LETTER TO THE EDITOR | IS ESG TRIGGERING THE EVOLUTION OF SOCIAL CAPITALISM OR CAPITALISM ENERGIZING ESG INTO A REALITY – EITHER WAY IT IS THE NEW NORMAL

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LETTER TO THE EDITOR

Environmental, Social, Governance, 3 simple words, claiming back their inherent power. With a universal standing ovation, the challenge is for people to knuckle down to the work and keep focused even when silence descends – the sustainability agenda.

A company cannot afford to ignore the impact on its eco-system, including society and all stakeholders. The knock-on effect on its supply chain, downstream and upstream, cannot be avoided. Business decisions cannot ignore these segments. ESG considerations are non-negotiable and a key part of an organisation's strategic plans.

Capitalism has finally caught up and realized there is a bottom line imperative. Credit definitely goes to the uncomfortable mix of many sustained voices, tireless conviction, and commitment of the growing groundswell of active and passive investors, clear eyed in their entry and exits on investments that do not make the cut. Those looking beyond the returns and company and market spins, to how the company is run, how key stakeholders such as employees are cared for, how the company's business impacts its environment and how profits are earned. Not all are on the same page, but they are pushing the agenda forward supported with varying but increasing enthusiasm in recent years by NGOs, regulators, and governments, as well as professional bodies and activists of different stripes and agendas. The reality check of the devastation caused by the recent natural disasters and the covid pandemic, regardless of wealth or power, has shone a light on our respective blind spots.

As Boards and Senior Management of companies start embracing the principle of some form of the 'circular economy' ethos, in how their company does business and interact with the broader societal imperatives, its DNA starts subtly changing, building habits that facilitate sustainable development.

Sustainable development goals, codes of Corporate Governance (CG), strengthening of professional, auditing, and environmental standards, and recent increased cross-border scrutiny on ILO standards to prevent forced labour, have resulted in the need for companies to dig deep and build the controls, change corporate cultures. With regulators and enforcement agencies coming down hard; investors and other stakeholders exercising pressure, they really do not have a choice. This change is necessary and welcome. And as Boards and Senior Management of companies start embracing the principle of some form of the 'circular economy' ethos, in how their company does business and interact with the broader societal imperatives, its DNA starts subtly changing, building habits that facilitate sustainable development.

Environmental regulations abound and tremendous work and green incentives have gone into this area across industries, in navigating the many regulations and guidelines, to help companies put into place effective frameworks to monitor implementation and considerations of climate governance. There is a need for the gatekeepers, watchdogs, and activists to play their part. The capital and financial markets have provided some level of clarity, and in the area of governance, the guidance has evolved to become practical and user friendly.

But the universe is broader today, with multiple stakeholders, regulations, best practice guidelines, standards, and agendas. There is a clear need, particularly in areas where authorities have cross-jurisdictional reach in the impact of their edicts, for increased clarity, timeliness, and due process, built into their enforcement efforts.

Companies need to be held to standards, but they should have clarity in what the standards are and the ability to rely on audits undertaken. The authorities, relevant professionals, and the various industries, should prioritize, and accountabilities should be clearly shared. Governments need to enter bilateral/multilateral agreements, with equal clarity, transparency, and accountability. Anything less makes the transfer of cost and penalties emanating from these opaque agreements to the various industries, unacceptable.

It would serve us well to go back to basics and remember that if we do what we have been expected to and embraced the CG principles in substance and not form, many of these evolving standards would not be an issue. Yes, they have evolved to reflect the complexities and globalised nature of the environment, a more meaningful consideration of a corporate's impact on the environment and communities we work with and live in, but these would have been natural enhancements.

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Start with strong ethical standards and internal controls, and you will build good habits top down and bottom up, that will sustain with effective oversight. When Boards activate the spirit of this ethos into an organisation, it serves as a catalyst that propels the company forward and builds a sustainable growth culture The right people and competencies, supported by effective nimble processes that can work with a difficult and changing eco system - act as an organisation's quality and risk management tool. Start with the Board and Senior Management and cascade this across business functions. Get this right and you have the bulwark you need to navigate this space.

Investment in these key areas is imperative in ensuring the ability of the organisation's sustainable development. Public and private stakeholders should step up to ensure the funding is there to enable the process.

So is ESG triggering the evolution of social capitalism, absolutely. Is capitalism energising and making ESG a reality, absolutely. ESG is in the door and has found its permanent seat at the table. The accountabilities that emanate have however to be considered, balanced, and shared.

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This letter is in response to Herman Daems blog article, ['Capitalism's shortcomings'.]