Feature: Spotlight on ESG | James Brice **7 August 2014**

James Brice CEO of EBS believes that environmental, social and governance (ESG) issues need to be seen as a driver of competitive advantage rather than a grudge purchase.

How important is it to calculate the non-financial ROE?

There is so much uncaptured value to be found in the non-financial ROE calculation. For investors, considering these issues upfront can result in a discounted acquisition. While implementing and measuring an ESG strategy can mean a premium at exit to achieve this. It is critical that that private equity companies engage with their ESG advisor early on. Enlightened companies see ESG as a significant driver of strategy, which results in better financial returns and a higher asset valuation.

Does the South African private equity industry take ESG issues seriously?

In many respects South Africa is ahead of the curve and the leader in ESG on the continent. This is largely because of who the primary investors are: Government pension funds, DFIs and institutional investors demand a high level of engagement on these issues. In addition, the JSE has raised the bar in terms of listed requirements. However, many private equity firms generally still see investment in ESG implementation as a grudge purchase, bringing in the ESG provider as late as possible, taking the cheapest quote and excluding strategic competitiveness from the ESG terms of reference. This perception is a difficult one to change. Until this happens, ESG issues will not be interrogated alongside the financials.

What do you say to those who believe that, in paying a premium for being socially responsible, that investment returns are diminished?

I completely disagree with this standpoint. ESG should drive value and returns - if you allow it to. Take the example of energy efficiency. Being energy efficient lowers costs and makes a company most resilient to price and legislation changes. When there are power outages, an energy efficient company is less impacted than competitors. Another example would be a good HIV programme which results in a more productive workforce. Recruiting and training local labour results in lower costs, but also a more socially robust organisation. There are numerous examples to show that good ESG policies make business sense. Typically, the payback on an ESG investment is 18 months or less.

Looking forward, what are the next pressure points to be considered regarding ESG?

I see three major trends in this area. Firstly, US pension funds will place enormous emphasis on these issues and drive compliance. Secondly, Chinese companies will continue to revaluate seriously their reputation in Africa and will be compelled to improve in these areas. Finally, Africa’s politicians will come under increased pressure to demonstrate social returns for projects. We predict that track records will be evaluated when access to resources and projects is assigned. The opportunities for getting all of this right are significant.