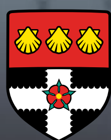
# The state of ESG strategic integration in JSE listed companies

January 2024



# Foreword

Unpredictability and disruption – from rising climate change-related impacts to social unrest, economic migration, and rising geopolitical tensions and conflicts – continue to underline the importance of effectively assessing and mitigating the threats posed by environmental, social, and governance (ESG) risks. While business leaders around the world pay lip service to the importance of ESG as a risk mitigation tool and an evolution in corporate thinking, the tangible impact of ESG on business decision-making and practices is still evolving. This is part of the unfolding ESG journey.

For ESG to be truly impactful, it must continue to mature and develop within the organisations that subscribe to this approach – not just to ensure compliance, but as part of a wholesale shift in corporate thinking. To track shifts and developments, it is imperative to start with a clear and comprehensive picture of the state of ESG integration, which this report sets out to do. By examining the motivations of Johannesburg Stock Exchange (JSE) listed companies for adopting ESG, who is driving the strategic development of ESG, and what push-and-pull factors continue to advance ESG uptake, it is possible to gauge the level of engagement and the incentives for companies to continue on this path. Critical insights into how companies view the potential impact of ESG factors on the bottom line also offer a glimpse into the conversations of companies that are taking place at board and executive level and where their values and priorities lie.

While these insights take us into the heart of the corporate world, this report also explores the broader social, political, and economic environment and the barriers to ESG execution. In a country as unequal as South Africa, and facing a myriad social and economic challenges, it has never been more important for organisations to understand their internal motives for adopting ESG and how best to strategically integrate the discipline throughout the business.

ESG matters for companies, even though the rationale may vary from company to company, including risk mitigation, innovation, enhancing operational efficiencies, business model transformation or simply to follow global trends. Moreover, the intent of this journey must be overseen by a committed board of directors and executed in line with an agreed ESG vision and strategy. Anything less could be viewed as greenwashing by the market and dent the overall integrity of ESG in the eyes of investors, stakeholders, regulators, customers, and employees alike.

By understanding how JSE listed companies in South Africa are 'walking the talk' on ESG opens the door to further interrogation of this unfolding journey. It also gives us the opportunity in the future to compare the evolution of ESG strategies here at the tip of Africa with attitudes, execution, and maturity rates across the rest of the world.

Thanks to the generous support of Henley Business School Africa, the MBAid non-profit organisation, and Risk Insights a data science company, we hope this report builds on the earlier insights contained in the research report: *2023 ESG adoption and strategic integration in leading JSE listed firms: insights from interviews with executives and board members*. While progress has undoubtedly been made, much more still needs to be done to unlock ESG's potential to refocus business, government, and society in South Africa behind a common purpose in which people, planet, and profit can coexist in balance and mutual benefit.

## Risk Insights

**The largest ESG data provider in Africa**

## Henley Business School Africa

**The business school that builds the people, who build the businesses, that build Africa**

## Research team

Dr Filipe Morais | Lead researcher | Henley Business School
Ms Vickey de Villiers | Research assistant | Henley Business School Africa

## Steering Committee

Risk Insights, Henley Business School, and Henley Business School Africa
Mr Kuben Naidoo | Former deputy governor (South African Reserve Bank)
Mrs Itumeleng Monale | Chief operating officer (Johannesburg Stock Exchange)
Mrs Lullu Krugel | Partner, Strategy& and chief economist (PwC South Africa), ESG platform lead (PwC Africa)

## Acknowledgements

The research team would like to thank the sponsoring organisations, Henley Business School Africa, MBAid (a non-profit organisation), and Risk Insights (Pty) Ltd, for making the research possible. Thanks are due to Dr Elsa Thirion-Venter from MarkData, Dr Stefanie Kühn, Ms India Gonçalves, Ms Zara Cupido, and Contact Media, whose contributions made this report possible. We would also like to thank the following individuals for their inputs in earlier stages of the programme: Dr Mélani Prinsloo, Dr Henriette Malherbe, and Ms Shamima Vawda, as well as the Risk Insights executive team.

# Contents


| | |
|---|---|
| Foreword | |
| Acknowledgements | 1 |
| Introduction | 4 |
| Executive summary | 5 |
| Section 1: ESG maturity and motivations – why it matters | 8 |
| Section 2: ESG governance and leadership – who matters | 10 |
| Section 3: Stakeholder pressure and stakeholder engagement – who matters | 14 |
| Section 4: Financial materiality – what matters | 16 |
| Section 5: ESG and strategic change – walking the talk | 19 |
| Conclusion | 23 |
| References | 24 |
| Appendix 1: Sample demographics | 25 |
| Appendix 2: Risk Insights (Pty) Ltd – ESG GPS rating methodology | 28 |


# List of figures


| | |
|---|---|
| Figure 1: ESG maturity in years since first engaged in ESG (number of companies) | 8 |
| Figure 2: Company responses concerning corporate purpose changes to reflect ESG priorities | 10 |
| Figure 3: Responsibility for executing ESG strategy (number of companies) versus UK FTSE 500 | 12 |
| Figure 4: Boards skills, experience, and understanding to oversee ESG integration | 12 |
| Figure 5: Board review of ESG performance data against plan (yes/no) | 13 |
| Figure 6: Board frequency of review of ESG performance data (number of companies) | 13 |

Figure 7: Approach taken to materiality assessments by board and executive team (number of companies) 16

Figure 8: Degree of materiality attributed by factor cluster (E, S, and G) 18

Figure 9: Degree of strategic change by ESG category 20

Figure 10: Extent to which each ESG is integrated in different business aspects 22

## List of tables

Table 1: Top three reasons for adopting/integrating ESG 9

Table 2: Board degree of involvement in strategy development (number and percentage of companies) 11

Table 3: Stakeholder pressure and stakeholder engagement 14

Table 4: Stakeholder pressure and stakeholder engagement by stakeholder group 15

Table 5: Degree of materiality attributed to ESG factors as per the JSE disclosure guidelines 17

Table 6: Degree of ESG-related strategic change initiatives (last five to 10 years) 19

Table 7: Risk Insights' top 5 ESG ratings in 2022 21

Table 8: Barriers to ESG implementation 21

NB

## Disclaimer

Aligned with our mission, 'we build the people who build the businesses that build Africa', we facilitate open, multi-perspective conversations and the generation of thought leadership pieces, such as this white paper. However, the views expressed in this white paper are solely those of the author and not necessarily those of Henley Business School Africa and Risk Insights.

# Introduction

This report is the result of a joint research programme sponsored by Henley Business School Africa and data science firm Risk Insights. The first phase of the programme resulted in the publication of an interview-based research report, titled *ESG adoption and strategic integration in leading JSE listed firms: insights from interviews with executives and board members*, and a subsequent webinar hosted by the Dunning Africa Centre.

This second report, titled *The state of ESG integration in JSE listed companies*, is based on the results of an extensive survey of Johannesburg Stock Exchange (JSE) listed firms. The survey was divided into several sections, including demographics, motivations for environmental, social, and governance (ESG) adoptions, stakeholder pressure and engagement, materiality approaches, board involvement and governance of ESG, ESG strategy implementation and barriers, and ESG reporting and frameworks. The survey was distributed to JSE listed companies through several means, including a market research agency. In total, there were 63 complete and valid responses to the survey, which served as the basis of the results documented in this report. Respondents who completed the survey on behalf of their companies included chief operating officers (31), ESG/sustainability heads/senior management (21), company secretaries (four), chief executives (three), non-executive directors (three), and a chairperson (one).

Majority of companies were large or very large, with 30% employing over 10 000 employees, 22% between 5 000 and 10 000 employees, and 21% between 1 000 and 5 000 employees. In terms of sales, 70% of the sample companies reported annual revenues of R90 billion. Most companies were from the consumer discretionary industry (18), followed by the financial (14), industrial (10), consumer staples (eight), basic materials (six), technology (three), real estate (two), and energy (two) industries.

In terms of shareholding, 27% of companies in the sample had a large majority controlling shareholder (over 50% of shares) and a further 32% had at least one shareholder with 25%–49.9% of company shares. The presence of foreign institutional investors was also significant. Some 30% of the sample companies had foreign institutional shareholders controlling 25%–49.9% of company shares, while 15% had foreign institutional shareholders with majority control. Detailed graphics and tables of the sample demographics can be found in Appendix 1.

In this report, an executive summary outlines the key findings. Thereafter, Section 1 analyses ESG maturity and motivations for adoption; Section 2 examines the governance and leadership of ESG; Section 3 discusses stakeholder pressure and engagement for ESG; Section 4 evaluates the materiality approaches; and Section 5 details the degree of ESG-led strategic change. This report offers a much-needed comprehensive picture of the ESG state of play in JSE listed companies, providing recommendations for improvement.

The Henley-Risk Insights ESG survey returned 63 completed and valid surveys from JSE listed companies from various industries and sectors (see Appendix 1). The vast majority of companies were large or very large, which indicates some self-selection bias. It is possible that the survey was completed by companies that may already have made significant strides in ESG integration. Therefore, results need to be interpreted with this caveat, as they may not represent a complete picture of all JSE listed companies. The likelihood is that the emerging picture is more favourable than the reality, if we were to consider all JSE companies. A detailed analysis of the data revealed the below key findings, which are detailed in this report.

## Section 1.

## ESG maturity and motivation:

1. *ESG maturity (i.e., the number of years since the company adopted ESG) in sample companies is relatively high.* About 27% of companies in the sample adopted ESG over 10 years ago, while a further 35% adopted ESG over the last six to 10 years. Less than 10% of companies adopted ESG only in the last two years or are yet to adopt it.

2. *Corporate motivations for integrating ESG are less linked to value creation and competition, and more with avoiding value destruction or optimising existing value.* Forty-six per cent of the sample companies identified risk mitigation and risk management improvement as a key motivation for ESG adoption, and a further 46% cited using ESG 'To foster innovation within the business'. While driving innovation may be seen as a competitive reason, there are reasons to believe this is greatly seen as operational efficiency gains, rather than more fundamental innovation. The third top reason most commonly cited by sample companies was 'To improve financial performance'. Reasons related to employees, such as driving employee productivity and attracting and engaging employees, were ranked relatively low, as were reasons related to top-line growth, customer loyalty, and competitive advantage.

## Section 2.

# ESG governance and leadership:

3. *Boards have overseen changes to corporate purpose to reflect ESG*. Most boards oversaw changes to the corporate purpose (76%), but 47% have only done so in the last five years.

4. *Boards in the sample companies reportedly have a very active role in ESG strategy development.* About 47.6% of the sample companies' boards work as a team with their chief executive officers (CEOs)/executive teams and fully co-develop strategy, while 38% have an active role in creating a strategic framework or strategic direction within which the CEOs and executive teams can then develop the more immediate strategy. Moreover, 14% of boards have little to no role in strategy development.

5. *Chief sustainability officers (CSOs) and small dedicated teams drive ESG execution*. Most companies (57% or 36 of 63 companies) allocate the execution responsibility to a CSO and a small dedicated team, implying a clear structural decoupling of business and ESG strategies.

6. *Board skills and capabilities to oversee ESG integration were scored very high by respondents*. The boards of the sample companies are seen as having significant skills and capabilities to oversee ESG, including ESG factors. Although boards are viewed as being well equipped to oversee ESG matters, only 75% formally review ESG performance against a plan during board meetings, mostly every six months or even annually (49%), with some reviewing it every quarter (14%) and others every board meeting (11%).

## Section 3.

# ESG stakeholder pressure and stakeholder engagement:

7. *Companies are reportedly facing the greatest pressure for ESG adoption/integration from industry regulators/watchdogs*, followed by environmental and social pressure groups and large shareholders. The translation of these pressures into strategic engagement varies significantly. Despite the pressure exerted, regulators and watchdogs have the lowest company engagement score among the stakeholders considered. Environmental and social pressure groups exert high pressure and are engaged by companies significantly, albeit mostly indirectly, while the largest shareholders benefit from infrequent, but direct engagement.

8. *There is a relatively low combined pressure felt by corporates from marketplace stakeholders* (suppliers, customers, and competitors) and the corresponding relatively low engagement and consideration of these stakeholders towards ESG strategy development, reinforcing the idea that the main motivations for ESG are not strongly competitive in nature.

## Section 4.

# Financial materiality and materiality approaches:

9. *Majority of sample companies (65% or 41 out of 63 companies) reportedly follow a triple/contextual materiality assessment approach* – that is, an approach that combines single and double materiality and puts the latter in the local context and global thresholds. About 22% of the sample companies reportedly adopt a double materiality approach, while 6.3% adopt a single materiality approach. Four companies admitted to not having any systematic materiality assessment in place.

10. *On average, companies assessed all 15 factors identified in the JSE sustainability disclosure guidance as financially material or significantly financially material*. Health and safety and tax transparency emerged as the most material items across companies in the sample, with an average score of 4.97 (out of 6). The social factors were considered more material (4.73), which is expected, given the many social challenges facing South Africa that impact on and are impacted by corporate South Africa.

## Section 5.

# ESG and strategic change:

11. *On average, companies have introduced changes induced by ESG to a significant extent*. Top activities relate to significant improvements on diversity and inclusion, improvement of health and safety conditions, improvement in the engagement in investment in community development projects, and the development of an ESG-aware culture throughout the business. Interestingly, these top major improvements and changes relate to employees and mostly the 'social' category within ESG.

12. Among the strategic initiatives that scored lower are those that include greater commitment and more structural strategic moves, such as: acquired other companies to improve the ability to handle ESG priorities; entered significant partnerships/joint ventures to enable ESG implementation; divested assets negatively contributing to ESG performance; and changed distribution channels.

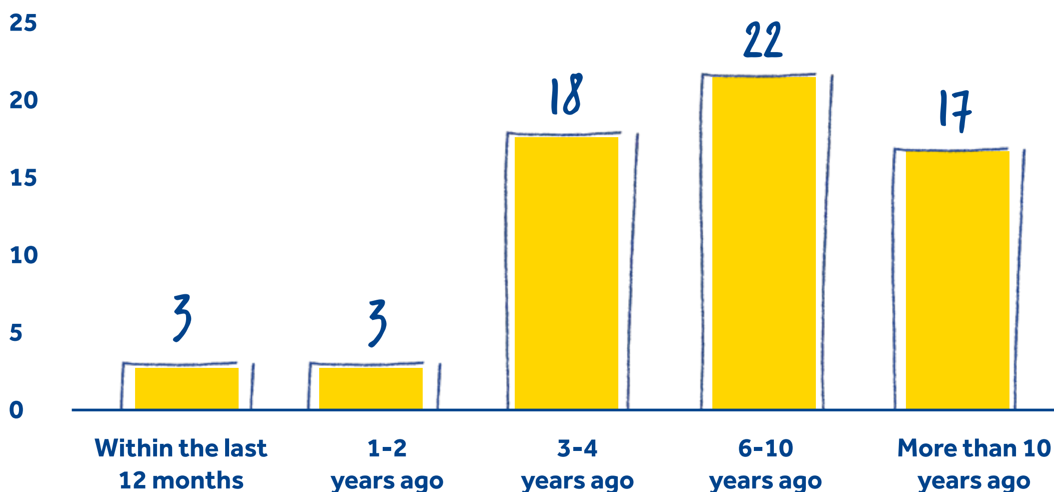
13. Despite the reported progress, a number of barriers to ESG execution remain for JSE listed corporates. The top five include: 73% of companies in the sample indicated 'fight for resources amongst different business units' as a top barrier; 71.4% indicated the 'pace of change in the regulatory environment' as a major barrier; 52.4% identified the 'pressure on quarterly earnings, rather than long-term capital gains'; 47.6% experienced a 'lack of resources to transform the business', and 46% indicated a 'lack of integration when the organisation decouples business and sustainability strategies'.

Section 1.

# ESG maturity and motivations – why it matters

Surveyed companies exhibited a range of maturities in ESG adoption. Considering that ESG was first used as a term in a United Nations Principles for Responsible Investment meeting in 2005 (The Global Compact, 2005) and that it took several more years to be considered in the investment industry, it is significant that 27% of companies in the sample adopted ESG over 10 years ago, with a further 35% adopting ESG over the last six to 10 years (see Figure 1). ESG covers a variety of issues related to the environment (e.g., climate change, energy and water use, carbon emissions), social responsibility (e.g., fair trade principles, human rights, product safety, gender equality, health and safety), and corporate governance (e.g., board independence, corruption and bribery, reporting and disclosure, shareholder protection) (Galbreath, 2013).

Figure 1: ESG maturity in years since first engaged in ESG (number of companies)




A further 35% (or 18 companies) were relatively new adopters, but had already completed at least a three-to-five-year strategic cycle to begin seeing tangible progress. Table 1 shows the top three reasons most identified by companies for adopting and integrating ESG into their businesses. From the sample, 46% of companies identified risk mitigation/risk management improvement as a key motivation for ESG integration, and the same percentage cited using ESG 'To foster innovation within the business'. These top two reasons are seen as being at opposite ends. On the one hand, companies use ESG to mitigate risk and, on the other hand, they use it to drive innovation (i.e., itself a risk-taking activity). From the results, it is unclear whether the search for innovation is more incremental (i.e., to seek operational efficiencies) or transformational (e.g., new product development or new business models).

Table 1: Top three reasons for adopting/integrating ESG (number and percentage of companies)

| Drivers of ESG adoption/integration | Companies | |
|---|---|---|
| | Number | % |
| To mitigate risk to the business/improve risk management | 29 | 46 |
| To foster innovation within the business | 29 | 46 |
| To improve financial performance | 19 | 30.2 |
| To optimise assets and investments | 18 | 28.6 |
| To follow international trends | 17 | 27 |
| To reduce costs | 15 | 23.8 |
| To drive top-line growth | 14 | 22.2 |
| To attract external finance (new investors) | 12 | 19 |
| To drive competitive advantage | 10 | 15.9 |
| To build customer loyalty and firm reputation | 9 | 14.3 |
| Other reasons. Please specify | 7 | 11.1 |
| To drive employee productivity | 6 | 9.5 |
| To attract and engage employees | 4 | 6.3 |

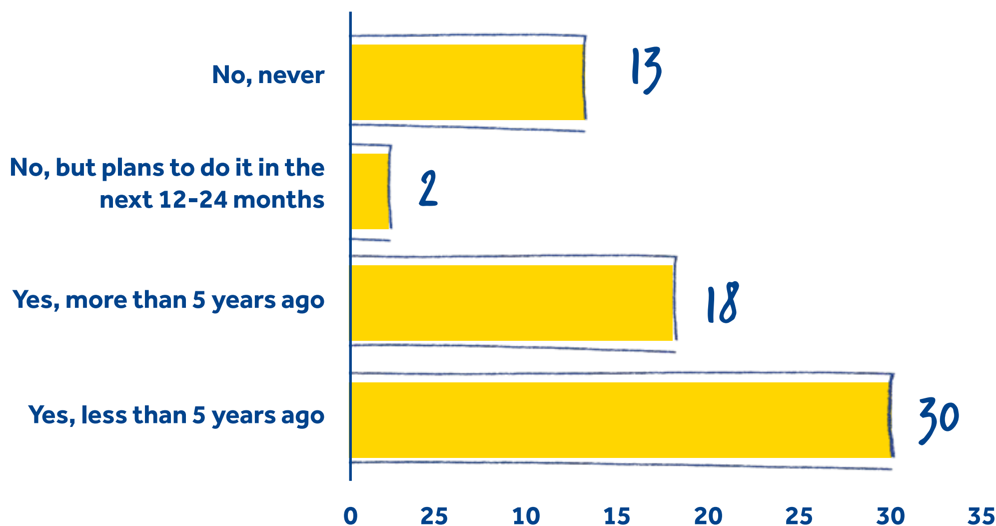
The third top reason most commonly cited by the sample companies for adopting ESG was 'To improve financial performance', evidencing an underlying belief that ESG integration drives superior financial performance. It is significant to note that reasons related to employees, such as 'To drive employee productivity' and 'To attract and engage employees', were ranked relatively low, as were reasons related to top-line growth, customer loyalty, and competitive advantage. One of the respondents noted: 'Bringing together your best people and smartest technology so you can see more, go deeper and act swiftly. Enabling you to tackle the biggest challenges of today – and capture the best opportunities of tomorrow.'

## Section 2.

# ESG governance and leadership – who matters

ESG governance and leadership are important and often show how serious a company is about its ESG journey. Done properly, ESG requires a fundamental rethink of the 'constitutional laws' of a company, its purpose, and principles. This can only be done by the 'constitutional court' of a company – its board of directors. Figure 2 shows company responses to the oversight by the board of changes to the corporate purpose to reflect ESG priorities. Since 2005, there has been an explosion of climate-related risks across the globe and there is evidence that ESG is a crucial tool for investment decision-making processes for institutional and retail investors. Capitalism worldwide is going through major change – seen by many as a transition to stakeholder capitalism (World Economic Forum, 2023).

Figure 2: Company responses concerning corporate purpose changes to reflect ESG priorities (number of companies)




It is clear that the vast majority of boards oversaw changes to the corporate purpose (76%), but 47% only did so in the last five years. This is in stark contrast with the results on ESG maturity (Figure 1), where 61% of the companies reported having adopted ESG more than six to 10 years ago. Indeed, 24% of companies reported that their boards had not yet made changes to corporate purpose to reflect ESG priorities, while 4.7% admitted to not yet having adopted ESG. This suggests that for many companies, ESG adoption does not start at the top strategic level with a review of purpose, but perhaps emerges from operational requirements. It is important to start with purpose, which should not be just something to galvanise employees, but something that provides strategic clarity. Recent research found that companies whose high purpose brings strategic clarity to managers at different levels have systematically higher future accounting and stock market performance (Gartenberg, Prat and Serafeim, 2019).

Board engagement on ESG is fundamental, so that it is adopted and integrated strategically into the business, starting with purpose and strategy. Therefore, the extent to which boards are involved in strategy development is imperative for providing executive teams with the legitimacy and the mandate to pursue oftentimes difficult long-term strategies that create sustained value. Table 2 shows the degree of board involvement in strategy development in the sample companies.

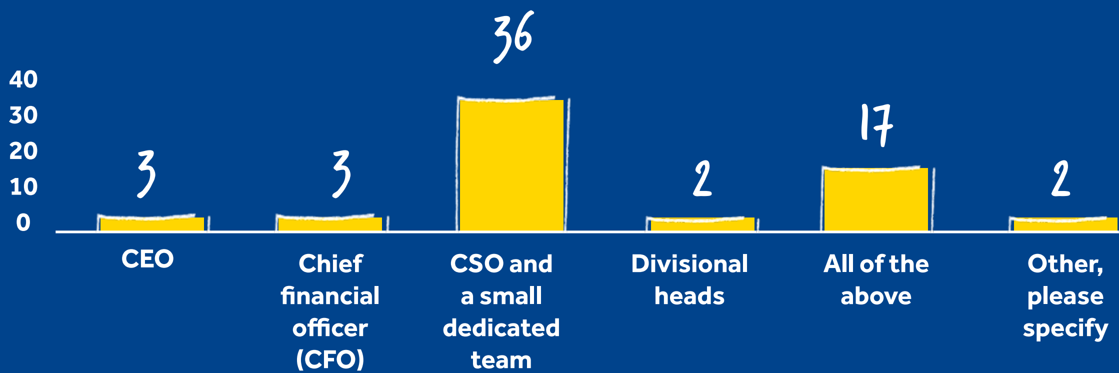
Table 2: Board degree of involvement in strategy development (number and percentage of companies)

| Degree of board involvement in strategy | Number of companies | Companies (%) |
|---|---|---|
| Strategy development is entirely the responsibility of the CEOs and senior executives. The boards approve and are informed of its execution. | 3 | 4.8 |
| Strategy development is entirely the responsibility of the CEOs and executives. The boards challenge the strategy put forward by the executives, shaping it to a minimal extent, and approve it. | 6 | 9.5 |
| Strategy formulation is a shared responsibility between the boards and the executives. The boards set a broad framework within which the CEOs and executives develop the more immediate strategy. | 24 | 38.1 |
| Strategy formulation is a team effort between the boards and the CEOs/executive teams. The strategy is fully co-developed. | 30 | 47.6 |
| Total | 63 | 100 |

Boards in the sample companies reportedly have a very active role in strategy development. About 47.6% work as a team with their CEOs/executive teams and fully co-develop strategy, while 38% have an active role in creating a strategic framework or strategic direction within which the CEOs and executive teams can develop the more immediate strategy. Approximately 14% of boards have little to no role in strategy development.

Thus far, results have shown that boards are mostly actively engaged in strategy development, but who is responsible for execution? This rests squarely on the shoulders of executives (refer to Figure 3). However, this is rarely referred to as resting with CEOs, as only three companies reported this as being the case. Majority of companies (57% or 36 of 63 companies) allocated the responsibility for execution to a CSO and a small dedicated team, implying a clear structural decoupling of business and ESG strategies.

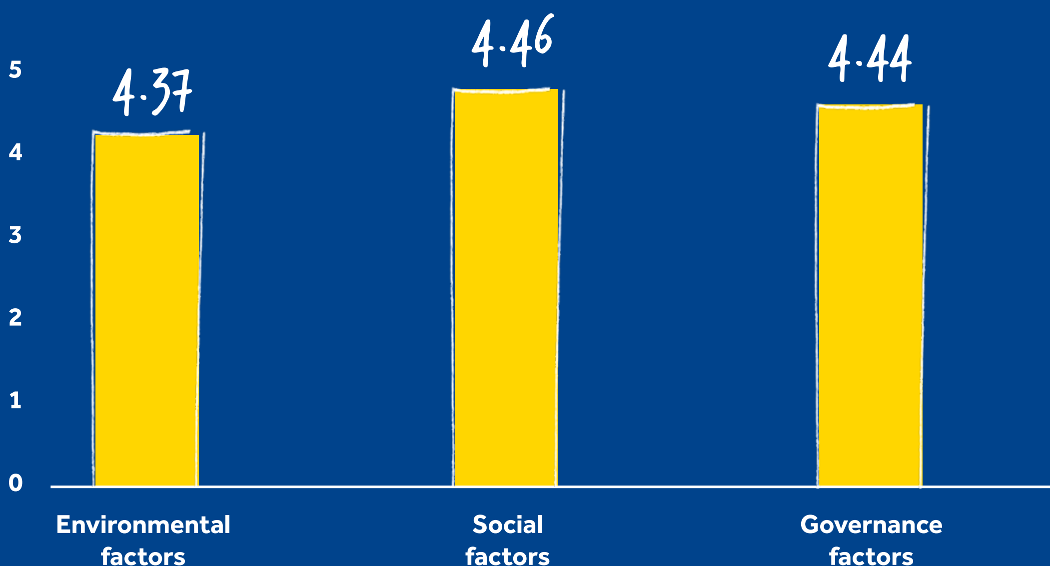
Figure 3: Responsibility for executing ESG strategy (number of companies)




A significant number of companies also reported that all C-suite and divisional heads were responsible for executing the ESG strategy, which echoes the ideas of the total quality movement in manufacturing in the 1950s, where 'quality was everyone's responsibility'. However, it can also refer to the unclear structures and diffusion of responsibilities for ESG. Moreover, there is a risk of competence greenwashing (Schumacher, 2022). These results for South Africa differ to some extent from the findings of a study commissioned by Investec (2023) of FTSE 500 mid- and small-sized quoted companies, which found that ESG execution is the responsibility of a CEO for 24% of the companies, 18% the CSO, 7% the CFO, and the remaining had various arrangements below C-suite level. However, the difference can be attributed to the size of the companies being studied, which in the South African sample are far larger, thereby justifying a separate CSO office.

Respondents scored board skills and capabilities to oversee ESG integration very high. Boards of sample companies were viewed as having significant skills and capabilities to oversee ESG, including ESG factors. This observation compares extremely well with international peers, as studies have shown that many boards in Western nations still require significant upgrades, especially around environmental and climate change skills (Whelan, 2021), as outlined in Figure 4.

Figure 4: Boards skills, experience, and understanding to oversee ESG integration




*Notes – Scale: 1 = fully disagree; 5 = fully agree.*

On average, boards were seen as being well equipped to oversee ESG matters. Nevertheless, only 75% of boards formally reviewed ESG performance against a plan during board meetings, mostly every six months or even annually (49%), with some reviewing it every quarter (14%) and others every board meeting (11%). Refer to Figures 5 and 6.

Figure 5: Board review of ESG performance data against plan (yes/no) (number of companies)

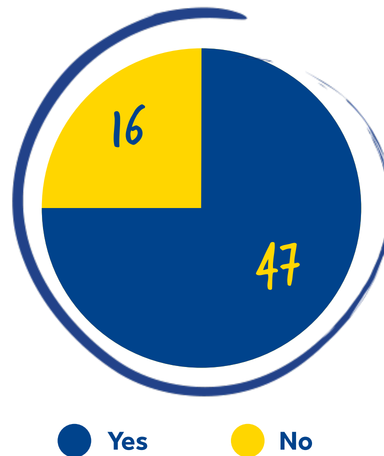
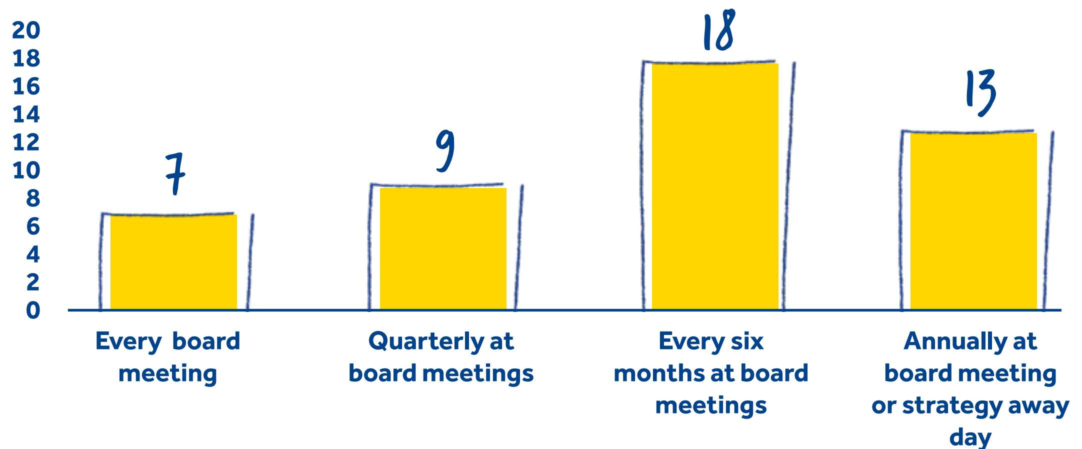



Figure 6: Board frequency of review of ESG performance data (number of companies)




Overall, sample companies have a strong oversight and board involvement in ESG matters. However, implementation appears to be entrusted to newly created structures, rather than part of normal strategy execution processes. This suggests a structural decoupling of business strategy and ESG strategy.

## Section 3.

# Stakeholder pressure and stakeholder engagement – who matters

ESG is inextricably linked with the idea of stakeholder capitalism (Fama, 2021). Stakeholder capitalism is 'based on freedom, rights, and the creation by consent of positive obligations' (Freeman, Martin and Parmar, 2007). The central idea is that businesses play a greater role in society by ensuring their activities do not harm stakeholders, and respond to their legitimate interests and aspirations (Boyer, 2021). Therefore, ESG requires companies to be more in touch with their stakeholders and understand their legal and moral demands, and how these can be translated into how the companies strategically behave and operate. The survey asked respondents the degree of pressure their companies felt from different stakeholders to integrate ESG factors into their strategies and operations, and also the extent to which the companies considered stakeholders' input in their strategy development. The results are depicted in Table 3.

Table 3: Stakeholder pressure and stakeholder engagement

| Stakeholders | Stakeholder pressure | Extent of engagement for development |
|---|---|---|
| Larger shareholders | 4.38 | 3.94 |
| Smaller shareholders | 3.59 | 3.14 |
| Analysts | 4.33 | 3.44 |
| Government agencies | 4.05 | 4.16 |
| Industry regulator/watchdog | 4.63 | 3.05 |
| Client/Customer base | 3.52 | 3.29 |
| Supplier base | 3.49 | 3.29 |
| Employees | 3.22 | 4.03 |
| Environmental/Social pressure groups | 4.51 | 3.44 |
| Public opinion/Media | 3.83 | 3.25 |
| Competitors | 3.84 | 3.94 |

*Notes – Scale for pressure: 1 = no pressure; 2 = little pressure; 3 = some pressure; 4 = significant pressure; 5 = high pressure; 6 = very high pressure. Scale for engagement: 1 = no engagement; 2 = infrequent and indirect engagement; 3 = significant and indirect engagement; 4 = infrequent direct engagement; 5 = frequent direct engagement; 6 = very frequent direct engagement.*

Companies reportedly face the greatest pressure for ESG adoption/integration from industry regulators/watchdogs (4.63 – significant to high pressure), followed by environmental and social pressure groups (4.51) and larger shareholders (4.38). How these pressures translate into strategic engagement varies significantly. Despite the pressure exerted, regulators and watchdogs had the lowest company engagement score (3.05 – significant and indirect engagement) among the stakeholders considered. Environmental and social pressure groups exerted high pressure and were engaged by companies significantly, albeit mostly indirectly (3.44), while the larger shareholders benefited from infrequent, but direct engagement (3.94). Interestingly, employees were the stakeholders who reportedly exerted the least pressure (3.22) for companies to adopt and integrate ESG, but came second as the stakeholders most engaged by companies for strategy development (4.03). Government agencies remain the stakeholders that corporates engage most frequently and directly in support of strategy development. When stakeholders are grouped by nature, a slightly different picture emerges (refer to Table 4).

Table 4: Stakeholder pressure and stakeholder engagement by stakeholder group

| Stakeholder groups | Stakeholder pressure | Extent of consideration in strategy development |
|---|---|---|
| Employees | 3.2 | 4.03 |
| Financial market stakeholders (larger shareholders, smaller shareholders, analysts) | 4.1 | 3.5 |
| Government and regulatory stakeholders | 4.3 | 3.6 |
| Social pressure groups/Public opinion stakeholders | 4.2 | 3.3 |
| Marketplace stakeholders (suppliers, customers, and competitors) | 3.6 | 3.5 |

Interestingly, from Table 4, the combined pressure felt by corporates from marketplace stakeholders (suppliers, customers, and competitors) is relatively low, as is the corresponding engagement and consideration of these stakeholders towards ESG strategy development. This reinforces the idea that the main motivations for ESG are not strongly competitive in nature, as affirmed by Porter, Kramer and Serafeim (2019). One survey respondent commented:

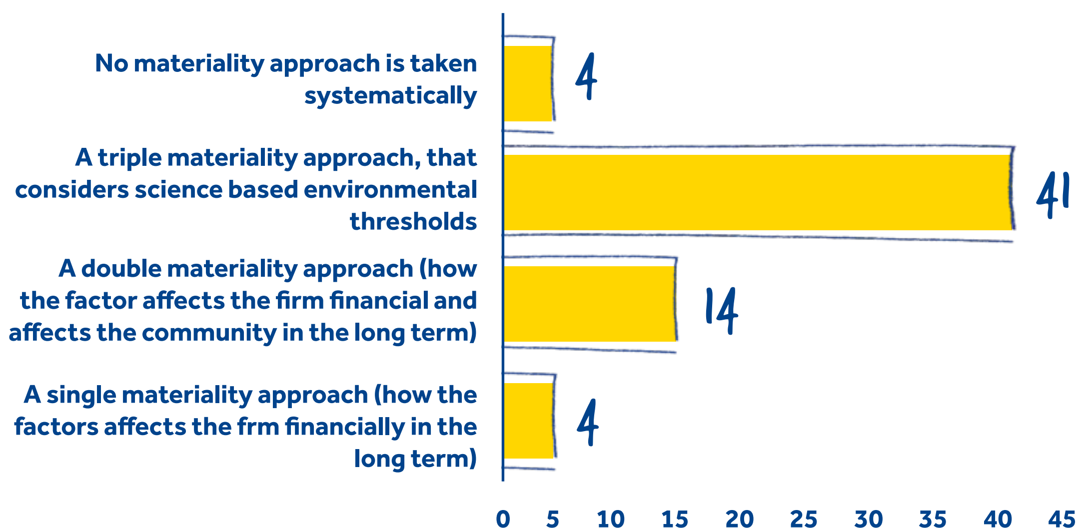
Our strategy is to harness the expertise in our various businesses and identify opportunities to maximise impact by partnering with our clients, investors, and various stakeholders to support delivery of the SDGs [Sustainable Development Goals] and build a more resilient and inclusive world.

# Section 4.

# Financial materiality – what matters

A somewhat surprising finding relates to the approaches utilised by companies for materiality assessments. The new European Sustainability Reporting Standards demand double materiality assessments, which are challenged by companies as being too demanding. Contrastingly, the IFRS Sustainability Disclosure Standards has focused on single (financial) materiality as a requirement. There is also a degree of interoperability between the approaches (Mac Cormac, Silva and Onabanjo, 2023). Regardless of the fact that European Union legislation and regulation on sustainability reporting are seen as the more ambitious and advanced in the world, they do not yet include contextual or triple materiality. Consequently, it is surprising to see the levels of reported use of a triple materiality approach to materiality assessments by JSE listed companies (see Figure 7).

Figure 7: Approach taken to materiality assessments by board and executive team (number of companies)




Most sample companies (65% or 41 out of 63 companies) reportedly follow a triple/ contextual materiality assessment approach – that is, an approach that combines single and double materiality and puts the latter in the local context and global thresholds. About 22% of the companies reportedly adopt a double materiality approach, while 6.3% adopt a single materiality approach. Four companies admitted to not having any systematic materiality assessment in place. In South Africa, current legal requirements do not mandate any specific duty to disclose materiality in any particular form. There is some mention of sustainability as part of the value creation process in the King IV corporate governance code and, in June 2022, the JSE (2022a, 2022b) issued its sustainability disclosure guidance and climate disclosure guidance, but adoption is voluntary. It is encouraging, though somewhat puzzling, that so many companies in the sample purported to adopt triple materiality assessments. The Henley-Risk Insights survey asked respondents to rate the degree of financial materiality of the 15 factors identified in the JSE sustainability disclosure guidance (refer to Table 5).

Table 5: Degree of materiality attributed to ESG factors as per the JSE disclosure guidelines

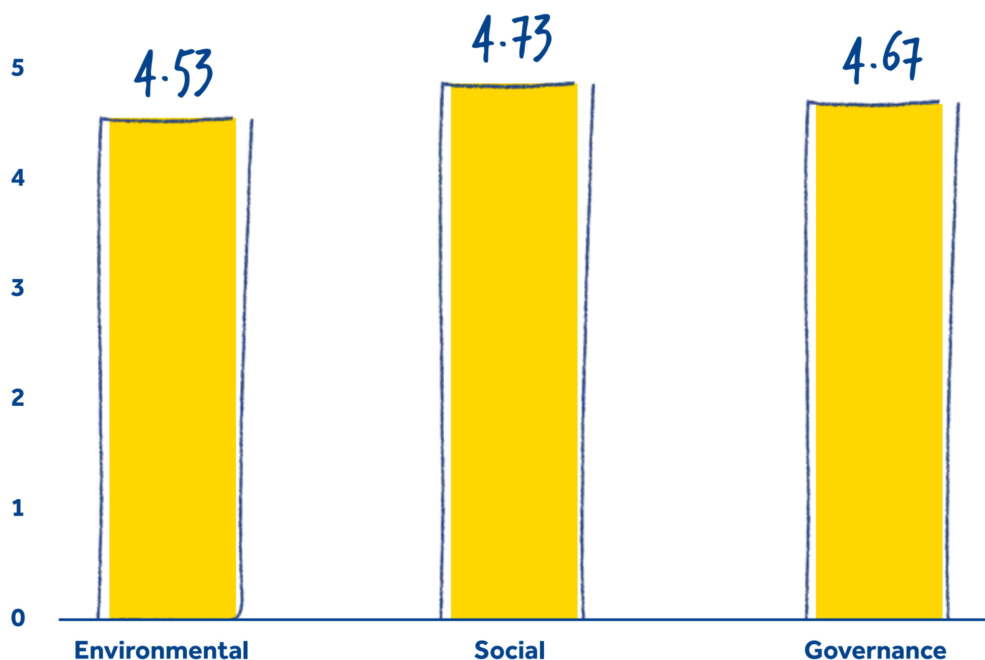
| ESG factor | Degree of materiality (average) |
|---|---|
| Health and safety | 4.97 |
| Tax transparency | 4.97 |
| Human rights and community development | 4.84 |
| Compliance and risk management | 4.79 |
| Ethical behaviour | 4.76 |
| Labour standards | 4.73 |
| Water security | 4.59 |
| Customer responsibility | 4.57 |
| Climate change | 4.56 |
| Supply chain | 4.56 |
| Pollution and waste | 4.54 |
| Supply chain and materials | 4.54 |
| Board composition | 4.46 |
| Biodiversity and land use | 4.41 |
| Board/Executive remuneration | 4.41 |

*Notes – **Scale:** 1 = not material; 2 = marginally material; 3 = somewhat material; 4 = material; 5 = very material; 6 = critically material.*

The average scores indicated that all factors were considered material or very material (a score of 4–5). Health and safety and tax transparency emerged as the most material items across companies in the sample, each with an average score of 4.97, whereas biodiversity and land use and board/executive remuneration scored the lowest (4.41 each). The 15 factors in Table 5 were aggregated into their respective E, S, and G categories and an average score within the category was calculated (refer to Figure 8).

According to Risk Insights analysis using its proprietary ESG rating methodology, the top-rated companies consistently reported performance measures around the environment, such as total waste, water consumption, energy consumption, renewable energy consumption, and total carbon dioxide emissions. While performance measures, such as female C-suite, training hours, Broad-Based Black Economic Empowerment (B-BBEE) level, and total donations were reported, some top-rated companies continue to fall short in reporting the number of female managers, gender pay gap, and B-BBEE spend.

Figure 8: Degree of materiality attributed by factor cluster (E, S, and G)




*Notes – Scale: 1 = not material; 2 = marginally material; 3 = somewhat material; 4 = material; 5 = very material; 6 = critically material.*

Overall, the social factors were considered more material (4.73), which is expected given the many social challenges facing South Africa that impact on and are impacted by corporate South Africa. The average score for environmental factors was lower, albeit only marginally, but may indicate a certain environmental-social trade-off. However, as discussed in our earlier report (Morais *et al.*, 2023), falling behind on environmental integration may jeopardise the efforts on the social front. One respondent commented:

*ESG is more than good intentions. It's about creating a tangible, practical plan that achieves real results. Success is not about climate change, diversity, and disclosures alone. It's about embedding these principles and more across your business – from investment to sustainable innovation.*

# Section 5.

# ESG and strategic change – walking the talk

Do JSE listed companies 'walk the talk'? Is there real strategic change occurring that is ESG-induced? The survey asked the degree of change over the last five to 10 years on 19 selected items, representing actions related to ESG or to all three categories. Respondents were asked to rate each item on a scale of 1 to 6, where 1 corresponded to 'not at all' and 6 to 'completely changed the way we operate'. Table 6 shows the average score per item.

Table 6: Degree of ESG-related strategic change initiatives (last five to 10 years)

| ESG strategic change items | Average score (n = 63) |
|---|---|
| Improved diversity and inclusion throughout the company | 4.59 |
| Improved the health and safety conditions for employees | 4.51 |
| Improved the engagement and investment with community development projects | 4.44 |
| Developed an ESG-aware culture throughout the business | 4.27 |
| Invested in and improved labour standards across the company and subsidiaries | 4.24 |
| Improved the compliance and risk management processes to reflect ESG | 4.13 |
| Changed board composition to reflect ESG priorities | 4.11 |
| Measured use of natural capital | 4.06 |
| Empowered managers at all levels to make ESG-aware decisions | 4.05 |
| Redesigned executive compensation to reflect ESG priorities | 4.02 |
| Recruited employees in an effort to have the right skills and mindsets across the business | 3.98 |
| Invested in organisation-wide leadership/managerial training on ESG | 3.97 |
| Investment in technology (to reduce water usage, carbon emissions, waste, land usage) | 3.95 |
| Invested in new product/service development (i.e., green products and services) | 3.92 |
| Reconfigured the supply chain to de-risk it against ESG factors | 3.84 |
| Divested assets negatively contributing to ESG performance | 3.63 |
| Changed distribution channels | 3.63 |
| Acquired other firms to improve the ability to handle ESG priorities | 3.46 |
| Entered significant partnerships/joint ventures to enable ESG implementation | 3.54 |

*Notes – Scale: 1 = not at all; 2 = minimally; 3 = to some extent; 4 = to a significant extent; 5 = to a very significant extent; 6 = completely changed the way we operate.*

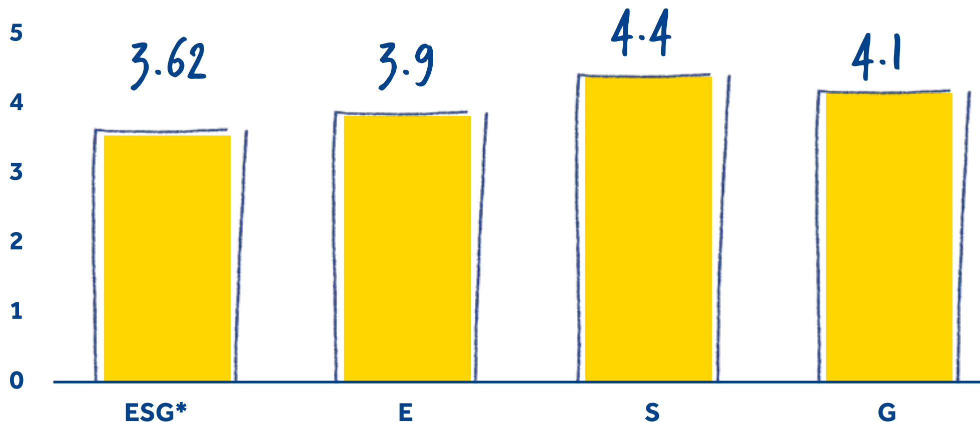
The findings suggest that companies have introduced changes induced by ESG to a significant extent. Top activities relate to significant improvements on diversity and inclusion (4.59), improvement of health and safety conditions (4.51), improvement in the engagement and investment in community development projects (4.44), and the development of an ESG-aware culture throughout the business (4.27). Interestingly, these top major improvements and changes relate to employees and mostly the social category within ESG. There is a clear prioritisation of progressing on social factors – seen on average by companies as most material and where change over the last five to 10 years was reportedly more marked.

**Among the strategic initiatives that scored lower are those that include greater and more structural strategic moves, such as:**

1. Acquired other companies to improve the ability to handle ESG priorities (3.46)
2. Entered significant partnerships/ joint ventures to enable ESG implementation (3.54)
3. Divested assets negatively contributing to ESG performance (3.63).
4. Changed distribution channels (3.63).

The relatively low scoring of these specific strategic change initiatives suggests that, on average, companies are not making definitive and/or more structural commitments to ESG, which remains a much more incremental effort to continue to do 'what you already do', only with a different approach to business responsibility. Subsequently, the 19 items were aggregated into E, S, and G categories. Items with the potential to impact all ESG categories were aggregated in a separate ESG category. The results are shown in Figure 9.

Figure 9: Degree of strategic change by ESG category




*Note: Some strategic change activities encompass all three dimensions of E, S, and G and are grouped accordingly.*

In the last five to 10 years, most attention and progress in terms of corporate initiatives have been devoted to social factors (4.4) and governance improvements (4.1). Environmental factors have comparatively achieved the least progress. The least progress was made with respect to large strategic moves, as mentioned above, which could systematically impact ESG as a whole. This may indicate a more incremental and organic approach to ESG and some avoidance to make more fundamental bets.

In South Africa, and according to Risk Insights' ESG GPS methodology (see Appendix 2), the five companies that top their ESG ratings of JSE-listed companies for 2022 (refer to Table 7) include companies in the healthcare, telecommunications, real state, and bank sectors.

Table 7: Risk Insights' top 5 ESG ratings in 2022

| Company name | Sector | Rating |
|---|---|---|
| Life Healthcare Group Holdings Ltd. (JSE: LHC) | Healthcare | 4 |
| Vodacom Group Ltd. (JSE: VOD) | Telecommunications | 4 |
| Redefine Properties Ltd (JSE: RDF) | Real estate | 4 |
| Nedbank Group Ltd. (JSE: NED) | Banks | 4 |
| ABSA Group Ltd. (JSE: ABG) | Banks | 4 |

Lack of progress in certain ESG-related activities may be explained by barriers faced in implementing ESG strategy. Table 8 lists the barriers and the number and percentage of companies that identified them at top five.

Table 8: Barriers to ESG implementation

| Barriers to ESG strategy implementation | Number of companies | Companies (%) |
|---|---|---|
| Lack of board awareness and expertise on ESG | 5 | 7.9 |
| Different views among the board and top management team as to how to prioritise ESG | 12 | 19 |
| Pressure on quarterly earnings, rather than long-term capital gains | 33 | 52.4 |
| The pace of change in the regulatory environment | 45 | 71.4 |
| Uncertainty of regulatory environment and priority | 24 | 38.1 |
| Insufficient managerial talent available with the right ESG skills and mindsets | 6 | 9.5 |
| Fight for resources among different business units | 46 | 73 |
| Organisational culture generates inertia | 16 | 25.4 |
| Lack of resources allocated to transform the business | 30 | 47.6 |
| Insufficient data or information to implement initiatives | 18 | 28.6 |
| Lack of integration when the organisation decouples business and sustainability strategies | 29 | 46 |
| Not enough incentives tied to performance on sustainability | 22 | 34.9 |
| Uncertainty of adaptation of necessary framework due to fragmentation | 22 | 34.9 |

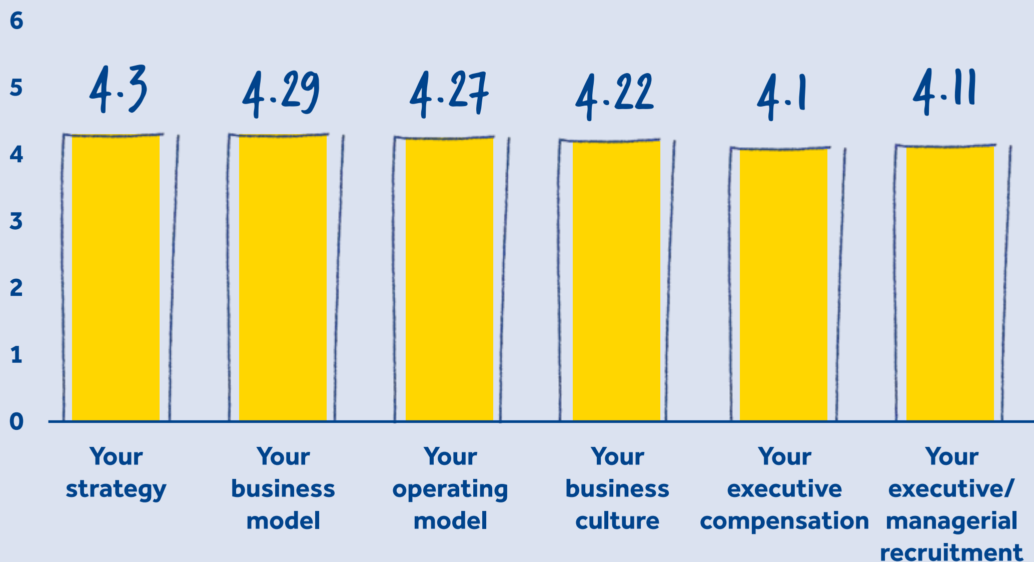
**Despite the reported progress, various barriers to ESG execution remain for JSE listed corporates. The top five identified barriers included:**

1. 'Fight for resources amongst different business units' (73%)
2. 'The pace of change in the regulatory environment' (71.4%)
3. 'Pressure on quarterly earnings, rather than long-term capital gains' (52.4%)
4. 'Lack of resources allocated to transform the business' (47.6%)
5. 'Lack of integration when the organisation decouples business and sustainability strategies' (46%)

A common theme that permeates these barriers is the difficulty to integrate short- and long-term demands between different business units, and in terms of quarterly earnings and long-term sustainable value. A probable consequence of this is that most companies decouple the business strategy from the sustainability strategy to try address both time horizons, but this is seen as a barrier for ESG implementation. One survey respondent commented: 'Three-to-five-year strategic plans are often used in conjunction with short-term planning to allow an organisation to see how short-term projects and actions contribute to long-term goals.'

Other important barriers identified by corporates included: 'not enough incentives tied to performance on sustainability' (34.9%) and 'different views among the board and top management team as to how to prioritise ESG' (19%). Despite the barriers to implementation, most firms considered that ESG is integrated to a significant extent in the strategy, business model, operating model, business culture, executive compensation, and managerial recruitment (see Figure 10).

Figure 10: Extent to which each ESG is integrated in different business aspects




*Notes – Scale: 1 = not at all; 2 = minimally; 3 = to some extent; 4 = to a significant extent; 5 = to a very significant extent; 6 = fully integrated.*

Irrespective of the relatively low scores on fundamental ESG-led strategic moves, such as asset acquisition, asset divestments joint ventures, change of distribution channels and, to a lesser extent, supply chain reconfiguration or new product/service developments, most companies believe that ESG is integrated into strategy, business model, operating model, business culture, executive compensation, and managerial recruitment.

# Conclusion

The Henley-Risk Insights survey revealed that corporate South Africa has made significant efforts towards the adoption and integration of ESG factors on their businesses. Nevertheless, there is still much to be done. Corporate South Africa needs to continue to work on the purpose and rationale for sustainability that makes ESG an integral part of the corporate strategy. Competitive motives and marketplace stakeholders remain low in terms of motivations, pressure, and engagement for ESG adoption and integration. Significant ESG-driven strategic moves, such as asset divestment, mergers and acquisitions, change of distribution channels, and joint ventures, are not so common. Until ESG becomes an integral part of the competitive game, the progress will be incremental at best and often illusive.

Most barriers to ESG strategic execution remain internal and within corporate control, depicting significant tensions between business and ESG rationales. There is a clear prioritisation of social factors vis-à-vis environmental and even governance factors. However, corporates must recognise that social and environmental factors are often intertwined, and failure to keep up on the environmental side may cost corporates and South Africa the ability to create jobs that are desperately needed.

# References


Boyer, M. (2021) 'Beyond ESG: reforming capitalism and social-democracy', *Annals of Corporate Governance*, 6(2-3), pp. 90-226. Available at: https://doi.org/10.1561/109.00000033 (Accessed: 14 November 2023).

Fama, E.F. (2021) 'Contract costs, stakeholder capitalism, and ESG', *European Financial Management*, 27(2), pp. 189-195. Available at: https://doi.org/10.1111/eufm.12297 (Accessed: 12 November 2023).

Freeman, R.E., Martin, K. and Parmar, B. (2007) 'Stakeholder capitalism', *Journal of Business Ethics*, 74(4), pp. 303-314. Available at: https://doi.org/10.1007/s10551-007-9517-y (Accessed: 16 December 2023).

Galbreath, J. (2013) 'ESG in focus: the Australian evidence', *Journal of Business Ethics*, 118(3), pp. 529-541. Available at: https://doi.org/10.1007/s10551-012-1607-9 (Accessed: 16 December 2023).

Gartenberg, C., Prat, A. and Serafeim, G. (2019) 'Corporate purpose and financial performance', *Organization Science*, 30(1), pp. 1-18. Available at: https://doi.org/10.1287/orsc.2018.1230 (Accessed: 12 November 2023

The Global Compact (2005) *Who cares wins: connecting financial markets to a changing world*. Available at: https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2FFinancial_markets%2Fwho_cares_who_wins.pdf (Accessed: 5 March 2023).

Investec (2023) *Who is really in charge of ESG?* Available at: https://investec.ft.com/who-is-really-in-charge-of-esg#:~:text=According%20to%20new%20research%20from%20Investec%2C%20which%20surveyed,companies%20who%20are%20developing%20or%20implementing%20a%20strategy (Accessed: 14 December 2023).

Johannesburg Stock Exchange (2022a) *Leading the way for a better tomorrow: JSE sustainability disclosure guidance*. Available at: https://www.jse.co.za/sites/default/files/media/documents//JSE%20Sustainability%20Disclosure%20Guidance%20June%202022.pdf (Accessed: 10 November 2023).

Johannesburg Stock Exchange (2022b) *Leading the way for a better tomorrow: JSE climate disclosure guidance*. Available at: https://www.jse.co.za/sites/default/files/media/documents//JSE%20Climate%20Disclosure%20Guidance_June%202022.pdf (Accessed: 10 November 2023).

Mac Cormac, S.H, Silva, A.B.D. and Onabanjo, O. (2023) *Inside the IFRS S1 and S2 Sustainability Disclosure Standards*. Available at: https://corpgov.law.harvard.edu/2023/08/22/inside-the-ifrs-s1-and-s2-sustainability-disclosure-standards/#:~:text=IFRS%20S1%20standards%20are%20designed%20to%20facilitate%20disclosures,opportunities%20refer%20to%20positive%20effects%20of%20climate%20change (Accessed: 22 November 2023).

Morais, F., Malherbe, H., Prinsloo, M., Vawda, S. and De Villiers, V. (2023) *ESG adoption and strategic integration in leading JSE listed firms: insights from interviews with executives and board members*. Available at: https://assets.henley.ac.uk/v3/fileUploads/Environmental-Social-and-Governance-Adoption-and-Strategic-Integration-in-Leading-Johannesburg-Stock-Exchange-Listed-Firms-White-Paper.pdf?_gl=1*1j0nd4v*_ga*NzAzOTc5NzAuMTY5NDczMzg0Ng..*_ga_DNQYJ3TP6N*MTcwMTQxNjY1NS43LjAuMTcwMTQxNjY1NS4wLjAuMA.. (Accessed: 23 November 2023).

Porter, M.E., Kramer, M. and Serafeim, G. (2019) 'Where ESG fails', *Institutional Investor*, 16 October. Available at: https://www.institutionalinvestor.com/article/2bswdin8nvg922puxdzwg/opinion/where-esg-fails (Accessed: 20 September 2023).

Schumacher, K. (2022) *Environmental, social, and governance (ESG) factors and green productivity: the impacts of greenwashing and competence greenwashing on sustainable finance and ESG investing*. Vol. 2-11. Tokyo: Asian Productivity Organization. Productivity Insights Series.

Whelan, T. (2021) *U.S. corporate boards suffer from inadequate expertise in financially material ESG matters.* Available at: https://www.stern.nyu.edu/sites/default/files/assets/documents/U.S.%20Corporate%20Boards%20Suffer%20From%20Inadequate%20%20Expertise%20in%20Financially%20Material%20ESG%20Matters.docx%20%282.13.21%29.pdf (Accessed: 23 November 2023).

World Economic Forum (2023) *The global risks report 2023*. 18th edn. Geneva: World Economic Forum.

# Appendix 1: Sample demographics

Table A: Number of respondents by JSE industry and super sector

| Industry | Super sector | Super sector frequency |
|---|---|---|
| Consumer discretionary (*n = 18*) | Consumer products and services | 7 |
| | Retail | 9 |
| | Travel and leisure | 2 |
| Financials (*n = 14*) | Financial services | 10 |
| | Banks | 3 |
| | Insurance | 1 |
| Industrials (*n = 10*) | Construction and materials | 6 |
| | Industrial goods and services | 4 |
| Consumer staples (*n = 8*) | Food, beverage and tobacco | 8 |
| Basic materials (*n = 6*) | Basic resources | 3 |
| | Chemicals | 3 |
| Technology (*n = 3*) | Technology | 3 |
| Real estate (*n = 2*) | Real estate | 2 |
| Energy (*n = 2*) | Energy | 2 |
| **Total** | | 36 |

Figure B: Number of companies by company annual turnover in South African rand for 2022

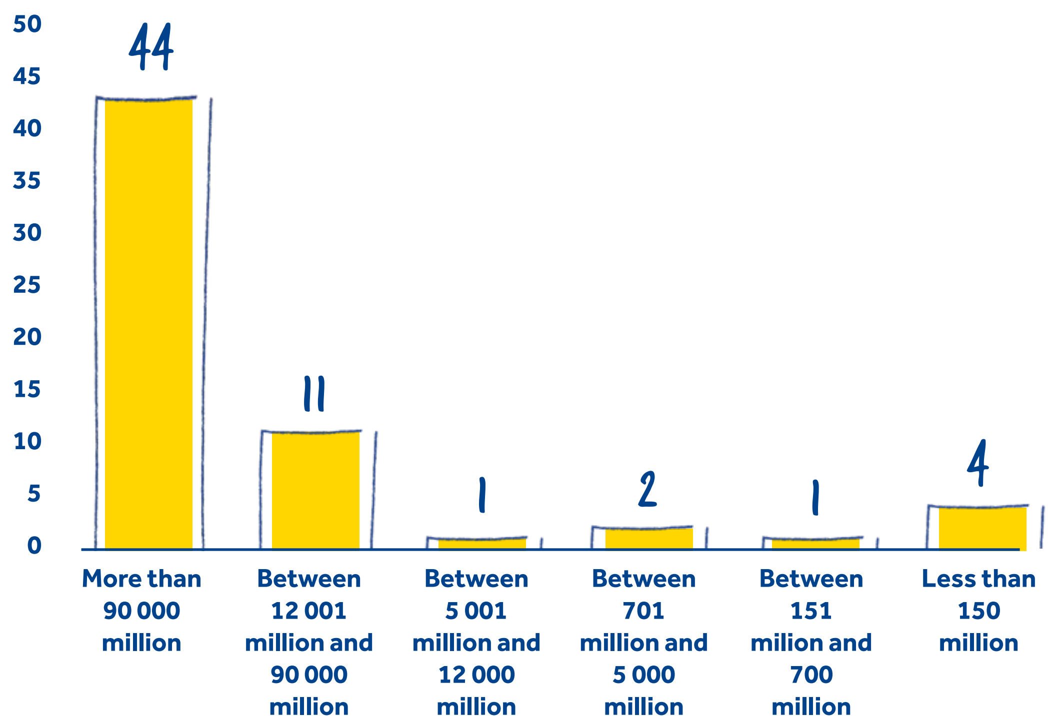


Figure C: Companies by number of employees (percentage)

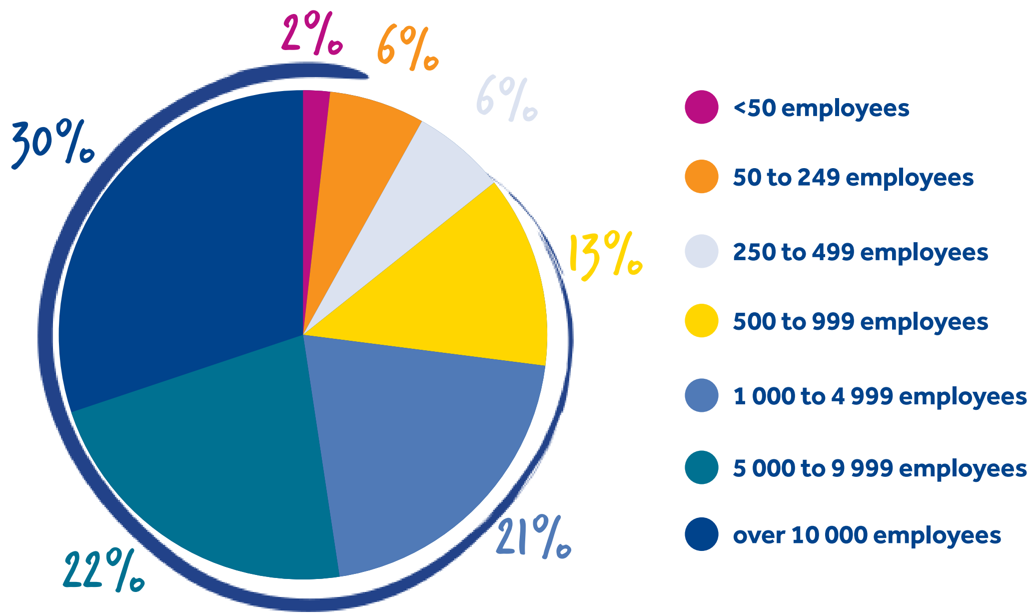



Figure D: Role in the company (number of respondents)

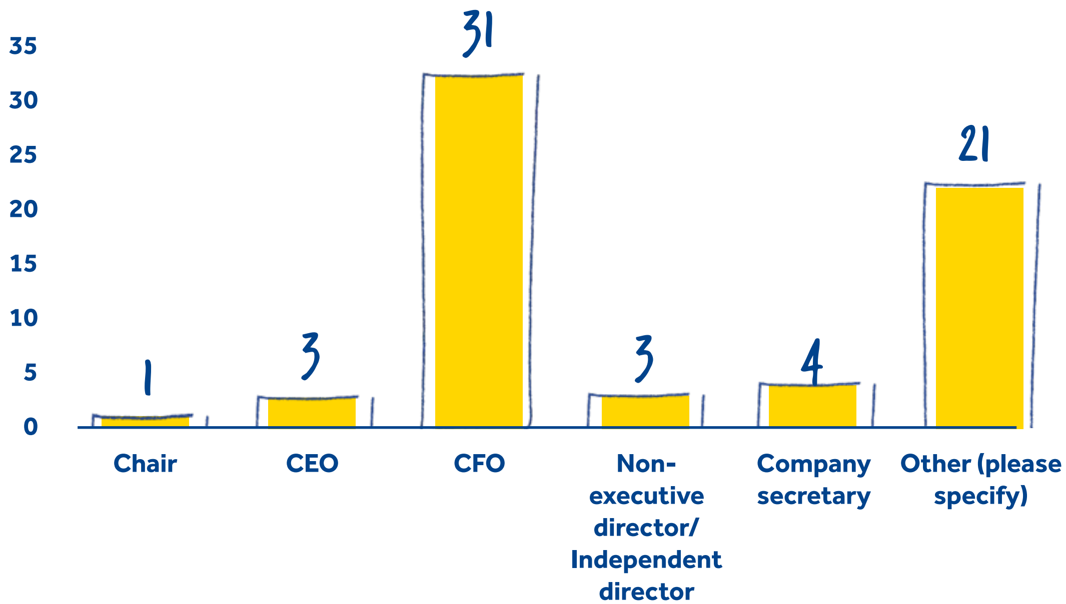


Figure E: Percentage of shares held by largest shareholder (percentage of companies)

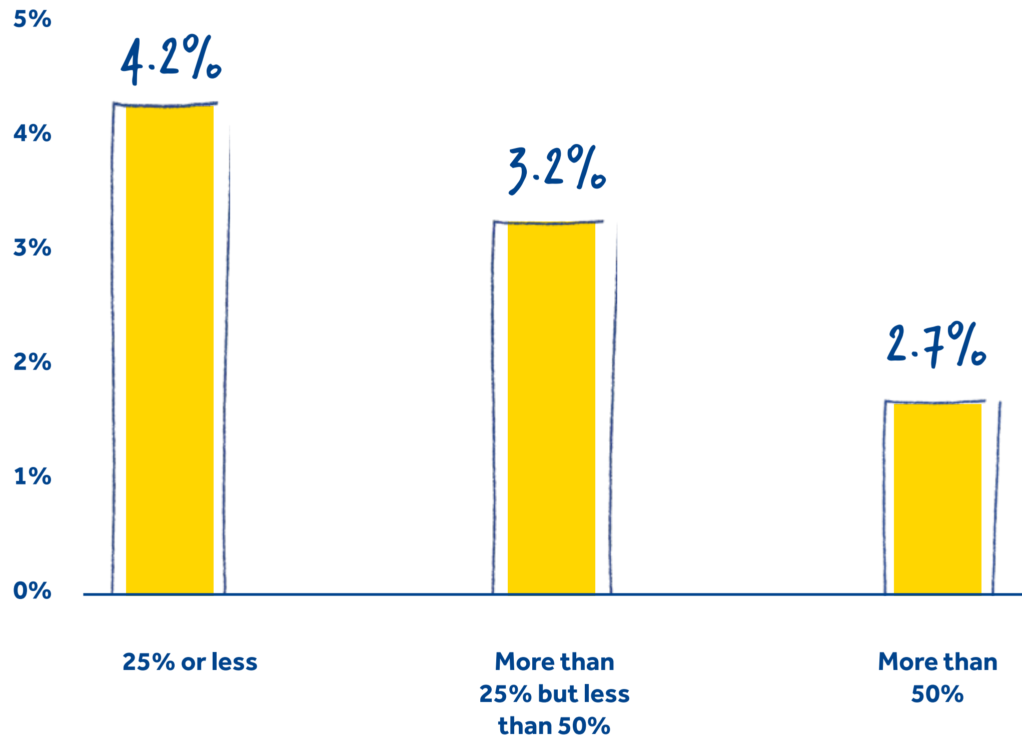
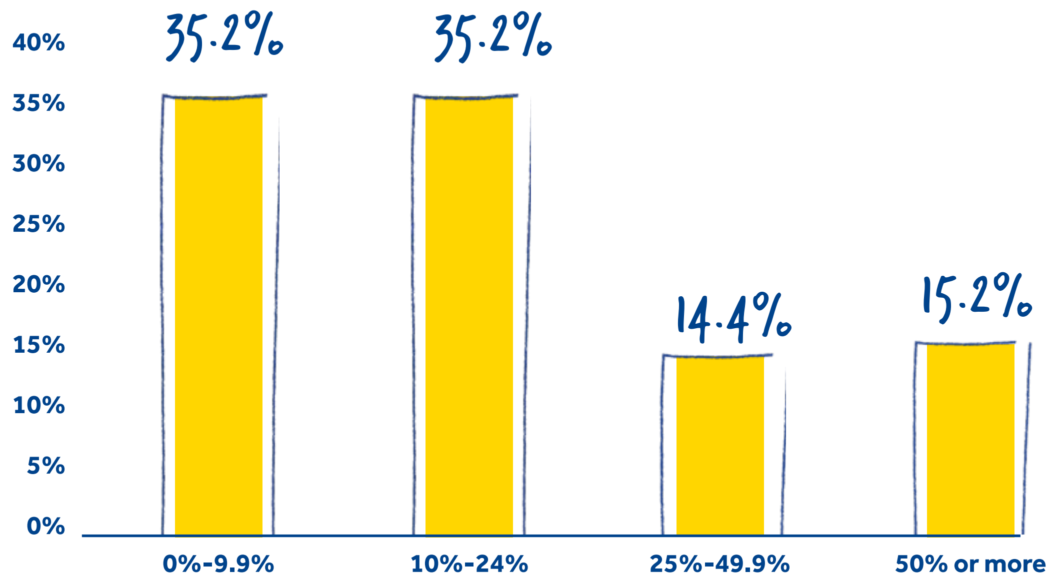
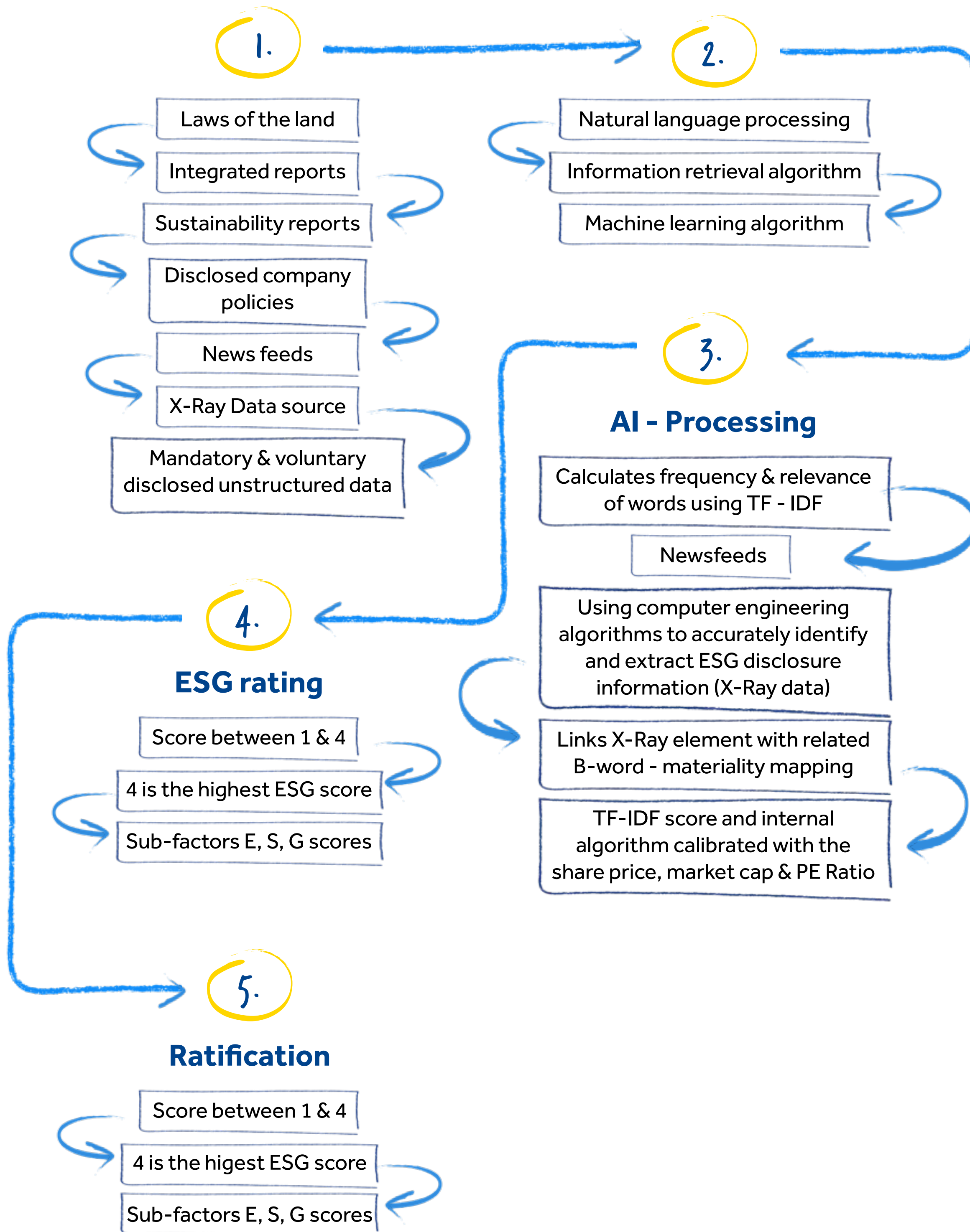



Figure F: Percentage of shares held by largest institutional investors (percentage of companies)

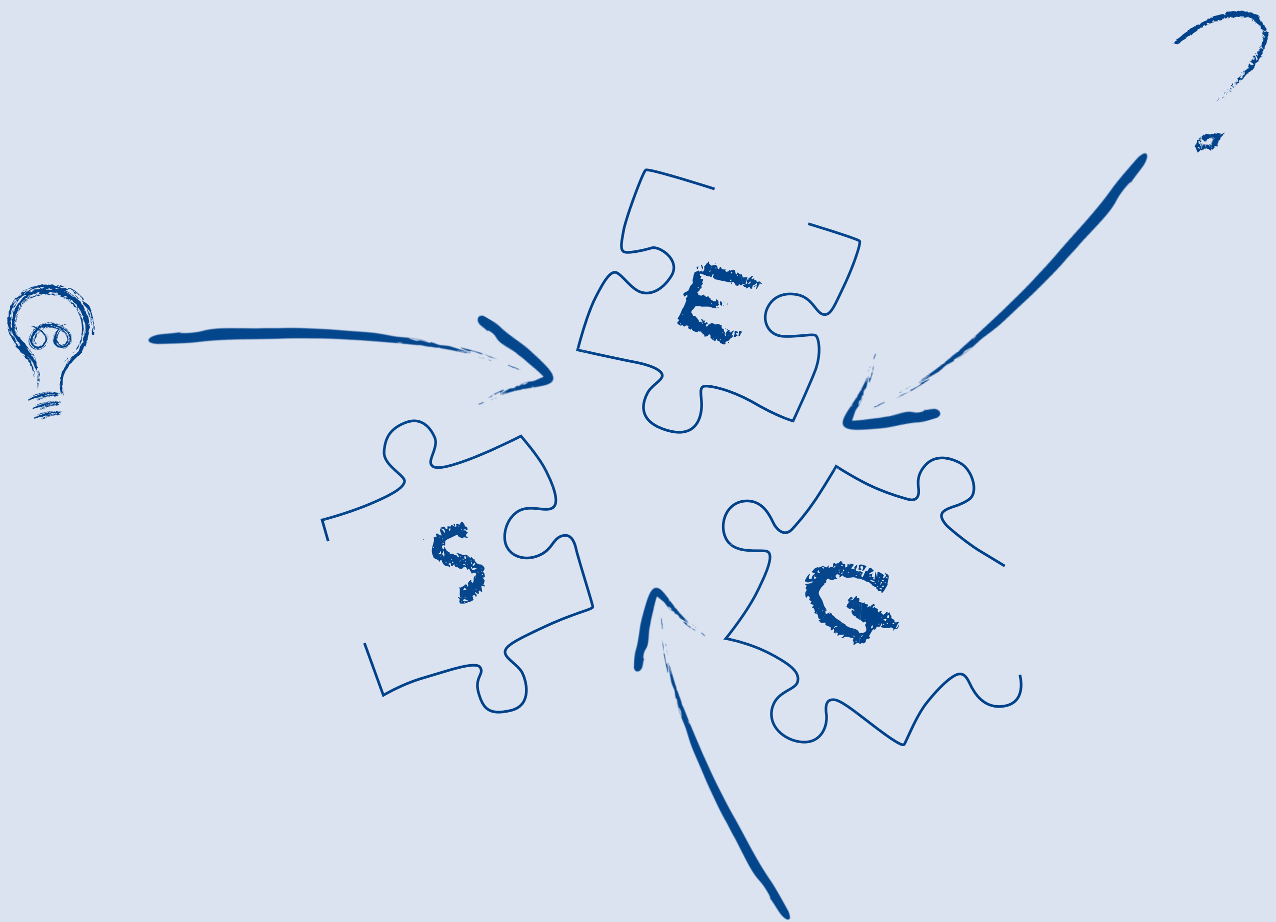


# Appendix 2: Risk Insights (Pty) Ltd – ESG GPS rating methodology




*Source: Risk Insights, Ltd*

# The state of ESG strategic integration in JSE listed companies




## Copyright and confidentiality

This document is the property of Henley Business School and Risk Insights. Copyright subsists in this work. Any unauthorised reproduction, publication or translation of the work are acts of copyright infringement and make the doer liable for civil law copyright infringement and may make the doer liable to criminal prosecution.

World Economic Forum

**Honourable Mention for Excellence in Sustainability 2021**
New Champions Community Awards

**Winner of Excellence in Agile Business Governance 2020**
New Champions Community Awards

2023 Winner
ESG research of the year – Africa

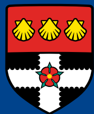
*Professional Services*

In recognition for outstanding contribution to Risk Management

**BEST ESG DATA PROVIDER - AFRICA**

Most Innovative Rating Solutions Africa

Global Sustainability & ESG Awards 2022 - The European



**Henley**
**Business School**
**AFRICA**

# Contact

**Prof. Danie Petzer**
Head of Research
daniep@henleysa.ac.za

**Andrey Bogdanov**
Interim CEO of Risk Insights
andrey@riskinsights.co.za

**www.henleysa.ac.za**

**www.riskinsights.co.za**