agribusiness in East Africa for example, has a prudent program on fast-tracking its impact on these issues by incorporating ESG and Sustainability mainstreaming into its core business strategies. This means that at the core of what drives how the company operates is a set of Sustainable Development Goals (SDGs) derived from the 17 SDGs that the United Nations has put forward to assist corporations in operating responsibly. These 17 goals are centred around 4 key areas, that is, respect and advancement of human rights, adherence to and promotion of good labour practices, protection of the environment, and pursuance of zero corruption while conducting business. The company realises these objectives through diverse activities focused on water stewardship, the pursuit of living wages, gender equity, robust climate action, and the exploration of partnerships and financing approaches. This strategic approach aims to broaden and optimise impact by expanding project scales within these key areas.

Understanding the connection between ESG factors and the SDG approach is crucial. They essentially target the same objectives. However, while SDG implementation is typically viewed as voluntary, numerous governments are increasingly passing laws in various jurisdictions to mandate ESG actions and reporting. These encompass a wide range of considerations, such as carbon emissions, resource usage, employee wellbeing, diversity and inclusion, and many more. Therefore, and as a result, ESG practices and initiatives contribute to the achievement of the SDGs. SDGs were formulated to bring a global consensus on pressing and pervasive social and environmental challenges.

Additionally, SDGs can serve as a useful framework for companies to assess their impact and set strategic goals. >>

>> Organisations can align their ESG initiatives with specific SDGs, measure progress, and report their contributions transparently.

Choosing the right metrics to adopt a new ESG strategy is important. The ESG factors will automatically align with the SDGs and by reporting on the company strategy, measurements, and monitoring, the company will be able to contribute to the SDG aim of achieving all the set sustainability goals by 2030.

By mapping the ESG priorities and actions to the relevant SDGs, organisations can identify areas where they can have a significant impact and contribute to global sustainable development objectives. This goal-setting process helps companies focus efforts and measure progress towards specific SDGs.

A few examples that relate ESG and SDGs include:

Carbon Footprint: When an organisation focuses its efforts on reducing carbon emissions and promoting renewable energy. This strategy aligns with SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

Gender Diversity: Organisations that prioritise gender diversity and promote women's representations align with SDG 5, Gender Equality. By fostering equal opportunities and empowering women, these companies contribute to creating a more inclusive and equitable society.

Water Management and Conservation: Businesses that implement sustainable water management practices, reduce water consumption, and promote water conservation initiatives align with SDG 6, Clean Water and Sanitation. Their efforts help ensure access to clean water and contribute to the overall preservation of water resources.

A wind farm in South Africa, supplying eco friendly electricity

Ethical Supply Chain Practices: Organisations that establish and enforce ethical supply chain practices, ensuring fair labour conditions, responsible sourcing, and transparency, align with SDG 8, Decent Work and Economic Growth. These practices promote sustainable economic development, decent working conditions, and fair trade.

Waste Management (Reduction and Recycling): Organisations that implement waste reduction strategies, prioritise recycling, and promote circular economy principles align with SDG 12, Responsible Consumption and Production. By reducing waste generation and promoting sustainable production methods, they contribute to a more sustainable and resource-efficient society.

Such examples and alignment can be found for all the 17 SDGs that various organisations can dial into.

Although there is an ongoing debate regarding many aspects of sustainability (including what should be prioritised, measured, and achieved, and by whom), ESG is set to stay as the key framework for the orientation of business towards sustainability goals.

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There are several cases where various companies have rephrased their purpose to incorporate ESG goals to fuel employee-driven innovation programs and overall engagement. Microsoft's purpose to 'empower every person and every organisation on the planet to achieve more' and Best Buy's purpose to 'enrich lives through technology' have both inspired significant innovations that have propelled their recent success as well as created significant impact for the communities they serve. Walmart creating sustainable supply chains with partners and customers, Merck partnering with Zipline for drone delivery of critical medications in remote regions, and Palantir using its data science/artificial intelligence (AI) capabilities to partner with the Polaris Project to combat human trafficking are but a few examples to review.

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Compliance with ESG goals reflect a growing awareness of the need to prioritise sustainability, ethical practices, and responsible management to create long-term value and mitigate risks associated with environmental and social issues. As organisations worldwide strive to integrate ESG principles into their operations, they face various challenges that must be navigated to make meaningful progress. These include;

Defining clear and consistent criteria: Establishing universally agreed-upon standards and guidelines for ESG goals can be difficult, as different stakeholders have varying priorities and interpretations of what constitutes good ESG practices.

Data availability and quality: The need for consistent, reliable, and comparable ESG data across companies and industries makes it challenging to measure progress and ensure transparency in achieving ESG goals.

Short-termism: Organisations often prioritise short-term financial gains over long-term sustainability, making it difficult to focus on ESG goals that require long-term commitment and investment.

Integration with business strategy: Incorporating ESG goals into an organisation's core business strategy can be challenging, as it often requires a fundamental shift in operations, culture, and values.

Regulatory uncertainty: The evolving regulatory landscape and varying requirements across jurisdictions challenge organisations trying to implement ESG initiatives and comply with global standards.

Investor expectations: Aligning ESG goals with the diverse expectations of investors can be challenging, >>

The new look of the rehabilitated Kibarani dumpsite that was closed by Mombasa Governor Hassan Joho in 2018.

>> as some may prioritise financial performance over sustainability. In contrast, others may prioritise certain ESG factors over others.

Greenwashing: Organisations may engage in greenwashing (clever reporting without necessarily taking the required actions) or make misleading claims about their ESG performance, which can undermine the credibility of ESG initiatives and make it harder for stakeholders to distinguish genuine progress from mere marketing.

Limited resources: Implementing ESG initiatives often requires significant investments in time, money, and human capital, which can be challenging for organisations with limited resources.

Supply chain complexities: Ensuring compliance with ESG goals throughout complex and global supply chains can be difficult, as organisations may need more visibility and control over the practices of their suppliers and subcontractors.

Pursuing ESG goals is a multifaceted and complex endeavour that requires organisations to overcome numerous challenges. Despite these obstacles, the importance of ESG initiatives in fostering sustainable business practices and long-term value creation cannot be overstated. By addressing the challenges identified in this list, organisations can develop more effective strategies and build more robust ESG frameworks that contribute to a better, more responsible business environment. Solutions could revolve around sensitisation of the workforce on the principles of ESG, staying up to date with changes to the regulations and industry standards, pursuit of a common/unified standardised framework, making ESG strategy a business imperative, and avoiding greenwashing their corporate strategies.

Patrick Mwalua, the "Water Man" who travels long distances to bring water to thirsty animals in Tsavo West National Park.

Referring to an April 2013 article by Vakilsearch, from which I must acknowledge drawing inspiration for this article, the piece highlights case studies of international organisations that are effecting positive change through their ESG initiatives. These are illustrated below.

Patagonia's Sustainable Supply Chain

Patagonia, a popular outdoor clothing, and gear brand has made sustainability a core part of its business strategy. The organisation has implemented a range of initiatives to reduce its environmental impact, including using organic cotton and recycled polyester in its products. Patagonia has also developed a sustainable supply chain, working closely with its suppliers to ensure that they meet strict environmental and social standards. As a result, Patagonia has been able to reduce its carbon footprint, improve the lives of workers in its supply chain, and create a loyal customer base that values sustainability.

Microsoft's Carbon Negative Pledge

Microsoft, a leading technology company, has set an ambitious goal to be carbon negative by 2030. This means that the company will remove more carbon from the atmosphere than it emits. It will do this through investing in renewable energy, improving energy efficiency, and developing new technologies to reduce carbon emissions. The company has also committed to offsetting all its historical carbon emissions by 2050.

Unilever's Sustainable Living Plan

Unilever, a global consumer goods company, has developed a Sustainable Living Plan that aims to improve the health and wellbeing of people and the planet. The plan includes ambitious targets to reduce the environmental impact of Unilever's products, improve the lives of workers in its supply chain, and promote sustainable agriculture. Unilever has also taken steps to increase transparency and accountability by publishing regular reports on its progress towards these targets. By implementing the Sustainable Living Plan, Unilever is showing that sustainable business practices can create long-term value for both the company and its stakeholders.

AAR Healthcare staff water a tree during a tree planting exercise held at Karura Forest on October 16, 2021.

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Tesla's Electric Vehicles

Tesla, a leading electric vehicle manufacturer, is driving the transition to a more sustainable transportation system. The manufacturer has developed a range of electric vehicles that are designed to be more energy-efficient and environmentally friendly than traditional gasoline-powered cars. Tesla has also invested in developing a network of charging stations to make it easier for people to drive electric vehicles. By offering a compelling alternative to traditional cars, Tesla is helping to reduce carbon emissions and create a cleaner, more sustainable future.

Starbucks' Ethical Sourcing

Starbucks, a global coffee company, has made ethical sourcing a top priority. The company works closely with farmers and suppliers to ensure that its coffee is produced in a way that is environmentally and socially responsible. Starbucks has also developed programs to improve the lives of coffee farmers, including providing access to credit and technical assistance. By promoting sustainable agriculture and supporting local communities, Starbucks is demonstrating its commitment to responsible business practices.

Closer to home, we have several high-impact examples of corporations that have shown commitment in ESG and SDG actions. These include leadership in water stewardship at EABL, industry-leading gender metrics and supply chain impact at Safaricom, climate action and gender goals at Sasini, and partnerships on green financing at Absa and Standard Chartered Banks, amongst other many examples. In partnering with the government through relevant legislative platforms, coupled by strong strategic commitment to the SDGs and the ESG approach, we are well on our way to leaving the world a better place than we found. ■