ESG should embrace impact to become strategic

There is a lot of confusion around ESG. How can companies develop a strategic approach to ESG, and how can they make progress towards creating value for business and society? Embracing impact valuation may be the key to achieving sustainability and creating long-term value for stakeholders.

By Sonja Haut

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There has been much debate about ESG recently. "ESG is a mess", it's a "gravy train" and it doesn't "help the planet" are among the most prominent accusations. These are serious. Although some may be pure backlash rhetoric, others cannot be so easily dismissed. In any case, such allegations don't do justice to the topic.

The sharp contrast between the good intentions that led to the UNEP FI Report "The Materiality of Social, Environmental, and Corporate Governance Issues to Equity Pricing" when ESG was first introduced and the current heated (sometimes spiteful) debate calls for a recollection of the basics: social and environmental change requires businesses to adapt. Companies that adapt effectively will have a competitive advantage; those that don't or adapt ineffectively will be at a competitive disadvantage. It is thus strategically important to gain clarity and an overview of all the issues that are often grouped under ESG for the sake of simplicity.

The question is how can ESG – or sustainability – be a winning strategy for companies? At the CCIR event on September 23, 2022 in Frankfurt, a practitioner's example was provided by tracing the historic evolution of sustainability at Novartis. Initially, medicine donations and philanthropic engagements prevailed. Over the years, the company devised scalable integrated business models aiming at providing the poorest and least reachable populations with better healthcare solutions. Milestones along the journey include the Novartis Access program, the launch of a sustainability-linked bond, and the Beacon of Hope initiative. All these activities are aligned with the company's purpose of reimagining medicine to improve and extend people's lives.

With so many lives touched, Novartis has taken an interest in understanding its impact in quantitative terms. Since 2015, the company has explored impact valuation as a managerial practice. Any business activity has intended and unintended consequences, positive as well as negative. To understand these, it is not sufficient to simply measure input parameters (e.g. spend per initiative) or output parameters (e.g. number of tablets produced). What is more useful is to assess outcome metrics (e.g. number of patients on appropriate treatment) and or, even better, to measure impact indicators (e.g. improved health of patients reached). The Novartis impact valuation approach goes one step further by measuring and valuating the social, environmental and economic impact that is material to Novartis.

According to the G7 Impact Taskforce, impact is "a change in an aspect of people's wellbeing or the condition of the natural environment caused by an organization". Therefore, it is only by measuring impact that we can understand and address what matters most to stakeholders and society at large. As such, this refutes a key allegation against ESG, which is that it merely seeks to assess how profits are threatened by environmental and social challenges.

Impact valuation makes these results comparable by valuating them in monetary terms. By doing so and by explaining the results – internally, or externally to stakeholders – the company has exceeded its own initial expectations, which were driven by three objectives:

1. To engage differently and more deeply with a broad range of stakeholders in a dialogue based on our value to society
2. To enhance decision-making with additional impact-relevant quantitative insights and forward-looking impact statements
3. To meaningfully increase the transparency of our non-financial disclosures to build trust among the communities in which we operate

Thus far, the practice has resulted in more than 50 use cases driving business value along all three dimensions of impact – social, environmental and economic. In particular, understanding the holistic impact along the value chain creates tangible business value in many ways. Novartis has leveraged these insights for stakeholder engagement, forecasting and planning, access negotiations, reimbursement, non-financial reporting, and business risk mitigation, among other things.

The learnings brought about by impact valuation help us to see more clearly how to navigate the challenges of today's world. They enable Novartis and its stakeholders to understand the positive and negative impact of the company's business activities, as well as which actions improve the positive and reduce the negative. Trough this, impact valuation supports the creation of value for stakeholders.

Impact valuation can benefit many companies as it can act as a compass for companies trying to do the right thing, thereby strengthening their license to operate and building trust among wider society. In turn, this can contribute to a more sustainable and fairer world. An effective approach to sustainability thus requires impact valuation to be scaled within companies and scaled across industries, so that every company can make informed decisions based on the positive and negative consequences of their activities.

ESG needs to embrace impact to become strategic – and sustainable.

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Am CC*IR*-Forum Reporting vom 23. September 2022 diskutierten Experten von adidas Group, BMW, Deloitte, HHL Leipzig, Novartis, PLATEAU CANDY, Schweizerische Post und Universität Hohenheim Themen rund um Kommunikation und Gestaltung, Inhalt und Sprache des Reportings. Sonja Haut zeigte auf, wie es Novartis gelingt, die regulatorischen und gesellschaftlichen Herausforderungen rund um ESG in Chancen für das Unternehmen zu wandeln, wie dabei die Gesamtleistung des Unternehmens gesteigert und langfristig Wert für die diversen Anspruchsgruppen geschaffen werden kann.

Hier geht's zum Rückblick:

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