ESG Performance Indicators

From KPI Tracking to Impact Measurement for South Africa's Corporate Landscape

KPMG South Africa
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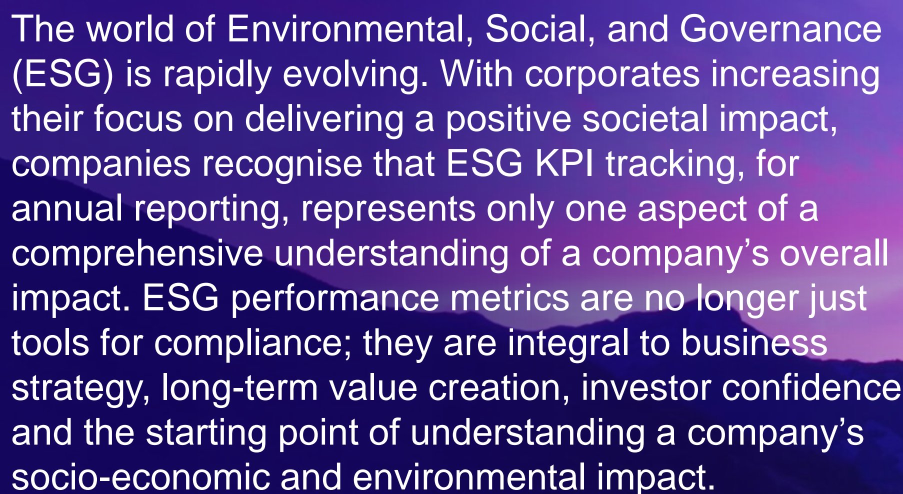

The world of Environmental, Social, and Governance (ESG) is rapidly evolving. With corporates increasing their focus on delivering a positive societal impact, companies recognise that ESG KPI tracking, for annual reporting, represents only one aspect of a comprehensive understanding of a company's overall impact. ESG performance metrics are no longer just tools for compliance; they are integral to business strategy, long-term value creation, investor confidence and the starting point of understanding a company's socio-economic and environmental impact.

In South Africa, where issues such as energy security, social inequality, and environmental degradation are front and center, the need for businesses to effectively track, measure, and report their ESG performance is more urgent than ever. As stakeholders—ranging from investors and governments to employees and local communities—demand greater accountability, it is crucial for corporates to integrate both KPI tracking and impact measurement into their core strategies.

KPI reporting tracks specific, measurable ESG metrics like emissions or diversity to monitor short-term progress, ensuring compliance and operational efficiency. Impact measurement, however, focuses on long-term outcomes, showing how these actions drive broader societal and environmental change. Combining both provides a complete picture: KPIs offer immediate performance insights, while impact measurement highlights the lasting benefits and systemic changes aligned with long-term business goals. Together, they make ESG efforts both measurable and meaningful, fostering sustained growth and resilience.

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Contents

01	South Africa's Unique ESG Landscape	4
02	ESG KPIs and Why They Matter to South African Businesses	5
03	Why South African Companies are including impact measurement next to ESG KPI tracking	6
04	The Role of Corporates in Championing Impact Measurement	8
05	Moving from KPI Tracking to Impact Measurement: Where to start?	10
06	KPMG's True Value Assessment	14
07	Key Takeaways for Corporates	15

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South Africa's Unique ESG Landscape

South Africa's corporate landscape is known to be exposed to environmental and social risks. The country faces risks of severe climate and economic related challenges, such as droughts and energy shortages, which are exacerbated by its reliance on coal-powered energy. On the social front, inequality remains pervasive, and companies are under increasing pressure to address issues like Broad-Based Black Economic Empowerment (B-BBEE) and community development.

South African companies are also seeing growing regulatory pressures. The Corporate Sustainability Reporting Directive (CSRD), adopted by the European Union, though primarily focused on Europe, will soon influence multinational corporations within South Africa. The ongoing local implementation of the Carbon Tax Act and continuous updates to King IV™ on Corporate Governance (KING IV™) are reshaping corporate sustainability frameworks and encouraging businesses to align with international best practices. It is therefore essential that companies within South Africa not only focus on ESG reporting but further understand the impact of their activities on society and the environment.

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ESG KPIs and Why They Matter to South African Businesses

Key ESG performance indicators provide the metrics by which companies can monitor their sustainability efforts. Traditionally, businesses would track KPIs such as carbon emissions, energy usage, workforce diversity, or compliance with governance standards like King IV™.

These KPIs remain vital as they allow companies to:

01 **Ensure regulatory compliance with environmental and social laws.**

02 **Benchmark performance against competitors.**

03 **Build investor confidence by showing commitment to ESG.**

Corporates have long used ESG KPIs to track their performance and communicate their sustainability journey to stakeholders. This provides a baseline for improving transparency, particularly in addressing key environmental concerns like water scarcity in mining operations or digital inclusion in tech sectors.

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Why South African Companies are including impact measurement next to ESG KPI tracking

In the context of South Africa's unique challenges, the transition from merely tracking ESG KPIs to measuring their actual impact is imperative. This is particularly true in sectors such as mining, financial services, and energy, where the environmental and social impacts are material topics.

Impact measurement goes beyond the numbers, focusing on long-term outcomes and systemic changes. For example:

Instead of merely tracking renewable energy usage, companies should measure how their energy transition plans contribute to national goals for reducing South Africa's dependence on coal and mitigating climate change.

In the realm of social responsibility, instead of counting the number of jobs created, impact measurement would focus on how these jobs are helping to alleviate poverty or close the inequality gap.

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This shift has several critical benefits:

Aligning Business Strategy with Sustainable Development: South African companies, especially those in industries like agriculture and mining, operate in sectors directly affected by climate change. A focus on impact measurement ensures that strategies are designed not just to mitigate risk but to create long-term sustainability opportunities.

A Holistic Overview of ESG Performance: Embedding ESG impact assessments and reporting helps tell a complete narrative of performance, integrating financial returns with societal and environmental impact.

Builds Stakeholder Trust and Investor Confidence: Impact reporting also plays a pivotal role in strengthening trust with key stakeholders. In an era where greenwashing allegations can undermine corporate credibility, a robust impact measurement framework offers evidence-based reporting that highlights the real-world outcomes of sustainability efforts.

Improved Regulatory Alignment: South Africa's **Carbon Tax Act**, which imposes levies on companies exceeding specific emissions thresholds, makes it crucial for companies to measure the **impact of their carbon reduction initiatives**. Merely reporting emissions data is insufficient; companies need to show that their actions lead to measurable reductions in carbon footprints, which can directly affect tax liabilities and regulatory compliance.

Enhances Strategic Decision-Making: When impact assessments are embedded into strategy, it provides leadership with real-time insights into how sustainability efforts are contributing to broader business objectives.

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The Role of Corporates in Championing Impact Measurement

Companies across South Africa are beginning to embrace the benefits of complementing KPI tracking with impact measurement as a core business strategy.

With investors and financial institutes increasingly focusing on ESG performance, corporates are not only tasked with managing their company's financial performance but also proving that their operations are making a positive impact on society and the environment.

Evidence of this can be seen by leading technology companies setting the standard by investing in sustainable tech solutions that enhance education, employment, and digital inclusivity. South African Banks are embedding **Green Economy strategies**, focusing on funding projects that demonstrate tangible environmental and social impacts, from reducing carbon emissions to improving access to clean water and energy. Major lenders towards South Africa's energy transition, have started looking beyond basic carbon reporting to assess the long-term impact of their financing on reducing carbon emissions and accelerating the shift toward renewable energy in South Africa.

Companies within Technology, Media, and Telecommunications (TMT) sector undergoing detailed impact assessments to understand how their services and operations impact customers, environments and social development through mobile banking and bridging the gap of connectivity. These assessments have revealed that telecoms in South Africa contribute significantly to the local socio-economic growth and development, far surpassing the company's financial profit. Within the TMT sector companies locally and globally have been able to understand their broader influence, particularly through infrastructure investments and job creation, which contributed to local gross domestic product and catalyzed employment across several sectors.

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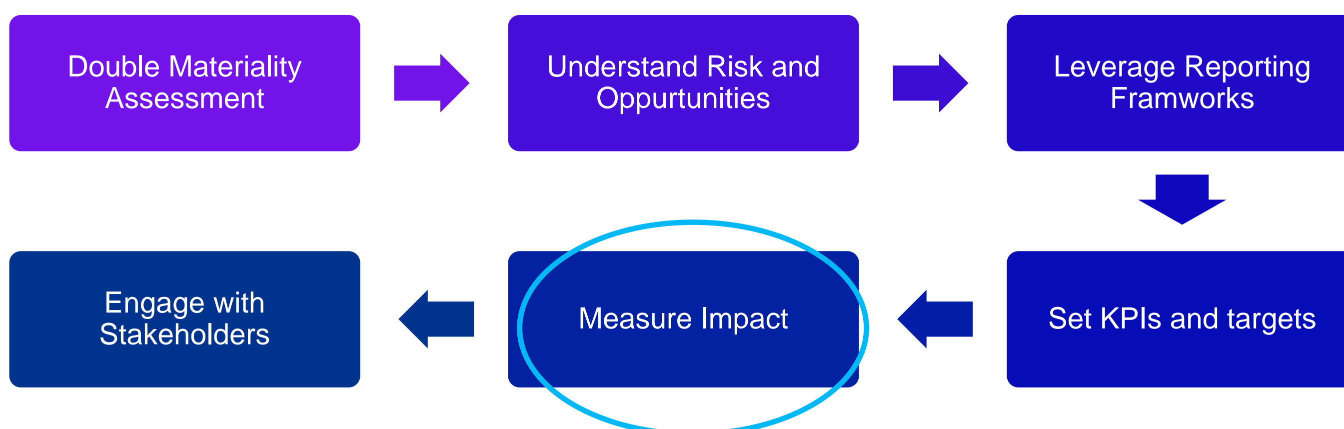
Moving from KPI Tracking to Impact Measurement: Where to start?

As ESG moves from being a compliance exercise to a core pillar of business strategy, corporates must rethink how they approach ESG measurement. Businesses should consider shift from merely tracking performance metrics to evaluating the true impact of their ESG initiatives. Here's a structured approach for what needs to be performed in order for corporates to start accurately integrating impact measurement into their operations, strategy and reporting.



1 Start with Double Materiality: Addressing Risks and Opportunities

For Corporates already familiar with ESG, the shift starts with double materiality. This approach looks at both financial materiality (how ESG issues affect your financial performance) and environmental and social materiality (how your business impacts the environment and society). This dual perspective is crucial for creating a sustainability strategy that reflects both business risks and broader societal demands.

Corporates need to ensure that material issues are assessed not only from a risk management perspective but also in terms of impact and value creation opportunities:

Risks: Transition risks such as carbon taxes or resource scarcity, and physical risks such as climate-induced disruptions to supply chains can have a sever impact on operations over time.

Opportunities: Innovation in sustainable products, green finance, or renewable energy investments, which could unlock new markets or drive customer loyalty and increase value creation.

Action Point

Engage your teams in a rigorous materiality assessment that identifies both threats and growth opportunities, ensuring alignment between sustainability and business strategy.

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2 Integrating ESG Risks and Opportunities into Corporate Strategy

Incorporating ESG risks and opportunities into your corporate strategy is no longer optional—it's a necessity for maintaining competitive advantage. Corporates need to ensure that ESG is embedded into the risk management framework, particularly in sectors exposed to significant regulatory changes or resource dependencies.

For instance:

Climate change risks: Companies with high carbon footprints face significant risks from both physical impacts and new regulations like carbon taxes. Identifying these risks early allows businesses to plan mitigation strategies.

Opportunities: On the flip side, sustainability-focused products, services, or operations can unlock new growth avenues and create larger societal impact. Companies that lead in **circular economy practices** or **renewable energy investments** not only mitigate risks but also capitalize on new business opportunities.

Action Point

Conduct an ESG risk and opportunity analysis that directly informs your long-term strategy. Use scenario planning to understand how evolving ESG risks might affect your bottom line in 5-10 years.

3 Leverage Established Reporting Frameworks

For many corporates, ESG frameworks are already familiar territory. The next step, however, is to ensure **alignment with best-in-class reporting** frameworks to ensure credibility, transparency and comparability:

Example: Global Reporting Initiative (GRI) and **Sustainability Accounting Standards Board (SASB)** offer comprehensive guidelines for tracking and disclosing ESG performance.

Example: Task Force on Climate-related Financial Disclosures (TCFD) enables companies to assess and disclose climate-related financial risks, crucial for companies in energy, agriculture, and resource-dependent industries.

While these frameworks offer a strong foundation, they need to be complemented by impact measurement methodologies that go beyond tracking.

Action Point

Integrate GRI, SASB, SbTi and TCFD into your reporting, but ensure your reports go beyond compliance. Use these frameworks to demonstrate progress toward achieving your long-term sustainability goals and not just compliance.

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4 Set the Right KPIs, but Don't Stop There

Once materiality is defined, ESG KPIs come into play. These metrics are essential for tracking performance but should not be the end goal. Key KPIs will still be needed to:

- Ensure **regulatory compliance** (e.g., carbon emissions reporting).
- Benchmark against **industry peers**.
- Provide **transparent metrics** for investors who expect basic ESG disclosures.

However, KPIs should also be used to reflect a broader **impact-oriented approach** whilst still include regulatory requirements. For instance, rather than simply reporting energy usage, businesses should also measure how their energy efficiency initiatives translate into long-term reductions in operational costs, carbon emissions, and risks associated with regulatory non-compliance.

Action Point

Ensure your KPIs are dynamic and linked to both short-term performance and long-term value creation. Revisit these KPIs regularly to ensure they are leading indicators of impact

5 Moving Toward Measuring Impact

KPIs, while essential, often focus on **inputs and outputs**—such as how much water was saved or how many training hours employees completed. The next step for corporates is to adopt **impact measurement** frameworks that assess the **long-term outcomes** of their ESG activities:

- **Environmental Impact:** Measuring renewable energy usage is valuable, but what is its broader impact on national or global decarbonization goals? How does this contribute to the country's climate targets or mitigate climate-related risks?
- **Social Impact:** Instead of just reporting the number of people trained, measure the actual societal outcomes—how many of those trained gained employment or improved their livelihoods? How is your company reducing inequality or enhancing community well-being in measurable ways?

True impact measurement requires more than tracking internal processes; it involves evaluating how your company's operations **create systemic change**.

Action Point

Develop a set of metrics to measure long-term ESG impact, not just performance. This may involve adopting methodologies such as the KPMG True Value approach or impact assessment tools like Integrated Reporting. Ensure your teams are trained to assess and report on outcomes, not just activities.

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6 Engage Stakeholders with Impact-Focused Reporting

Employees, communities, and consumers are equally important stakeholders in this journey. Corporates need to ensure that **stakeholder engagement** is a two-way conversation where the impact of ESG initiatives is clearly communicated:

Investors: Want to see how ESG drives value creation over the long term. Ensure your impact measurements link back to financial outcomes and growth opportunities.

Communities: Need to understand how your company's activities are improving social outcomes like employment, education, and health.

Employees: Should be involved in ESG initiatives to enhance engagement and productivity, ensuring that sustainability becomes part of the corporate culture.

Action Point

Shift from simply publishing ESG reports to engaging stakeholders through meaningful reporting that focus on the real-world impacts of your ESG initiatives. Use technology platforms, social media, and interactive reporting formats to communicate outcomes.

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KPMG's True Value Assessment

The **KPMG True Value assessment**, as adopted by global companies, demonstrates how this holistic reporting can quantify both positive and negative externalities—measuring value creation and risk impacts, far beyond profit. This was clearly illustrated in their assessments of leading global companies, where **societal value creation** was found to be many times greater than the direct financial profit. For corporates, this **bridges the gap** between internal ESG risks, shareholder value and stakeholder impact, making sustainability a cornerstone of business performance. Related to risk it, further aids understanding where and how risks highlighted from double-materiality assessments can influence impacts on both the business model and the value created.

The **KPMG True Value methodology** offers valuable insights into how companies can move from tracking ESG performance to **measuring true impact**. This approach quantifies both the positive and negative externalities of business activities in monetary terms, offering a clear picture of how a company's operations affect society and the environment.

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Key Takeaways for Corporates

Implement Impact Measurement with the correct lens

- **Measure What Matters**: Don't just focus on easily measurable KPIs. Invest in understanding the long-term societal and environmental outcomes of your business activities and the material topics that drive impact.
- **Monetize Externalities where possible**: Quantifying both positive and negative externalities provides a more accurate reflection of your company's true impact. This ensures that your ESG strategy is not just about managing risks but also about **maximizing opportunities** for value creation. Quantification further places ESG risks and opportunities in the traditional corporate reporting unit of measurement, currency.
- **Communicate Holistically**: Use transparent impact reporting, including positives and negative impacts, to tell a comprehensive story to investors, regulators, and customers. By embedding this into your ESG strategy, you create a narrative of long-term value and resilience that goes beyond mere compliance.
- **Internalisation:** Once the high impact areas are identified and measured, reassess the current strategic ESG focal points to mitigate, manage and target impact areas and the related risks.

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