How focus on ESG is helping emerging market companies grow

There is strong correlation between emerging market companies' scores in environmental, social, and governance (ESG) indexes and key financial and value creation metrics, new research from Boston Consulting Group (BCG) has revealed. It is becoming increasingly clear that the sustainability imperative is transforming the very nature of global competition.

Image source: Khaosai Wongnatthakan – 123RF.com

BCG’s latest Global Challengers report, titled *The Sustainability Imperative in Emerging Markets*, highlights that companies with strong reputations for meeting ESG challenges in emerging markets are rewarded with major growth opportunities.

“The challenge is that emerging market companies currently significantly underperform their developed market peers across each of the ESG pillars,” says Lucas Chaumontet, managing director and partner at Boston Consulting Group, Johannesburg. “Developed market companies have had a decades-long head start in launching sustainability initiatives, and the policy focus in most emerging markets has been on growth rather than impact – with industries that fuel economic development typically being emissions-intensive.”

Sustainability issues are, however, rapidly rising to the top of emerging market company CEOs’ priority lists, with climate change taking centre stage. Emerging markets have an outsize stake in mitigating climate change: even though they emit significantly fewer greenhouse gases per capita than developed markets, the populations, economies, and natural ecosystems in many low- and middle-income nations are suffering some of the most devastating consequences of global warming. If climate change remains on its current trajectory, the impact will grow far more severe for emerging markets. Sub-Saharan Africa could lose up to 6% of per capita GDP, according to S&P Global Ratings.

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Changing the trajectory

“The public and private sectors of emerging markets, particularly in middle-income nations like South Africa, can change this trajectory. The good news is emerging market companies in every industry sector are responding to intensifying pressure at home and abroad from consumers, employees, trading partners, investors, and regulators to back their green commitments with tangible actions to adopt lower-emission economic development paths and business models,” says Chaumontet.

“Emerging market companies that take the lead are already winning at home, strengthening their access to international markets, lowering their cost of capital, enjoying higher customer satisfaction, and becoming better able to win and retain top talent. Those that don’t act risk losing their competitive edge, and we believe that gap will widen rapidly.”

The report identifies 50 companies from emerging markets in various industries, called the “climate pioneers”, that perform strongly on ESG and financial metrics. These pioneers show that companies can be early winners in sustainability without sacrificing growth and profitability. BCG analysis finds that the total shareholder returns of global challengers was nearly 35% higher than the S&P 500 Index and 105% higher than the MSCI Emerging Markets Index from 2017 through 2022.

As a case in point: South African energy and chemical giant Sasol, the world’s seventh-largest coal-mining company, has set the ambitious target of slashing its CO2 emissions by 30% by 2030 and being net zero by 2050; it plans to achieve these goals through investments in renewable energy, recycling, and waste reduction. BCG’s research found that climate-pioneer energy companies like Sasol outperformed comparably sized emerging market companies in revenue compound annual growth rate (CAGR) 20% to 14%.

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ESG improvement can unlock growth

“The report shows that emerging market companies that are in the vanguard of sustainability can substantially enhance financial performance and unlock the doors to new growth opportunities,” says Chaumontet.

South African emerging market companies can continue to win with sustainability if they:

- embed sustainability into the organisation’s purpose, business strategy and goals;
- acknowledge the immediate profit impact of ESG initiatives, while outlining long-term returns for the company;

- collaborate with policymakers, industry peers, suppliers and other partners and mobilise as an ecosystem;
- make resilience and change part of the company's core operations through ESG initiatives;
- accelerate technological innovation to enable sustainability, and consider new sustainable business models to capture emerging opportunities;
- transform the organisation by incentivising leaders through KPIs, engaging employees through training, and designing a roadmap for execution;
- regularly communicate and engage with stakeholders to show that the company is meeting its targets.

Download the publication here.