Sponsored Case Study

Corporate sustainability

strategy, resilience and competitiveness

For many companies, the word 'sustainability' conjures up negative connotations. It's all about compliance, box-ticking, advisers with hairy socks and sandals, and a glossy annual report which, once written, is filed away and forgotten about. Lloyd Macfarlane, of management consultancy PSP-Icon, believes that view is wrong. In fact, Macfarlane argues that approached strategically, corporate sustainability can deliver both resilience and competitive advantage, leading to increased long-term profitability.

Lloyd Macfarlane

Macfarlane says that many people still regard sustainability to be about environmental, or 'green' issues. "It is still about resource efficiency, cleaner production, energy, water, waste materials and green building." Which is fine and important, he says, but it's also about strategy and innovation – sustainability can be used to position companies for both resilience and competitiveness.

"It's seldom that you find a company that is not looking to address one of those two things. Resilience can mean future-proofing the business by viewing the business model, the strategy and other fundamentals through certain lenses, and then closing gaps and aligning everything with the management approach. Strategic objectives must reflect the material issues of the business and be relevant for key stakeholder groups. This creates a much more integrated and sustainable operation," explains Macfarlane.

Investors are looking for long-term value creation...

Tools

One method used by Macfarlane is the examination of the company's business model using the Six Capitals, which is one of the tools promoted by the Integrated Reporting movement. The Six Capitals are categorised as financial, intellectual, human, natural, manufactured and social and relationship, which together represent stores of value that are the basis of an organisation's value creation.

"We look at what inputs go into the business, what outputs emerge and what the outcomes are. Then we can look at how well, within that framework, the business is positioned for risk and opportunity," says Macfarlane.

Another strategic tool he employs is to view the business through the extended value chain.

"Here, depending on what sector the business is in, we examine products, services and activities from raw material extraction, right through to 'end of life'. We map the profile of that organisation and the impacts that occur along the way. This allows us to see areas in which mitigation needs to take place or value needs to be created across the entire value chain, even beyond the boundaries of direct control. In this way, corporate sustainability is far more than a box-ticking exercise or just applying a framework. It is the integration of environmental, social and governance strategies, and management of those strategies across the organisation's value chain. This approach exposes companies to their own business case, which drives innovation and competitiveness," notes Macfarlane.

Drivers

Several factors are helping to drive this process in South Africa at the moment, according to Macfarlane.

"Carbon reporting and carbon tax are a big focus now, with the imminent introduction of a carbon tax. There is also global pressure on nations to reduce industrial emissions. South Africa has already promulgated the National Greenhouse Gas Reporting Regulation, which obliges certain companies to report on their emissions and, subject to what those emissions are, pay a carbon tax priced at R120 per ton of CO_2e. My estimation is that less than 2 000 companies will pay that tax, but at least another 10 000 might be well advised to understand the minimum thresholds and to position themselves so that they're not at risk if the thresholds change. This can be done by conducting a carbon footprint audit that helps to identify emissions sources, tax liabilities and opportunities for efficiency.

Another important driver is the investor agenda. Investors are looking for long-term value creation and an increasing number of stock exchanges, including the JSE, require an Integrated or Sustainability Report as a listing requirement. State-owned enterprises in South Africa are now also required to produce an Integrated Report. Key here, says Macfarlane is the alignment or integration of the reporting processes into the strategy of the business. Reporting poorly can sometimes be worse than not reporting at all.

"This is where meaningful business case benefits and advantages can emerge. Certain companies listed on the JSE, outside of the Top 40, or on the AltX, are engaging us around our Resilience Package, which uses an Integrated Reporting approach to close gaps and integrate the strategy, giving the company a more relevant performance lens and a more credible long-term value creation narrative for investors.

"We've had some high-profile examples of 'short-termism' in South Africa over the last few years and savvy investors, who understand the meaning of long-term value creation and responsible investing, are using reports to establish if companies are strategically integrated or just checking boxes."

Belgotex

One client of PSP-Icon that has adopted a long-term value approach with considerable success is Pietermaritzburg-based flooring manufacturer, Belgotex.

"Belgotex is a market leader. They have looked down the value chain and done as much as possible to mitigate impacts. They're deriving huge advantages in terms of innovation, differentiation and reputation and this has positioned them for market dominance," says Macfarlane.

Digging a little deeper into Belgotex's success story, he explains that the company has an initiative to recycle both at a production and consumer waste level. Instead of waste being destined for landfills, they bring it back into production, reprocess it and restore value to it as a raw material. Recycled materials help to reduce the impacts of raw material extraction and the carbon emissions associated with production.

A second example is the solar array on Belgotex's rooftop: "They were looking to reduce emissions and electricity consumption, so they installed solar panels on top of the factory roof. This has resulted in meaningful savings and the carbon emissions avoided over a two-year period have been linked to the company's greenest carpet range which has resulted in more than 200 000 square metres of flooring that is now effectively carbon neutral. In a highly competitive sector this provides a valuable point of differentiation for the company, as it targets customers that are themselves looking to make responsible purchasing decisions.

"Imagine the competitive advantage this gives Belgotex when approaching a large corporate trying to install nine stories of flooring. Your competitor comes in at the same price, but your product is carbon-neutral – and you can pass that value on to the client! This kind of innovation and competitiveness epitomises the benefits associated with long-term value creation," says Macfarlane.

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RPC Astrapak

Another example he cites is packaging giant RPC Astrapak.

"They operate in a sensitive industry – plastic has very high carbon emissions when processed in virgin state, and there are some serious waste impacts that the industry is managing. RPC Astrapak has a zero-waste-to-landfill objective, and 100% of production waste is currently being recycled. In addition, the company's carbon footprint has been reduced significantly since 2015, through Resource Efficiency and Cleaner Production practices, but also by using recycled materials. There is a focus on the life cycle of plastic, including large investments and collaboration with industry organisations to build the recycling industry and increase consumer awareness around pollution." says Macfarlane, stressing this began not as a compliance issue, but as a voluntary decision by a long-term investor intent on creating shared value.

"PSP-Icon's expertise lies in taking tools like carbon foot-printing, sustainability and integrated reporting, helping companies like Belgotex and RPC Astrapak interpret and apply the results, and in so doing, creating both resilience and competitiveness. We are working with our shareholder audit, accounting and consulting firm, Nexia SAB&T to drive these principles into the public sector too – consulting with state-owned enterprises and local government. It certainly feels as if there is a new appetite for sustainable change," Macfarlane concludes. GIBS