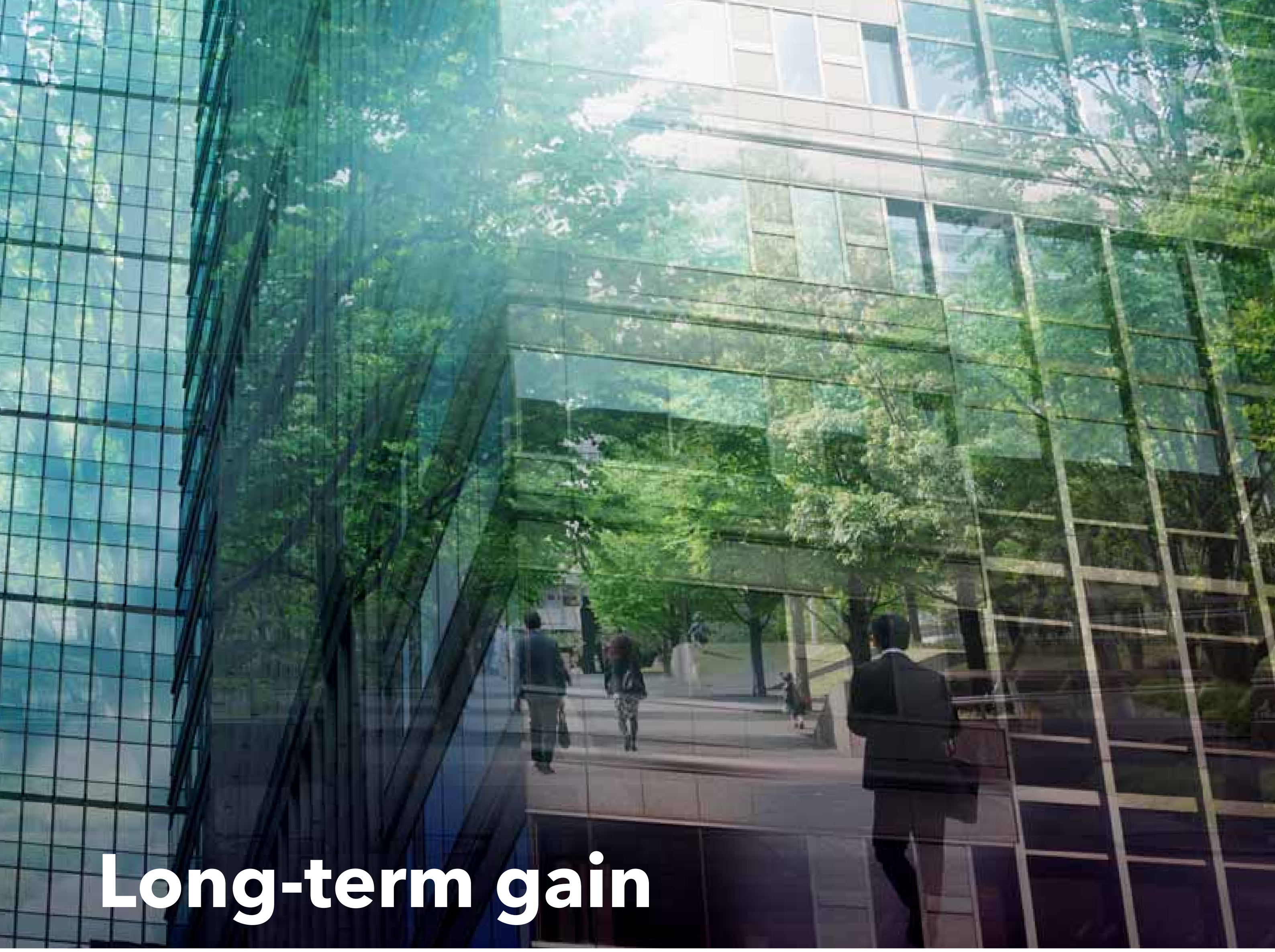

Long-term gain

It is important for companies to exercise social responsibility. **William Hughes** of Mazars explains why we need to view sustainability as an investment, not a cost

With a background that includes running a farm in Zimbabwe and starting a textile manufacturing business in South Africa, sustainability has always been at the forefront of my thinking. In fact, that textile business grew tenfold on the back of a sustainability strategy, became the first carbon-neutral textile manufacturing business in Africa and pioneered sustainability reporting for SMEs.

Since exiting that business in 2015, I've been consulting on sustainability, and I'm now a carbon footprint analyst, accredited by the Institute of Environmental Management and Assessment. I joined Mazars in South Africa to help set up and run their business sustainability service line, and I came to the UK in August 2020 to lead on sustainability services. My primary focus is to grow this area while further strengthening Mazars' position as a leader in the sustainability/environmental, social and governance (ESG) space.

With this in mind, Mazars has developed a unique, online ESG health check, specifically aimed at privately owned businesses (see right). This has been created in collaboration with KudosOne, an ESG consultancy based in South Africa, and builds on many years' experience in this field. The online tool has been designed to be of good value and help businesses start an enlightening ESG journey, taking them from ESG awareness to addressing the issues involved.

Why ESG matters

While our economy isn't perfect, it has led to a structure where, all over the world, many have jobs and income, governments are supported through the taxes those jobs provide, and in turn this enables public spending on education and healthcare. On almost every front, people are better off today than at any other time in history (see ourworldindata.org).

However, the pursuit of unlimited profit without accountability for the bases on which those profits were earned means that social, environmental and community values have become separated from capital in the pursuit of profit.

So, how do we create a financial system that serves society effectively and how long should this take? The answer points directly to behavioural change. This is rarely achieved without some form of

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incentivisation. A classic example of this is the remarkable work done by Discovery Health through its Vitality programme. By managing the risk exposure of its client base, it has entrenched its business resilience and, at the same time, improved the health of its clients.

The ESG aspects of a business have usually been considered as separate and secondary to the financial performance of a company.

This has been particularly prevalent within financial markets, which are generally focused on short-term results. Moreover, companies are currently only legally beholden to their shareholders, not society. In the interest of short-term performance measurement, companies often decide to make the short-term profit decision at the expense of negative environmental and social impacts.

However, good corporate citizenry does exist and always has. Many companies are either purpose driven or have excellent leadership with an interest in more than just their own short-term wealth. Matters have become more interesting in recent years, with financial performance data being tracked for those companies with high levels of ESG awareness.

The origins of ESG can be traced as far back as the early church policies of negative screening for their portfolios (no gambling, no alcohol etc). However, it really came into the spotlight in the 1980s, following the Exxon Valdez oil disaster, when shareholders began asking questions about how to avoid future incidents and the associated risk to share value. The sanctions against South Africa during the apartheid era were also a prime example of this thinking.

The way forward

The responsible investment movement is born, and more funds are waking to the opportunities for superior returns, as well as having a lasting and positive impact on the world. It is now a fact that banks, pensions and investment funds employ ESG criteria to a much larger extent than has been done in the past and, as the movement grows, so do the support structures around it and the various tools for enabling these responsible investment practices. Green bonds and social or environmental impact bonds are some of the innovative financial structures emerging to deal with very specific challenges, such as climate change, energy and social issues.

The movement has gathered significant momentum and the United Nations Principles for Responsible Investment boasts a membership representing assets under management in excess of $103trn, up from $20trn just 10 years ago.

The business case is emerging that active ESG management is directly linked to superior financial performance. We now have the ingredients for an incentivisation strategy that demonstrates that purpose and profit aren't mutually exclusive.

ESG indicators are varied and numerous. The key to any successful strategy is prioritisation and this will vary from business to business. It is vital that businesses understand how their business activities can potentially have a negative and severe impact on the environment and people. The most negative and severe issues are those likely to correlate as the most important to your business. These need to be tracked and measured.

A company that is more committed to the sustainability journey and has embedded ESG into its wider business strategy will be more efficient and more resilient to change. The 2021 message is clear: directors and investors need to pay attention to ESG to properly fulfil their fiduciary duties.

The evidence is overwhelming. The groundswell of demand for change in society is deafening. Not only has the availability of ESG-based capital become way more attractive, it is most probably the single most transformative power of our time.

William Hughes, Sustainability Services Lead, Mazars

How the Mazars ESG health check works

At Mazars, we have developed a unique online ESG health check to start businesses on their ESG journey and provide a foundation to move from simple awareness to engagement, measurement, behavioural change and finally to becoming an ESG innovator.

The good news is that incorporating ESG into your business does not need to be expensive or time-consuming – this online tool has been designed to take about 20 minutes. We can show you how to future-proof your business while also being a responsible member of corporate society.

Acting sustainably should not be seen as a cost but as an investment, and that return on investment needs to be monitored.

The health check includes an assessment of your current ESG status backed by an action plan to best address your next steps. You will be introduced to the United Nations Global Compact 10 principles, the International Finance Corporation Performance Standards and the United Nations Sustainable Development Goals (SDG). We will then show you which SDG goals are most appropriate for your business.

Once completed, Mazars will provide you with a report, which will then form the basis for a consultation.

For more information on Mazars sustainability services and our ESG health check, please contact Richard Karmel at richard.karmel@mazars.co.uk; William Hughes at william.hughes@mazars.co.uk; or visit the Mazars' health check web page at tinyurl.com/BAM-Mazars

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