



ESG integration in pre-investment decision-making: a private equity perspective
from South Africa's manufacturing sector

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ABSTRACT

This study investigates how private equity (PE) firms in South Africa interpret, prioritise, and integrate Environmental, Social, and Governance (ESG) factors during the pre-investment phase, with a focus on the manufacturing sector. Drawing on qualitative interviews with PE professionals, it examines the mechanisms, drivers, sector-specific dynamics, barriers, and trade-offs that shape ESG decision-making. The findings reveal a hybrid integration model, where global standards are adapted through local governance norms, firm-level tools, intuitive heuristics, and pragmatic judgement. ESG integration is primarily driven by legitimacy demands from limited partners (LPs), particularly development finance institutions (DFIs), as well as regulators, and is frequently prioritised as a condition for capital access.

Key barriers include limited internal capacity and portfolio-level gaps in ESG awareness, skills, and expertise, as well as inadequate infrastructure to collect and interpret ESG data. These constraints are compounded by the ongoing tension between ESG priorities and financial return expectations, particularly in the manufacturing sector, where firms must navigate sector-specific materiality under internal capacity limitations. While the financial value of ESG integration has not yet been fully realised at exit, firms anticipate that it will generate long-term financial benefits. The study contributes to literature by framing ESG integration as a strategic, interpretive process shaped by stakeholder expectations, institutional norms, and contextual realities in emerging markets.

KEYWORDS

ESG integration; private equity; pre-investment; decision- making; manufacturing

PLAGIARISM DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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GLOSSARY OF ACRONYMS

B-BBEE – Broad-Based Black Economic Empowerment

BII – British International Investment

COVID-19 – Coronavirus Disease 2019

CRISA – Code for Responsible Investing in South Africa

CSRD – Corporate Sustainability Reporting Directive

DFI – Development Finance Institution

DTIC – Department of Trade, Industry and Competition

ESMS – Environmental and Social Management System

ESG – Environmental, Social and Governance

EU – European Union

GIIN – Global Impact Investing Network

GRI – Global Reporting Initiative

IFC – International Finance Corporation

IODSA – Institute of Directors in South Africa

ISSB – International Sustainability Standards Board

KING IV – King IV Report on Corporate Governance

LP – Limited Partner

OECD – Organisation for Economic Co-operation and Development

PE – Private Equity

SASB – Sustainability Accounting Standards Board

SAVCA – Southern African Venture Capital and Private Equity Association

SDG – Sustainable Development Goals

SFDR – Sustainable Finance Disclosure Regulation

TCFD – Task Force on Climate-related Financial Disclosures

UN PRI – United Nations Principles for Responsible Investment

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1. Introduction and Research Problem

Environmental, Social, and Governance (ESG) factors have become central to investment decisions as institutional investors increasingly recognise their relevance to both risk management and long-term value creation (Gillan et al., 2021). ESG gained traction as part of a broader shift toward sustainable and responsible investment, where financial returns are pursued alongside social and environmental outcomes. This shift has been reinforced by global initiatives such as the UN Principles for Responsible Investment (PRI), whose more than 5,000 signatories collectively manage over US\$120 trillion in assets, and have committed to integrating ESG factors into investment analysis and decision-making (GSIA, 2023; UN PRI, 2006). As a result, there is a growing imperative to align ESG factors with financial performance objectives, particularly at the pre-investment stage, where risk exposures are evaluated, long-term value drivers are assessed before capital is deployed (Malik & Sharma, 2025; UN PRI, 2006).

Private equity (PE) is a significant and growing source of capital in emerging markets, where ESG risks are often most acute and institutional capacity is uneven, making it a critical arena for understanding how ESG integration unfolds in practice (IFC, 2021; Zaccone & Pedrini, 2020). Unlike public equity investors, who are typically passive and rely on company reports such as sustainability reports to gauge ESG performance, PE investors have direct influence over ESG integration through active ownership and governance at the portfolio level (Indahl & Jacobsen, 2019). By integrating ESG factors in decision making, PE firms can manage risks in ways that also drive operational improvements and support value creation aligned with exit expectations (Malik & Sharma, 2025).

1.1.1. Global Drivers of ESG Integration

Pressures to integrate ESG factors stem from a combination of institutional and market driven expectations, which together influence how ESG is prioritised within PE investment decision making (Zumente & Bistrova, 2021). Global Limited Partners (LPs), i.e., the institutional investors and funding bodies that provide capital to private equity firms, particularly Development Finance Institutions (DFIs) such as the International Finance Corporation (IFC), increasingly require ESG integration as a

condition of capital allocation (Krueger et al., 2020). In parallel, global shifts such as the COVID-19 pandemic and climate change have highlighted the importance of ESG integration for managing risk, building resilience, and promoting long-term sustainability (Marais et al., 2022). Together, these global developments have positioned ESG not as a peripheral concern but as a core driver of responsible and resilient investment strategy.

1.1.2. National Regulatory Context

While ESG integration has become a global investment priority, its application varies across contexts, often shaped by local regulatory and developmental considerations. In South Africa, this complexity is heightened by overlapping regulatory, developmental, and sectoral imperatives (Wadesango, 2023). Local frameworks have gradually embedded ESG into fiduciary responsibilities, not only aligning with global trends but also addressing domestic priorities such as inclusive growth, economic transformation, sustainability and good governance (Malik & Sharma, 2025). Key among these are the King IV Report on Corporate Governance and the Code for Responsible Investing in South Africa (CRISA) which promote that institutional investors should incorporate ESG factors into decision-making (CRISA, 2022; IoDSA, 2016). Regulation 28 of the Pension Funds Act also mandates consideration of ESG in retirement fund investments, placing ESG within the scope of prudent financial management (National Treasury, 2019).

These frameworks recognise that responsible investing is essential not only for managing risk but also for contributing to inclusive economic transformation, ethical governance, and long-term environmental and social sustainability. As a result, there is a growing requirement to align ESG factors with financial performance objectives, particularly at the pre-investment stage, where risk exposures are assessed and ESG risks can materially affect deal outcomes. South African PE firms must therefore demonstrate ESG integration capability to various stakeholder including LPs, regulators and even exit markets.

1.1.3. Sectoral Relevance: Manufacturing in South Africa

These regulatory and institutional pressures are particularly pronounced in the manufacturing sector, which forms the empirical focus of this study. The sector contributes significantly to South Africa's industrial development, employment, and exports (DTIC, 2024; Stats SA, 2024), while also being exposed to a high concentration of ESG risks, including carbon intensity, labour rights, and governance vulnerabilities (Abraham et al., 2024; PCC, 2022). Manufacturing firms, especially mid-size enterprises, often face structural constraints in adopting ESG practices due to limited capacity, capital constraints, and uneven enforcement of compliance standards (Yang et al., 2024).

This makes the manufacturing sector a strategically significant and theoretically rich setting to examine ESG integration at the pre-investment stage. While global investor mandates and policy frameworks signal the importance of ESG, actual practice is often faced with practical constraints and competing priorities at the sector and company level (Narain & Karan, 2023). ESG integration here reflects a balance of barriers to integration and trade-offs, including tensions between ESG depth and potential financial returns (Kotsantonis et al., 2022).

1.1.4. Research Gap

Despite the increasing regulatory pressure and investor demands, there remains limited empirical insight into how ESG factors are interpreted and operationalised during the pre-investment stage of private equity decision-making in South Africa (Marais et al., 2022). Much of the existing research focuses on public equity markets and post-investment ESG monitoring and reporting, leaving a gap in understanding how private equity professionals make ESG-related decisions before committing capital (Lo & Lin, 2023). Moreover, ESG integration remains fragmented and inconsistent across the industry, with considerable variation in how frameworks and tools are applied (Reis et al., 2025). In this study, the term "ESG integration mechanisms" refers to the frameworks, tools, and heuristics that guide ESG decision-making, where heuristics are informal, experience-based judgments used to complement or contextualise formal ESG data and frameworks (Jain et al., 2023). This framing allows for a more inclusive and practice-oriented view of how ESG is operationalised within deal-making processes in the specific context.

Existing frameworks, both global (e.g. IFC Performance Standards) and national (e.g. King IV, CRISA, Regulation 28), set normative expectations, but their translation into investment practice is neither standardised nor well understood (Reis et al., 2025). This gap is especially evident in high-materiality sectors such as manufacturing, where ESG risks are substantial, yet integration remains fragmented. Practical barriers persist, including capacity constraints within PE firms and portfolio companies, as well as insufficient infrastructure for ESG measurement and data management (Rubab et al., 2025; Yang et al., 2024). These intersecting dynamics highlight a critical gap in context-specific research on how ESG integration unfolds in South African private equity, particularly in the manufacturing sector during the pre-investment phase.

Such patterns highlight a broader problem: the disconnect between ESG expectations and how they are enacted in real-world investment decisions. Thus, this study responds to this central conceptual gap: the lack of empirical insight into how ESG factors are integrated into pre-investment private equity decision-making in South Africa when investing in the manufacturing sector. This overarching gap is unpacked through the following more specific conceptual and practical concerns:

1. Limited understanding of what ESG frameworks are used, and how they are interpreted and applied in pre-investment decision-making
2. Limited analysis of the external and institutional drivers of ESG integration;
3. Insufficient focus on high-materiality sectors, such as manufacturing, within the South African context;
4. Limited insight into the barriers to ESG integration and the strategic trade-offs faced by investment professionals during the deal-making process.

Together, these gaps highlight the need for contextually grounded, practice-oriented research that explores how ESG is integrated during the critical pre-investment stage in South African private equity.

1.2. Business and Academic Relevance

1.2.1. Business Relevance

ESG integration is no longer a peripheral concern but a central component of investment strategy, particularly in private equity, where active ownership enables deeper influence over portfolio companies (Zaccone & Pedrini, 2020). In South Africa, regulatory frameworks such as the King IV Report, CRISA, and Regulation 28 have elevated ESG from a voluntary disclosure exercise to a fiduciary expectation (Mhlanga & Adegbayibi, 2024). At the same time, LPs, increasingly mandate ESG factors as a precondition for capital allocation (Bian et al., 2023; Krueger et al., 2020). This includes DFIs and global pension funds, who are motivated by risk mitigation, reputational concerns, and alignment with broader policy frameworks around sustainable investing (Wadesango, 2023).

As ESG factors increasingly shape investment risks and opportunities, PE firms that embed ESG into early-stage decision-making are better positioned to anticipate regulatory shifts, attract quality portfolio companies, and secure stronger exit outcomes (Fafaliou et al., 2022; Michalski, 2024). Within this landscape, the pre-investment stage is particularly critical, as it is the point at which ESG risks are first identified, evaluated, and priced into deals. Misalignment at this stage can expose firms to reputational, regulatory, and financial risks downstream.

Yet in practice, ESG integration remains fragmented, with firms varying widely in how they prioritise ESG factors, apply frameworks, and assess materiality (Reis et al., 2025). For PE firms operating in South Africa's manufacturing sector, an area often exposed to labour-intensive operations, environmental risk, and governance volatility, developing robust and context-sensitive ESG practices at the investment stage is vital for long-term value preservation and exit readiness (Abraham et al., 2024; PCC, 2022).

This study provides practical insight into how ESG is interpreted and applied during pre-investment decision-making, offering PE professionals a nuanced understanding of peer practices, integration challenges, and areas for institutional alignment particularly when investing in high ESG materiality sectors like manufacturing.

1.2.2. Academic Relevance

While ESG literature has grown considerably over the past decade, much of it continues to focus on public equity markets, corporate disclosures, or post-investment stewardship, with limited attention to the investment-stage decision-making process in private equity (Chau et al., 2025; Lo & Lin, 2023). Even within the private equity literature, emphasis tends to be placed on outcome metrics and ESG performance indicators, rather than the interpretive processes through which investment professionals navigate ESG complexity at the deal level (Rubab et al., 2025).

The study is anchored in stakeholder theory, which provides a powerful lens to understand how PE firms respond to and balance diverse expectations from limited partners (LPs), regulators, portfolio companies, and society at large (Freeman et al., 2021). This theoretical framework enables the study to examine ESG not merely as a technical compliance exercise, but as a strategic response to stakeholder demands, used to build legitimacy, create value, and signal responsible investment practices. To capture the complexity of ESG integration in practice, the analysis is further supported by insights from institutional theory, agency theory, and signalling theory. These frameworks help explain how ESG integration is shaped by regulatory and normative pressures, incentive structures between PE firms and LPs, and the reputational dynamics of signalling ESG commitment to external stakeholders respectively (Böni et al., 2024; Moussa & Elmarzouky, 2024; Potharla & Dissanayake, 2022)

Furthermore, mainstream ESG frameworks often reflect developed-market assumptions that may not account for the regulatory, infrastructural, and socio-economic realities of markets like South Africa (Malik & Sharma, 2024). This creates a significant conceptual and empirical gap in understanding how ESG integration is influenced by local context and sectoral dynamics (Marais et al., 2022).

By exploring the pre-investment decision-making of South African PE professionals, particularly within a high-materiality sector like manufacturing, this study contributes to a more contextualised theory of ESG integration that reflects the realities of investment practice in emerging markets.

1.3. Research Purpose

The purpose of this study is to explore how private equity firms in South Africa interpret, prioritise, and integrate ESG factors during the pre-investment phase of the investment process, with particular attention to the manufacturing sector. This stage, encompassing screening, due diligence, and deal structuring, represents a critical juncture where ESG risks and opportunities are first evaluated and embedded into investment decisions.

Rather than focusing solely on normative frameworks, the study seeks to examine how ESG integration unfolds in practice, shaped by contextual drivers, sectoral materiality, barriers and challenges and strategic trade-offs. The research adopts a multi-theoretical lens to capture these complexities, with stakeholder theory providing the primary analytical foundation. Supporting insights are drawn from institutional theory, agency theory, and signalling theory to reflect the regulatory, incentive-based, and reputational forces influencing ESG decision-making in private equity.

1.4. Research Objectives and Questions

1.4.1. Research Objectives

The objective of this study is to explore how PE firms in South Africa integrate ESG factors during the pre-investment phase of the investment process when investing in the manufacturing sector.

To address this overarching objective, the study pursues the following sub-objectives:

1. To investigate the mechanisms, including frameworks, tools, and heuristics, used to integrate ESG factors during the pre-investment phase and to examine how these are interpreted, adapted, and applied in practice.
2. To identify the external and institutional drivers (e.g., LP mandates, regulatory frameworks, global norms) influencing ESG integration in South African private equity.
3. To assess how sector-specific materiality influences the interpretation and prioritisation of ESG factors by private equity firms investing in the manufacturing sector.

4. To investigate the barriers private equity firms face when integrating ESG factors during the pre-investment stage, and to explore how they navigate trade-offs between ESG priorities and financial return objectives.

1.4.2. Research Questions

Guided by stakeholder theory, this study responds to the need for deeper, context-specific insight into how ESG factors are operationalised by private equity firms during the evaluation of manufacturing-sector investments. To address this gap, the research is structured around one primary research question, supported by four secondary sub-questions that explore specific dimensions of ESG integration at the pre-investment stage.

Primary Research Question (RQ)

RQ0: How do private equity firms in South Africa interpret, prioritise, and integrate ESG factors into pre-investment decision-making processes, particularly when investing in the manufacturing sector?

Secondary Research Questions

RQ1: What mechanisms, including frameworks, tools, and heuristics, do private equity firms use to assess ESG factors during the pre-investment stage, and how are these mechanisms interpreted and applied in practice?

RQ2: What external and institutional drivers, such as limited partner mandates, regulatory frameworks, and global ESG norms, influence the interpretation and integration of ESG factors in South African private equity?

RQ3: How does sector-specific materiality influence how private equity firms interpret and prioritise ESG factors during the pre-investment phase in the manufacturing sector?

RQ4: What barriers do private equity firms encounter when integrating ESG factors into pre-investment decision-making, and how do they manage trade-offs between ESG priorities and financial return objectives?

1.5. Outline of the Research

This research report consists of seven chapters with each chapter contributing to addressing the research objectives and answering the research questions. Chapter 1 introduces the research problem, situates the study within the broader ESG and private equity landscape, and outlines the conceptual gaps that motivate the inquiry. It presents the research purpose, objectives, and questions, while framing the investigation through stakeholder theory and high-materiality sector dynamics.

Chapter 2 reviews the literature on ESG integration in private equity, with a focus on emerging markets and the pre-investment phase. In addition to the primary lens of Stakeholder Theory, the chapter draws on Institutional, Agency, and Signalling theories to explain how ESG practices are shaped by regulatory pressures, incentive structures, and reputational dynamics.

Chapter 3 outlines the research design by restating the study's purpose and presenting the primary and secondary research questions. Each question is grounded in the literature reviewed in Chapter 2, reflecting the conceptual gaps and theoretical framing of the study.

Chapter 4 outlines the research methodology, including the qualitative research design, sampling strategy, data collection methods, and analytical approach. It also discusses the study's ethical considerations, and the steps taken to ensure rigour and credibility in the analysis.

Chapter 5 presents the results of the study. Drawing on the interview data, the results are organised thematically to respond directly to the research questions. Chapter 6 discusses the results in relation to the existing literature. This chapter interprets the results through the lens of stakeholder theory, while also drawing on complementary perspectives from institutional, agency, and signalling theory.

Chapter 6 discusses the findings in relation to the literature and theoretical framework, drawing attention to areas of convergence and divergence. It explores the tensions, trade-offs, and sector-specific challenges that shape ESG integration in practice, and considers the implications for emerging market investment strategies. Chapter 7 concludes the study by summarising its key contributions, practical implications, and theoretical insights. It reflects on the study's limitations and proposes directions for future research, particularly in relation to ESG integration in other high-materiality sectors and across different stages of the investment cycle.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter reviews the literature informing this study's investigation into how private equity (PE) firms in South Africa integrate environmental, social, and governance (ESG) factors during pre-investment decision-making in the manufacturing sector.

It begins by defining ESG and tracing its evolution from a non-financial reporting concept to a strategic investment priority. The chapter then examines global ESG frameworks, integration tools, and South Africa's regulatory context, followed by a discussion of the drivers, sector-specific materiality, and practical challenges that shape ESG integration in PE. The chapter concludes by outlining the study's theoretical foundation, drawing on both the anchor and complementary theories to build an analytical framework for understanding ESG integration within the private equity context.

2.2. ESG and ESG Integration

2.2.1. Defining ESG and Its Three Pillars

ESG factors are Environmental, Social, and Governance are criteria used by investors to evaluate a firm's performance beyond conventional financial metrics (Lunawat et al., 2025). They capture how a company manages its environmental impact, social relationships, and governance practices, offering insights into both risk exposure and long-term value creation (Arora & Sharma, 2022).

The environmental pillar encompasses a firm's ecological footprint, including emissions, energy use, water consumption, climate risk and waste (Rajesh & Rajendran, 2020). The social pillar reflects how firms interact with employees, communities, and stakeholders, with a focus on labour standards, safety, inclusion, and social impact (Li & Wu, 2020). The governance pillar captures board oversight, executive pay, shareholder rights, transparency, and accountability structures (Cek & Eyupoglu, 2020).

These dimensions are not isolated but are interlinked, particularly in high-impact sectors such as manufacturing, where environmental degradation, labour intensity, and governance gaps frequently intersect (Marais et al., 2022; SASB, 2021). This interconnection reinforces the need for context-sensitive approaches to ESG, where

environmental, social, and governance factors are interpreted in relation to one another, not in isolation.

2.2.2. ESG Dimensions in the South African Context

ESG priorities in South Africa are shaped by historical inequities, carbon-intensive infrastructure, and institutional fragility (Marais et al., 2022). While global frameworks offer a level of standardisation, their application is filtered through domestic realities such as energy insecurity, socio-economic exclusion and governance risks (Wadesango, 2023).

Environmental risks are dominated by coal dependency, water scarcity, and climate vulnerability (IPCC, 2022; Krueger et al., 2020). These risks are increasingly linked to investor mandates on the “just transition,” which ties decarbonisation to social equity (PCC, 2022). For manufacturing firms, additional concerns include landfill pressure, industrial waste, and ecosystem degradation (Abraham et al., 2024).

Social factors reflect deep structural inequality, with issues such as unemployment, poor labour standards, and exclusion driving investor focus. Regulatory tools like B-BBEE are not only compliance mechanisms but also instruments for redressing historical exclusion, shaping how private equity firms engage with issues of equity, ownership, and transformation in South Africa (Fafaliou et al., 2022; Zaccone & Pedrini, 2020).

These contextual dynamics make ESG integration in South African private equity both necessary and nuanced, requiring approaches that are responsive to local development priorities and investment realities.

2.2.3. ESG Integration as a Strategic, Iterative Process

ESG integration is the deliberate and adaptive process of incorporating environmental, social, and governance considerations into investment analysis and decision-making (Soares et al., 2024). This involves first assessing all relevant, context-specific issues under each ESG pillar, and then synthesising these insights into a score or rating that reflects the transaction’s overall ESG performance (Rachev et al., 2024). This score can influence the pricing of a deal, as perceived ESG risks or strengths are factored into valuation and terms of finance. Rather than viewing ESG as a tick-box exercise, this perspective frames integration as a strategic,

context-sensitive process, one that, when well-executed, can enhance value creation for private equity firms (Broadstock et al., 2021).

In private equity, ESG integration typically begins with pre-investment ESG screening tools and red-flag checklists that identify high-risk issues such as emissions, labour violations, or governance weaknesses (Lo & Zhang, 2024). These assessments are often supplemented by intuitive heuristics, that is, rules of thumb based on professional judgement, past experiences, and contextual observations, used to navigate ESG ambiguity, particularly in contexts marked by limited data and weak disclosure norms (Eccles & Klimenko, 2019). While quantitative indicators, such as emissions intensity or workforce diversity, are central to formal ESG frameworks, they are often insufficient for capturing complex or context-specific risks (Lo & Zhang, 2024). In such contexts, ESG integration is not a linear or formulaic exercise but a dynamic and iterative process of translating abstract expectations into practical responses. This complexity is especially pronounced in emerging markets, where integration must reconcile investor requirements with sectoral realities, institutional constraints, and stakeholder pressures (Jordan, 2024; Wallin & Alizad, 2025).

2.3. ESG Integration Mechanisms: Frameworks, Tools, and Heuristics

ESG integration in private equity relies on a ecosystem of mechanisms, ranging from global frameworks to firm-level tools and intuitive heuristics, that shape how sustainability is embedded into investment decisions (Pitkänen, 2022). These mechanisms vary in purpose, with some focused on managing risk, others on ensuring transparency, demonstrating impact, or meeting compliance obligations (Kotsantonis et al., 2022). They are often selectively combined by PE firms based on context, fund strategy, and stakeholder expectations (Zaccone & Pedrini, 2020).

2.3.1. Global ESG Frameworks Guiding Investment Integration

Several global frameworks guide ESG integration across private equity. The UN Principles for Responsible Investment (UN PRI) encourage ESG incorporation into investment practices through six voluntary principles (UN PRI, 2018). The IFC Performance Standards, while also voluntary, are often made contractually binding by development finance institutions (DFIs) and are widely used to benchmark ESG risks in emerging markets (IFC, 2012). These frameworks provide institutional

legitimacy and shape the expectations of investors, particularly in cross-border investment contexts (Strampelli, 2025).

The Global Reporting Initiative (GRI) promotes impact-focused disclosure, while the Sustainability Accounting Standards Board (SASB) offers sector-specific metrics for financially material issues (GRI, 2025; SASB, 2021). The British International Investment (BII) ESG Toolkit offers practical guidance tailored to private capital in developing economies (BII, 2021, 2025). As noted by (Hridhya et al., 2025), these global frameworks are increasingly adapted by private capital actors to suit local regulatory and materiality contexts, particularly in regions with fragmented ESG disclosure norms.

Recent frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) and Corporate Sustainability Reporting Directive (CSRD) reflect a shift from voluntary ESG alignment to structured regulatory compliance. The TCFD, developed by the global Financial Stability Board, is widely adopted across markets as a climate-risk disclosure standard (Friedrich et al., 2024). In contrast, the CSRD is a legally binding EU directive requiring ESG reporting for large companies, including PE firms with EU exposure (Boström & Hannes, 2024; Canepa, 2023).

While South African regulations remain largely principle-based, many local PE firms adopt these international standards in response to LPs and cross-border capital flows, particularly when engaging with DFIs or EU-based investors (Hridhya et al., 2025; Marais et al., 2022). This dynamic reflects the influence of global capital norms in shaping local ESG practices.

The table below summarises the key global ESG mechanisms, distinguishing their purpose, scope, and enforceability, whether voluntary, principle-based, or contractually binding, highlighting how they differ in their practical implications for private equity investors.

Table 1: Summary of global mechanisms

| Framework | Type | Primary Focus | Scope | Enforceability |
|-----------------------------|--------------------------------|---|---|-----------------------------------|
| UN PRI | Voluntary Principles | Responsible investment norms | Institutional investors | Non-binding |
| OECD Guidelines | Voluntary Principles | Responsible corporate conduct | Multinational enterprises | Non-binding |
| GIIN | Voluntary guidelines / toolkit | Impact measurement & management (IMM), standardised metrics (via IRIS+) | Global, cross-sector, mostly used in private markets and impact investing | Voluntary, non-binding |
| GRI | Reporting Standard | Broad sustainability impact | Global | Voluntary (increasingly expected) |
| SASB / ISSB | Reporting Standard | Financially material ESG risks | Sector-specific | Voluntary |
| TCFD | Disclosure Framework | Climate-related financial risks | Global financial sector | Often mandated |
| SFDR | Regulatory Disclosure | ESG risk integration and fund classification | EU asset managers | Legally binding |
| CSRD | Regulatory Disclosure | Corporate sustainability reporting | Large EU companies | Legally binding |
| IFC PS | Operational Standard | E&S risk management in investments | Emerging markets | Binding (for DFI recipients) |
| BII Toolkit / IFC ESG Guide | Operational Framework | ESG across investment cycle | DFIs, PE funds | Conditional (DFI-linked) |

2.3.2. South African Mechanisms

South Africa's governance landscape combines voluntary frameworks and binding regulations aimed at promoting ethical leadership, compliance, and socio-economic transformation. The King IV Report on Corporate Governance promotes ethical leadership, integrated thinking, and stakeholder inclusivity, and is widely endorsed across sectors, including unlisted firms (IoDSA, 2016). Similarly, the Code for Responsible Investing in South Africa (CRISA) encourages institutional investors to embed ESG factors into investment analysis and promote active stewardship (CRISA, 2022). Yet, corruption and weak board capacity remain material risks in the country, also affecting private equity firms (Dempsey et al., 2024).

Another instrument is Regulation 28 of the Pension Funds Act, which mandates ESG consideration as part of fiduciary duty, helping reinforce ESG's legitimacy in capital allocation decisions (Wadesango, 2023). Broad-Based Black Economic Empowerment (B-BBEE) laws acts as both a governance and social tool, influencing who can invest and how firms procure services (Intellidex, 2023; National Treasury, 2019), especially in sectors linked to government.

The interplay between global ESG frameworks and South Africa's layered regulatory landscape creates a complex operating environment, requiring private equity firms to navigate overlapping expectations while maintaining local relevance and global credibility

2.3.3. ESG Mechanisms in the South African Private Equity Context

In South Africa, private equity firms engage with a diverse set of ESG mechanisms, ranging from the global and local frameworks to internal tools. While these mechanisms mirror global best practice in form, they are often tailored to align with the country's unique regulatory landscape, data limitations, and socio-economic challenges. This section explores *what* mechanisms are used and *how* they are applied in practice.

2.3.3.1 Global and Local Mechanisms Application in SA PE

Many South African PE firms adopt international ESG frameworks such as the UN PRI, IFC Performance Standards, SASB sectoral guidelines and the BII ESG Toolkit. However, these are rarely applied in full. Instead, firms engage with these mechanisms selectively and strategically (Pitkänen, 2022), shaped in part by DFI requirements and the preferences of international LPs (Hridhya et al., 2025).

This tendency toward selective adoption is partly explained by practical constraints. Global ESG frameworks often assume robust disclosure systems, consistent regulatory enforcement, and access to high-quality data, all of which are limited in the South African context (Marais et al., 2022; Reis et al., 2025). As a result, firms also rely on a mix of internal scorecards, red-flag and other bespoke ESG tools, frequently integrating local priorities such as B-BBEE compliance, labour safety, and community engagement (Wadesango, 2023). Many funds formalise these processes through Environmental and Social Management Systems (ESMS), which consolidate ESG policies, screening templates, and risk rating matrices into a centralised, fund-wide framework (Fund Evolution II, 2019). Additionally, ESG priorities identified during due diligence are often incorporated into 100-day post-investment plans, providing a structured mechanism to bridge gaps identified during screening (Pistner, 2025).

Governance codes like King IV and the CRISA also play an important role as mechanisms. Though not legally binding, they have become influential benchmarks for ESG integration including stewardship, integrated thinking, and stakeholder inclusivity (CRISA, 2022; IoDSA, 2016). As noted by van der Lugt and Mans-Kemp (2022), King IV promotes a values-based governance approach that aligns well with ESG imperatives in emerging markets. Viviers et al. (2008) also emphasise that

CRISA has shifted responsible investing practices in South Africa by encouraging long-termism and investor activism, particularly among asset owners. Importantly, Regulation 28 of the Pension Funds Act requires fund trustees to consider ESG factors in investment decisions, giving ESG formal recognition in the capital allocation process, even though enforcement remains limited (Wadesango, 2023).

2.3.3.2 Heuristics: Informal Mechanisms

In contexts where reliable ESG data is scarce, especially among small and medium enterprises, firms also rely on heuristics, or informal rules of thumb, to make ESG judgments (Jain et al., 2023). These may include red flags observed during site visits (e.g., missing safety equipment, high staff turnover) and practitioner experience. As Reis et al. (2025) note, ESG integration in emerging markets often blends structured tools with interpretive, experience-based judgement, allowing fund managers to navigate ambiguity in a way that formal models cannot. This reliance on heuristics reinforces the idea that ESG integration is not solely a technical process, but a strategic, context-sensitive practice shaped by local realities.

2.3.3.3 Strategic Selectivity of Mechanisms

Notably, ESG tools are often applied in ways that reflect the institutional ethos of the fund or general partner. As (Pitkänen, 2022) notes in her study of Nordic private equity, such “strategic selectivity” is common across private markets and is shaped by fund size, geographic exposure, and investor mix; a pattern echoed in the South African context. Local firms tend to blend formal international frameworks (e.g., IFC, SASB, BII) with domestic instruments like CRISA and King IV, and supplement them with intuitive heuristics and red-flag indicators (Jain et al., 2023). This hybridisation enables contextual relevance but can also introduce variation in depth and consistency.

Finally, while many South African PE firms demonstrate strategic selectivity in applying ESG mechanisms, full-process integration remains aspirational. As Marais et al. (2022) observe, PE firms increasingly recognise the need for ESG to span the entire investment lifecycle, yet consistent application remains limited. This highlights that deep ESG integration is still evolving, shaped by internal ethos, investor demands, and operational realities.

2.3.4. Critique: Framework Overload and Fragmentation

While the proliferation of ESG mechanisms, from global frameworks to local adaptations, has provided private equity firms with valuable guidance, it has also introduced significant complexity. A major concern within the ESG investment community is the proliferation of standards and frameworks. With over 600 ESG-related reporting frameworks globally, investors and portfolio companies often face confusion over which standards to prioritise (Kotsantonis et al., 2022).

This “alphabet soup” of ESG mechanisms, as some critiques call it, can dilute effectiveness, lead to inconsistent measurement and reporting and create confusion among fund managers and portfolio companies (Reis et al., 2025). Moreover, many of these standards were developed in high-income contexts and lack sensitivity to local ESG materiality, particularly in emerging markets. Marais et al. (2022) pointed out that global frameworks may fail to capture context-specific risks such as load shedding, weak infrastructure, or socio-economic exclusion. For instance, SASB’s metrics often overlook issues like B-BBEE compliance or community unrest, which are central to ESG risk in South Africa (Wadesango, 2023).

As a result, South African PE firms tend to adapt and layer global frameworks with local tools and sector-specific factors. This pragmatic customisation helps ensure ESG integration is both meaningful and manageable in complex, data-scarce environments.

Synthesis:

ESG mechanisms in South African private equity reflect a pragmatic hybrid approach, blending global standards with local priorities and constraints. Firms apply international frameworks selectively, supported by internal tools like ESMS, scorecards, and 100-day plans. In contexts of limited data, they rely on heuristics and red-flag indicators. Governance codes such as King IV and CRISA offer local structure, while Regulation 28 adds formal pressure. Though full ESG integration remains uneven, firms are moving toward more consistent, context-responsive application across the investment lifecycle.

2.4. External and Institutional Drivers of ESG Integration

2.4.1. Investor Pressure and DFIs

Investor expectations, particularly from LPs, are among the most influential drivers of ESG integration in private equity (Krueger et al., 2020). Globally, LPs with sustainability mandates increasingly require PE Firms to demonstrate robust ESG processes as a condition for fundraising (Yang et al., 2024). This is especially pronounced in emerging markets, where DFIs such as the IFC and BII often anchor PE funds and embed ESG requirements into funding agreements (Toschi & Metz, 2022).

In the South African PE context, DFIs have indeed played a foundational role in shaping ESG integration. Their long-standing involvement, often as anchor investors, has embedded ESG factors into fund structures, due diligence, and reporting processes (Panulo & Van Staden, 2022). This sustained engagement has contributed to a higher level of ESG maturity in South Africa relative to many other emerging markets (Carter & Ayres, 2024). While integration remains uneven and not yet fully embedded across the investment cycle (Marais et al., 2022), South Africa's PE ecosystem benefits from a stronger institutional base and more established ESG norms than is typical in comparable contexts (Hunter, 2022).

DFIs also influence strategy and ethos by tying capital to impact-related themes such as climate resilience, gender equity, and inclusive development (Forster, 2023; Sarkar, 2025). However, smaller or locally focused funds often struggle to meet these evolving standards due to capacity constraints (Emmanuel et al., 2024). Despite these challenges, ESG is increasingly viewed as essential for fund credibility, capital access, and differentiation in a globally competitive fundraising environment (Bhuiyan, 2025; SAVCA and EY, 2024).

2.4.2. Regulatory Forces

While much of the ESG momentum in South African private equity is driven by investor expectations, local regulatory frameworks also play a shaping role. Soft-law instruments such as King IV and CRISA influence ESG norms by setting out principles for governance, sustainability, and responsible investment, even in the absence of legal enforcement. Soft-law instruments such as King IV and CRISA influence ESG norms by setting out principles for governance and responsible investment, even in the absence of legal enforcement (Chawarura et al., 2025).

In contrast, Regulation 28 of the Pension Funds Act imposes a binding obligation on pension fund trustees to consider material ESG risks in investment decisions. This has a direct effect on PE firms managing capital from pension-backed limited partners, reinforcing ESG as a fiduciary expectation.

2.4.2. Global Systemic Drivers: Climate Change and COVID-19

Climate change and the COVID-19 pandemic have reinforced ESG as a risk and resilience framework. Climate-related disruptions: from extreme weather to decarbonisation mandates, now materially affect operations and valuations (Carney, 2015; TCFD, 2017). As (Yébenes, 2024) argues, shifting regulatory landscapes are placing increasing pressure on firms to internalise climate-related externalities. This is echoed by (Bouteska et al., 2025) who highlight how climate transition risk and ESG rating divergence can directly influence asset performance.

The COVID-19 pandemic exposed significant vulnerabilities in governance and social infrastructure, prompting a shift in investor priorities and expectations. As Islam and Habib (2022) note, issues such as workplace safety, labour continuity, and board responsiveness gained prominence during the crisis. Firms with strong ESG profiles were better positioned to manage these disruptions, demonstrating greater operational stability and earning investor trust. This is supported by (Broadstock et al., 2021), who found that ESG-aligned firms outperformed peers in both financial and non-financial resilience during systemic shocks. In the context of private equity, this experience catalysed greater attention to ESG as a strategic imperative, with Limited Partners increasingly viewing ESG capabilities as essential to portfolio resilience and long-term capital protection (Cheema-Fox et al., 2021; UNDP, 2021).

2.4.3. Strategic and Competitive Drivers in the South African Context

Beyond compliance, ESG is increasingly viewed as a source of strategic advantage. Firms with well-developed ESG systems are better positioned to raise capital, attract LPs, and align with broader developmental mandates such as inclusive growth and sustainability transitions (Aydoğmuş et al., 2022). In high-impact sectors such as manufacturing and infrastructure, ESG practices are used to enhance operational efficiency, build social license to operate, and improve exit valuations (Bian et al., 2023).

Moreover, ESG capability is becoming a reputational asset, signalling long-term value stewardship and resilience, particularly in emerging market contexts where non-financial risks are material (Toschi & Metz, 2022). For South African PE, ESG offers not just risk mitigation but differentiation in an increasingly impact-oriented investment landscape (Malik & Sharma, 2025).

Synthesis:

ESG integration in South African private equity is driven by a layered mix of investor mandates, regulatory signals, and strategic factors. DFIs and LPs set the tone by embedding ESG into funding agreements, while soft law instruments like King IV and CRISA shape norms through reputational channels. Regulation 28 adds binding pressure for pension-backed funds. Global forces, such as climate change and COVID-19, have further reinforced ESG as a resilience framework. Locally, ESG is also seen as a competitive asset, helping firms attract capital, manage risk, and align with developmental priorities.

2.5. Manufacturing Materiality in ESG Integration

Materiality in ESG refers to the relevance and potential impact of environmental, social, and governance factors on a company's financial performance, risk profile, and long-term value (Eccles & Klimenko, 2019). The manufacturing sector presents a high-materiality context for ESG integration due to its operational complexity, resource intensity, and socio-economic footprint (Bouteska et al., 2025; OECD, 2021).

While sector-specific risks, such as energy intensity or worker safety, may appear more salient in some cases, this study adopts the premise, supported by Lu et al. (2025) and Chang and Lee (2022) that ESG dimensions in manufacturing are deeply interdependent rather than hierarchical. Materiality in this context is contextual and co-constructed through stakeholder negotiation, sectoral exposure, and governance capacity.

South African manufacturers face compounded ESG pressures due to infrastructure constraints like load shedding and water scarcity, which in turn affect labour productivity, safety, and compliance capacity (Maditsi & Herbert, 2024). These systemic constraints intensify the interdependence of ESG issues. As Yang et al. (2024) and Mhlanga & Adegbayibi (2024) show, disruptions stemming from climate

volatility or labour unrest often trigger cascading effects across multiple ESG dimensions, revealing how weaknesses in one pillar can quickly destabilise others.

COVID-19 further exposed how ESG risks can compound one another: the pandemic disrupted supply chains, labour vulnerabilities intensified, and poor governance slowed institutional responses (Yang et al., 2024). These disruptions underscore the interdependence of ESG pillars, where weaknesses in one domain, such as health and safety, can quickly cascade into operational, reputational, or compliance risks (Posadas et al., 2023). In manufacturing, this interdependence is especially acute, reinforcing the need for integrated ESG approaches that go beyond siloed ESG assessments.

2.6. Barriers and Trade-offs in ESG Integration

2.6.1. Barriers to ESG Integration in South African Private Equity

Despite growing ESG adoption, several persistent barriers constrain deeper integration in private equity, particularly within emerging markets. A foundational challenge is limited ESG awareness, among portfolio companies and investment professional which weakens the perceived materiality of ESG risks and opportunities (Rajput & Jindal, 2026). This is compounded by capacity gaps, including insufficient expertise in ESG assessment, inconsistent use of due diligence tools, and a shortage of qualified professionals capable of driving ESG performance at both fund and portfolio levels (Al-harbi, 2025; Narain & Karan, 2023).

Even when technical capacity exists, effective ESG integration often hinges on internal leadership and cultural alignment. Resistance from portfolio company management, or lack of senior buy-in, can stall implementation efforts, particularly where ESG is seen as externally imposed or peripheral to core business strategy ((Ong et al., 2025). Furthermore, integration is frequently undermined by operational barriers such as unreliable infrastructure, data scarcity, and limited access to measurement tools, factors that are particularly acute in under-resourced or energy-intensive sectors (Gupta, 2025).

While these challenges are significant, research increasingly points to ESG-focused training, leadership development, and stakeholder engagement as key enablers of stronger ESG outcomes (Ong et al., 2025; Rajput & Jindal, 2026). Building internal

capabilities and aligning ESG with commercial value creation remain essential steps for mainstreaming sustainability within the private equity investment process.

2.6.2. Navigating Trade-offs Between ESG and Financial Objectives

ESG integration in private equity often involves inherent tensions between long-term sustainability goals and short-term financial returns. These trade-offs become particularly salient during pre-investment decisions, where firms must weigh ESG risks against commercial upside. Scholars have noted that ESG concerns may at times delay or reshape deals, especially when red flags raise reputational or compliance risks (Kotsantonis et al., 2022).

However, private equity firms increasingly adopt pragmatic strategies to navigate these tensions, such as repricing deals to reflect ESG risk, embedding post-investment remediation plans, or prioritising material issues over broader ESG ideals (Pitkänen, 2022). Others engage in stakeholder dialogue to balance expectations or use ESG as a lens to identify value-creation opportunities, reframing integration as a competitive advantage rather than a constraint (Bian et al., 2023; Malik & Sharma, 2025). These adaptive strategies reflect the sector's shift toward contextual, opportunity-driven ESG, rather than one-size-fits-all compliance.

Recent studies confirm that ESG screening mechanisms and climate risk appraisals can materially influence investor confidence and access to private capital, thereby enhancing market valuation and long-term financial outcomes (Nsama, 2025). These adaptive strategies reflect the sector's shift toward contextual, opportunity-driven ESG, rather than one-size-fits-all compliance.

2.7. ESG vs CSR vs Impact Investing: Navigating Conceptual Overlaps

Conceptual overlap between ESG, Corporate Social Responsibility (CSR), and impact investing often creates confusion. CSR is typically philanthropic and peripheral to core business strategy (Carroll, 1999) while impact investing aims for measurable social or environmental outcomes alongside returns, often aligned with the Sustainable Development Goals (SDGs) (Bugg-Levine & Emerson, 2011; GIIN, 2020). ESG, by contrast, integrates material sustainability risks and opportunities into investment decision-making.

In practice, especially in emerging markets like South Africa, these boundaries blur. Firms may use ESG frameworks to meet LP expectations while also pursuing impact-style goals such as transformation or job creation (Cheng et al., 2023). This convergence can lead to inconsistent application, but this study focuses specifically on ESG as a distinct investment process.

Synthesis:

The manufacturing sector represents a high-materiality context for ESG due to its operational intensity and systemic exposure. In South Africa, challenges like load shedding, labour unrest, and water scarcity amplify the interdependence of ESG dimensions, where risks in one area often cascade across others. This reinforces the need for integrated ESG approaches that reflect the complex, context-driven nature of materiality in manufacturing environments.

2.8. Theoretical Framework

2.8.1. Introduction to Theoretical Frameworks

This study applies a multi-theoretical lens to analyse how ESG factors are integrated into private equity decision-making in South Africa's manufacturing sector, particularly during the pre-investment phase. The primary framework is stakeholder theory, which conceptualises firms as embedded in networks of actors with divergent interests, expectations, and influence (Freeman et al., 2021). This theory fits ESG analysis well, as it focuses on legitimacy, accountability, and balancing different stakeholder interests.

To enrich this analysis, three supporting perspectives are introduced: institutional theory, which explains how ESG practices are shaped by regulatory norms, investor mandates, and professional expectations (Bauckloh et al., 2023; DiMaggio & Powell, 1983); agency theory which focuses on incentive misalignments and monitoring challenges between principals (e.g., LPs, GPs) and agents (e.g., portfolio managers) in ESG implementation (Eisenhardt, 1989; Fafaliou et al., 2022); signalling theory which highlights how ESG practices communicate legitimacy under conditions of information asymmetry (McCahery et al., 2022; Spence, 1978).

While each theory provides discrete insights, stakeholder theory offers the most integrative scaffold, encompassing both internal and external dynamics. It allows the study to examine ESG as a process of balancing relational power, legitimacy claims,

and contextual constraints, particularly salient in the complex and fragmented ESG landscape of South African private equity.

2.8.2. Stakeholder Theory

Stakeholder Theory contends that firms are accountable not only to shareholders but to a broader ecosystem, employees, communities, regulators, investors, and others, who influence or are affected by business decisions (Freeman et al., 2007; Johnson-Rokosu, 2025). These stakeholders include employees, customers, suppliers, regulators, investors, and communities, all of whom may influence, or be affected by, the firm's operations and value-creation activities. In the ESG context, these stakeholders generate and enforce sustainability expectations, making ESG a matter of strategic responsiveness.

A key concept here is stakeholder salience: the degree to which stakeholders are prioritised based on power, legitimacy, and urgency (Mitchell et al., 1997). In PE, LPs and DFIs often dominate pre-investment decisions, while community and labour stakeholders become more salient post-investment, especially when ESG risks emerge (Aluchna et al., 2022).

Stakeholder theory also reframes ESG as a strategic practice, not just a compliance function. ESG risks matter because they threaten trust, social license, and long-term value, not just returns (Freeman et al., 2007; Potharla & Dissanayake, 2022). In South Africa, this logic is reflected in governance frameworks such as King IV and CRISA, which embed stakeholder engagement and ethical leadership into responsible investing (Chininga et al., 2024; CRISA, 2022; IoDSA, 2016)

2.8.3. Supporting Theoretical Perspectives on ESG Integration

2.8.3.1 Institutional Theory

Institutional theory explains how firms adopt ESG practices not solely out of conviction but in response to external pressures that define what is legitimate or expected in a given field (Scott, 2013). In the context of ESG, this theory explains how investment firms, particularly in private equity, adopt certain ESG practices not solely out of internal conviction, but in response to a range of institutional forces (DiMaggio & Powell, 1983; Wallin & Alizad, 2025).

These pressures manifest in three distinct forms of institutional isomorphism: coercive, mimetic, and normative (Posadas et al., 2023). Coercive pressures arise from regulatory demands, investor expectations, and stakeholder activism that effectively compel firms to adopt ESG practices to meet compliance requirements and social expectations. In South Africa, regulatory frameworks such as King IV and CRISA promote that investors should demonstrate responsible investment behaviour. Likewise, LPs, especially DFIs, often impose ESG requirements as conditions for capital allocation (Toschi & Metz, 2022). Community activism and public scrutiny can also serve as coercive forces, particularly when ESG violations trigger reputational risks.

Mimetic pressures are evident when firms emulate peers, especially under conditions of uncertainty or lack of standardisation (Solimene et al., 2025). For instance, South African private equity firms may adopt international ESG reporting standards (e.g., UN PRI, TCFD, SFDR) or imitate global leaders in ESG practice, not necessarily because they are mandated to, but because doing so is seen as legitimate or strategically advantageous (TCFD, 2017; UN PRI, 2006).

Normative pressures stem from industry norms, professional standards, and training (Posadas et al., 2023). Organisations like SAVCA promote ESG education and codes of practice, while global shifts in business education (e.g., CFA curricula) increasingly emphasise ESG literacy (CFA Institute, 2021; SAVCA and EY, 2022). These professionalised expectations influence what fund managers perceive as best practice in ESG integration.

Institutional theory complements stakeholder theory by showing *how* ESG becomes embedded: through rules, imitation, and professionalisation. It illuminates the gap between symbolic adoption and substantive implementation, an issue especially relevant in ESG-fragmented environments like South Africa.

2.8.3.2 Signalling Theory

Signalling theory explains how firms communicate quality, ethics, or risk posture through observable ESG actions in order to attract capital, trust, or legitimacy in opaque environments (Moussa & Elmarzouky, 2024). In private equity, ESG signals include: adherence to global frameworks (e.g., UN PRI, SASB), publishing impact reports or ESG dashboards, use of ESG ratings to assure LPs or co-investors of responsible practices (Gao et al., 2025; Serafeim & Yoon, 2022).

However, signalling may also be performative, driven more by reputational incentives than by actual sustainability integration, especially in contexts with weak enforcement or low ESG literacy. However, signalling can also result in performative behaviour, where ESG practices are adopted more for reputational gain than genuine impact (Hridhya et al., 2025).

Signalling theory adds nuance to the study's analytical frame by explaining how ESG is used to shape perception, especially in fundraising and competitive deal environments. It reinforces the stakeholder theory focus on legitimacy and the institutional theory insight on conformity pressures.

2.8.3.3 Agency Theory

Agency theory highlights incentive misalignments between principals and agents, such as LPs and PE firms, or PE firms and portfolio company managers, particularly under conditions of information asymmetry (Eisenhardt, 1989).

In ESG, these misalignments arise when fund managers impose ESG requirements to satisfy LPs, but portfolio company executives deprioritise or resist them, viewing ESG as costly or peripheral (Xu et al., 2025). These tensions often result in partial implementation or greenwashing (Böni et al., 2024).

Agency theory complements Institutional and Stakeholder Theory by focusing on internal accountability, why ESG fails or succeeds within portfolio companies, even when institutional or stakeholder pressure is present.

2.8.4. Synthesis of Theoretical Frameworks

Together, the four theoretical lenses offer a layered understanding of how ESG is interpreted and operationalised in private equity. Stakeholder theory provides the central foundation, framing ESG integration as a process shaped by the competing interests, influence, and legitimacy of various actors, investors, regulators, communities, and portfolio companies, across the investment lifecycle. It highlights how ESG is negotiated rather than imposed, particularly in emerging market contexts like South Africa.

Institutional theory complements this by explaining how ESG expectations become formalised through regulatory mandates, peer emulation, and professional norms. Agency theory adds insight into the internal dynamics of ESG implementation,

illuminating how divergent incentives and information asymmetries between fund managers and portfolio company leadership can affect outcomes. Finally, signalling theory brings attention to the strategic communication of ESG practices, showing how firms use ESG disclosures to manage perceptions, attract capital, and build legitimacy in opaque and uncertain environments.

While each framework provides a distinct angle, they converge around a shared insight: ESG integration is not simply a matter of compliance or risk management, but a dynamic process shaped by legitimacy, power, and strategic positioning. Stakeholder theory serves as the integrative scaffold, while the supporting theories deepen our understanding of the institutional, behavioural, and communicative mechanisms through which ESG becomes embedded in private equity decision-making.

Figure 1 illustrates how institutional theory, agency theory, and signalling theory each support and enrich stakeholder theory as the central analytical lens for this study. While stakeholder theory maps the broader network of actors influencing ESG priorities, the supporting theories explain how these priorities become institutionalised (institutional theory), negotiated within organisational structures (agency theory), and externally communicated for strategic purposes (signalling theory). Together, they provide a cohesive framework for analysing ESG integration in private equity.

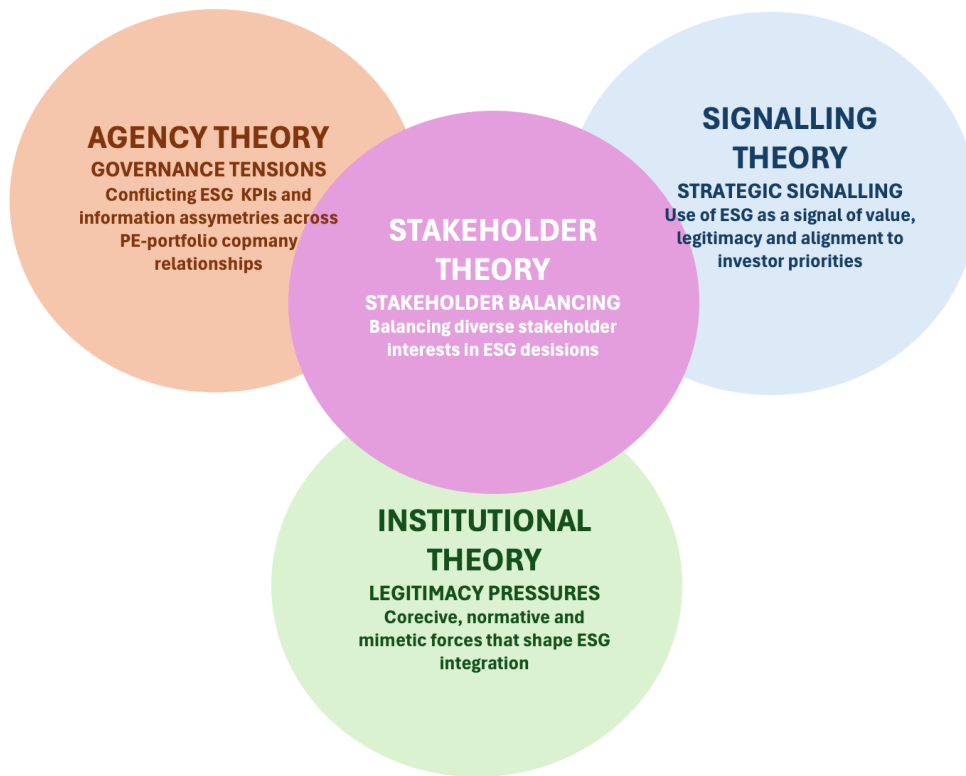


FIGURE 1: MAPPING COMPLEMENTARY THEORIES TO STAKEHOLDER-CENTRIC ESG INTEGRATION

2.9. Conclusion

This chapter reviewed the evolving landscape of ESG integration in private equity, with a focus on its application in emerging markets such as South Africa. It highlighted the strategic, regulatory, and institutional drivers influencing ESG adoption, while also noting how global frameworks are selectively applied in ways that reflect local constraints and priorities.

The literature points to a hybrid approach to ESG, combining international standards with domestic mechanisms like CRISA and King IV, and internal tools such as ESMS and 100-day plans. Investor expectations, particularly from DFIs, and soft regulatory pressures were identified as primary external forces, while firm-level ethos and strategic positioning also shape ESG behaviour.

Within high-materiality sectors like manufacturing, ESG risks are deeply interdependent, reinforcing the need for integrated rather than siloed approaches. However, persistent barriers, ranging from limited awareness and skills to measurement challenges, continue to hinder full integration. The chapter also

highlighted the conceptual ambiguity between ESG, CSR, and impact investing, noting the potential for misalignment in practice.

Overall, the literature suggests that ESG integration is not a uniform process but a context-specific balancing act, shaped by stakeholder pressures, institutional norms, and commercial realities. This conceptual foundation sets the stage for analysing how South African private equity firms operationalise ESG in practice, as explored in the empirical chapters that follow.

To consolidate the key insights emerging from this literature review, the table below maps each of the study’s research questions to its corresponding theoretical lens, thematic focus, and anticipated theoretical contribution. This synthesis serves as both a conceptual anchor for the empirical analysis that follows and a guide to how the study engages with and extends existing scholarship.

Table 2: Conceptual Mapping of Research Questions to Theoretical Framework

| Research Question | Theoretical Lens | Thematic Focus | Theoretical Contribution |
|--|--|---|---|
| RQ1: What tools, frameworks, and heuristics do PE firms use to integrate ESG during pre-investment? | Stakeholder Theory + Institutional Theory | Translation of stakeholder expectations into practice | Shows how PE firms adopt or adapt ESG tools under stakeholder and institutional pressure |
| RQ2: How do different stakeholders influence the prioritisation of ESG issues? | Stakeholder Theory | Stakeholder salience | Illuminates power, legitimacy, and urgency dynamics in ESG decision-making |
| RQ3: How does the manufacturing sector context shape ESG materiality and investment decision-making? | Stakeholder Theory + Institutional Theory | Sector-specific materiality | Explores how context and norms shape what ESG factors are seen as relevant |
| RQ4: How do PE firms navigate trade-offs between ESG goals and financial imperatives? | Stakeholder Theory + Agency Theory + Signalling Theory | Tensions and trade-offs | Explains how PE firms manage competing demands, align incentives, and communicate ESG intent under pressure |

CHAPTER 3: RESEARCH QUESTIONS

This study investigates how environmental, social, and governance (ESG) factors are interpreted and integrated into the pre-investment practices of private equity (PE) firms operating in South Africa's manufacturing sector. The research adopts a qualitative, exploratory approach, reflecting the limited empirical research on ESG integration in emerging market PE contexts.

The study is grounded in stakeholder theory (Freeman et al., 2021), which frames ESG integration as a process of balancing actors with varying power, legitimacy, and urgency. It is supported by institutional theory (DiMaggio & Powell, 1983), agency theory (Eisenhardt, 1989), and signalling theory (Spence, 1978), which help explain how ESG practices are shaped by institutional norms, principal-agent dynamics, and reputational incentives, respectively.

Primary Research Question

RQ0. *How do private equity firms in South Africa interpret, prioritise, and integrate ESG factors into pre-investment decision-making processes, particularly when investing in the manufacturing sector?*

This overarching question aims to understand ESG integration as a dynamic, context-dependent process shaped by competing stakeholder demands, varying perceptions of materiality, and the strategic motivations of private equity actors (Marais et al., 2022; Zaccone & Pedrini, 2020).

Secondary Research Questions

RQ1. *What mechanisms, including frameworks, tools, and heuristics, do private equity firms use to assess ESG factors during the pre-investment stage, and how are these mechanisms interpreted and applied in practice?*

Despite the availability of global standards such as the IFC Performance Standards and UN PRI, many firms rely on internally developed and informal mechanisms (Gangi & Daniele, 2025; Ilori et al., 2023). This question explores how stakeholder expectations are translated into decision-making instruments. Stakeholder theory links mechanism adoption to legitimacy-seeking, while institutional theory suggests tools may reflect mimetic or normative pressures (Posadas et al., 2023).

RQ2. *What external and institutional drivers, such as limited partner mandates, regulatory frameworks, and global ESG norms, influence the interpretation and integration of ESG factors in South African private equity?*

In South Africa, ESG adoption is often shaped by powerful external stakeholders such as DFIs, global LPs, and soft-law codes like King IV and CRISA (Bian et al., 2023; Wadesango, 2023). Drawing on stakeholder salience and institutional theory, this question explores what coercive and normative pressures drive ESG alignment, often more to secure legitimacy than out of intrinsic strategy (Wallin & Alizad, 2025).

RQ3. *How does sector-specific materiality influence how private equity firms interpret and prioritise ESG factors during the pre-investment phase in the manufacturing sector?*

Sectoral materiality frameworks (e.g., SASB, 2021) highlight that ESG relevance is context-specific. In manufacturing, issues such as emissions, labour practices, and supply chain risks are particularly salient (Yang et al., 2024). This question explores how PE firms assess ESG sector salience, guided by stakeholder expectations and institutional norms (Marais et al., 2022).

RQ4. *What barriers do private equity firms encounter when integrating ESG factors into pre-investment decision-making, and how do they manage trade-offs between ESG priorities and financial return objectives?*

This research question investigates the practical constraints that influence ESG integration at the pre-investment stage, including limited internal capacity and resistance and inconsistent ESG data (Narain & Karan, 2023). Further, the question seeks to understand how private equity professionals navigate trade-offs between ESG integration and financial performance objectives, particularly when ESG depth may conflict with commercial pressures (Chakrabarty & Bass, 2023). These tensions are central to understanding how ESG is balanced with return expectations in emerging market contexts like South Africa. Grounded in stakeholder theory and supported by complementary theoretical lenses, the questions reflect the complexity of ESG integration in South African private equity decision-making and guide the empirical inquiry that follows.

CHAPTER 4: RESEARCH METHODOLOGY

4.1. Choice of Methodology

4.1.1. Purpose of Research Design

This study adopted an exploratory qualitative research design, which was appropriate for investigating a phenomenon where academic understanding remained limited (Lim, 2024). The research aimed to explore how ESG factors were interpreted, prioritised, and integrated into South African private equity (PE) firms' investment decisions within the manufacturing sector.

The design was structured to address the primary research question:

How do private equity firms in South Africa interpret, prioritise, and integrate ESG factors into pre-investment decision-making processes, particularly when investing in the manufacturing sector?

To address this overarching question, the research also investigates four sub-questions:

RQ1: What mechanisms, including frameworks, tools, and heuristics, do private equity firms use to assess ESG factors during the pre-investment stage, and how are these mechanisms interpreted and applied in practice?

RQ2: What external and institutional drivers, such as limited partner mandates, regulatory frameworks, and global ESG norms, influence the interpretation and integration of ESG factors in South African private equity?

RQ3: How does sector-specific materiality influence how private equity firms interpret and prioritise ESG factors during the pre-investment phase in the manufacturing sector?

RQ4: What barriers do private equity firms encounter when integrating ESG factors into pre-investment decision-making, and how do they manage trade-offs between ESG priorities and financial return objectives?

The research aimed to generate context-sensitive insights relevant to both academic discourse and practical investment strategies in ESG-intensive sectors.

4.1.2. Research Philosophy

The study was grounded in an interpretivist philosophy, which holds that reality is socially constructed and that knowledge is best acquired by understanding how individuals interpret their experiences (Nirmal et al., 2023). This paradigm was well suited for examining how ESG was understood, assessed, and acted upon by decision-makers within the specific regulatory, institutional, and economic context of South Africa. Interpretivism supports the study's focus on how participants make sense of ESG, rather than seeking generalisable theories (Nickerson, 2022).

4.1.3. Research Approach

The study adopted an abductive approach. While grounded in empirical data, the analysis did not proceed in a purely inductive manner. Instead, it allowed for iterative engagement with theory during the process of interpreting emerging patterns typical of abductive reasoning (Singh et al., 2021). This approach facilitated a two-way dialogue between data and theory: participant accounts informed the identification of themes, while stakeholder theory, institutional theory, agency theory, and signalling theory were used to frame and interpret those findings. By iteratively cycling between the data and these theoretical lenses, the study was able to build nuanced, context-sensitive insights into how ESG is interpreted, prioritised, and operationalised in South African PE.

This approach also ensured that emergent concepts, such as “hybridisation” of ESG mechanisms were not forced into preconceived categories, but refined and interpreted using theory where appropriate.

4.1.4. Methodological Choices

A mono-method qualitative design was selected, relying exclusively on qualitative methods to capture the richness of lived experience. This choice was consistent with the research's focus on perceptions, judgments, and investment heuristics; elements that are best explored through narrative data (Köhler et al., 2022).

Semi-structured interviews were used as the primary data collection method. These offered the flexibility to probe nuanced issues such as trade-offs between ESG and financial returns, the influence of DFIs, and the practical barriers to ESG integration. The study remained within the qualitative paradigm throughout data collection, analysis, and interpretation.

4.1.5. Research Strategy

The study employed a grounded theory strategy to allow theory to emerge from the data through inductive and iterative analysis (Walsh & Rowe, 2023). This strategy was considered appropriate given the under-theorised nature of ESG integration within the South African private equity context, particularly in the manufacturing sector, where ESG factors intersect with operational, social, and environmental complexity.

Grounded theory methods were applied through an iterative process of thematic development, following the constant comparative method outlined by Glaser and Strauss (2017). Data were analysed through repeated cycles of coding, comparison, and refinement. Initial codes were developed from participants' accounts and were then clustered into broader themes by comparing data segments and evolving categories. This iterative approach ensured that the analysis remained firmly grounded in empirical evidence while allowing for conceptual abstraction and theory development.

Although exploratory in nature, the study was guided by the primary research question (RQ0):

How are environmental, social, and governance (ESG) factors interpreted, prioritised, and integrated into pre-investment decision-making by South African private equity firms investing in the manufacturing sector?

This central question was supported by four secondary research questions, each of which shaped the thematic structure of the analysis:

RQ1 investigated the mechanisms, including frameworks, tools, and heuristics, used to integrate ESG factors during the pre-investment phase and to examine how these are interpreted, adapted, and applied in practice.

RQ2 identified external and institutional drivers (e.g., LP mandates, regulatory frameworks, global norms) influencing ESG integration in South African private equity.

RQ3 assessed how sector-specific materiality influences the interpretation and prioritisation of ESG factors by private equity firms investing in the manufacturing sector.

RQ4 investigated the barriers private equity firms face when integrating ESG factors during the pre-investment stage, and to explore how they navigate trade-offs between ESG priorities and financial return objectives.

Together, these questions guided the coding process and informed the theoretical framing of the emerging insights, ensuring that data collection and analysis remained tightly aligned with the study's conceptual objectives and empirical focus.

4.1.6. Time Horizon

The study adopted a cross-sectional time horizon, collecting data within a defined period to capture a snapshot of ESG integration practices in South African PE investment decision-making. While a longitudinal approach could reveal changes over time, the cross-sectional design aligned with the study's exploratory purpose and the practical time constraints of an MBA research project.

4.2. Population

The population refers to the broader group of individuals or entities from which data will be drawn to generate insights (Stratton, 2021). The population for this study comprised individuals with direct experience in ESG-related investment processes in the South African private equity ecosystem, particularly within the manufacturing sector.

The primary population consisted of private equity professionals working in South African PE firms that invest in manufacturing companies. These professionals were directly involved in pre-investment evaluation for structuring deals, conducting risk assessments, and aligning investment strategies with ESG expectations. They included PE investment professionals, PE executives, ESG specialists in PE firms and ESG Consultants working with both PE firms and portfolio companies and are detailed in Appendix A.

While the initial design aimed to include senior executives from portfolio manufacturing companies, access to these participants proved unfeasible. To compensate for this limitation and strengthen the study's relevance to portfolio-level ESG implementation, the study included two ESG consultants who work closely with both PE firms and portfolio companies, offering strategic and operational support for ESG integration during and after investment. Their inclusion provided important

triangulation by offering insights into how ESG frameworks and expectations are interpreted and applied beyond the PE firm itself.

This purposive approach ensured that both the capital provider's perspective and an informed view of the investee environment were represented in the data, allowing for a more holistic understanding of ESG integration dynamics across the pre-investment process.

4.3. Unit of Analysis

The unit of analysis for this study was the individual professionals directly involved in ESG-related decisions during the pre-investment phase. This micro-level focus aligned with the study's qualitative and interpretive orientation, allowing the analysis to capture first-hand insights from decision-makers (Hiver et al., 2024).

4.4. Sampling Method and Size

A non-probability purposive sampling strategy was employed to identify participants with direct, practice-based experience in ESG integration within private equity investment decisions (Bonache, 2021). This approach aligns with the grounded theory methodology, which prioritises depth over breadth and seeks to generate insight from individuals closely involved with the research phenomenon.

Participants were selected based on their roles in ESG evaluation, deal structuring, and investment oversight within South African private equity firms. As data collection progressed, theoretical sampling was used to refine the participant pool in response to emerging themes (Walsh & Rowe, 2023). For example, the inclusion of ESG specialists helped clarify how firms translate ESG screening into action.

In total, 13 interviews were conducted with 16 professionals, representing 14 organisations. While the initial design included interviews with portfolio company executives, this was not feasible. However, this gap was partially addressed by including two ESG consultants in one interview, who work closely with portfolio companies to support ESG implementation. Their perspective helped triangulate findings related to ESG application beyond the fund level.

Sampling continued until thematic saturation was reached; when new interviews ceased to yield substantially new insights (Bonache, 2021).

4.5. Measurement Instrument

Data were collected using a semi-structured interview guide, designed in alignment with the study's primary and secondary research questions. This format ensured consistent coverage of key themes, such as ESG interpretation, decision-making mechanisms, trade-offs, and contextual influences, while allowing flexibility for participants to elaborate and for new themes to emerge organically (Lim, 2024).

The interview guide included open-ended questions, enabling respondents to describe their experiences and perspectives in their own terms. Probing questions were used to explore deeper insights into the motivations behind ESG integration, the tools and frameworks applied, and the challenges encountered in practice.

Separate but thematically aligned guides were developed for different participant roles. For private equity professionals, questions focused on ESG screening, evaluation mechanisms, and decision-making logic. For ESG consultants, the focus was on how ESG requirements are translated into action within portfolio companies, allowing triangulation across fund and implementation levels.

The flexible nature of the semi-structured format was especially useful in navigating the sensitivities of investment practice and exploring the often implicit logic behind ESG-related choices. It also allowed participants to reflect on experiences not anticipated in the original design, which enriched the analysis.

4.6. Data Gathering Process

Data collection was conducted between [insert month/year] and [insert month/year] using semi-structured interviews administered via Zoom and Microsoft Teams, depending on participant preference. This virtual format was necessary due to both logistical constraints and the national dispersion of participants across South Africa. Each interview lasted approximately 60 minutes, was conducted in English, and was recorded with prior consent from participants.

Prior to data collection, a pilot phase was conducted involving one interview to test the flow and clarity of the interview guide. Minor adjustments were made to improve question phrasing and sequencing. The final interview guide ensured alignment with the study's objectives and allowed sufficient flexibility to explore emerging themes.

A total of 13 interviews were conducted, involving 16 professionals from 14 private equity firms and ESG consultancies. In several cases, participants were interviewed

in pairs from the same or different firms. All participants held roles directly involved in ESG-related decision-making.

One interview included two ESG consultants who work closely with both PE firms and portfolio companies to implement ESG frameworks post-investment. Their inclusion enhanced the depth of insight into how ESG factors are operationalised beyond the deal stage and supported triangulation of findings.

All interviews were transcribed verbatim and anonymised to protect participant and firm identities. Transcriptions were reviewed alongside audio recordings to ensure accuracy. Interview data were stored securely in a password-protected cloud folder, in compliance with ethical research protocols.

Ethical clearance was obtained prior to the start of data collection, and all participants received informed consent forms detailing the study's purpose, confidentiality measures, and their right to withdraw at any time.

4.7. Data Analysis Approach

Data were analysed using thematic analysis informed by grounded theory principles, following an iterative and semi-inductive process (Locke et al., 2022). The approach allowed for categories and themes to emerge from the data while also engaging with relevant theoretical frameworks, including stakeholder theory, institutional theory, agency theory, and materiality perspectives. The coding process followed the constant comparative method (Glaser & Strauss, 2017), whereby interview transcripts were analysed systematically to identify recurring patterns, concepts, and meanings. The analysis unfolded in three main stages:

Open coding: Transcripts were broken down into initial units of meaning (Reyes et al., 2024). This phase involved line-by-line reading and assigning descriptive codes to segments that captured key insights related to ESG mechanisms, decision trade-offs, stakeholder influences, and barriers to integration.

Axial coding: Codes were grouped into broader categories by identifying relationships and linkages across the data (Mohajan & Mohajan, 2022). This process helped structure the data into coherent thematic clusters aligned with the research questions. For example, by grouping data under categories such as “stakeholder pressures,” or “internal mechanisms”.

Selective coding: A central narrative was developed to link categories and synthesise findings into broader conceptual insights (Lester et al., 2020). This culminated in the development of a theory-informed explanation of how ESG is interpreted and operationalised in the South African PE context.

The analysis was conducted using ATLAS.ti, a qualitative data analysis software that enabled efficient coding, categorisation, and theme development across multiple interviews. This tool supported systematic data organisation and traceability from raw transcripts to final themes. Memos and analytic notes were created within the platform to document coding decisions and reflections throughout the process, enhancing both reflexivity and analytic rigour.

4.8. Quality Controls

This study ensured rigour through the criteria of credibility, dependability, confirmability, and transferability (Lim, 2024). Credibility was enhanced by engaging participants across diverse roles in private equity, and by including ESG consultants who offered triangulated insights from their work with portfolio companies. A pilot interview refined the interview guide to ensure clarity and relevance. Dependability was supported through clear documentation of the coding process in ATLAS.ti, allowing for consistent interpretation and a transparent audit trail (Pratt et al., 2020). Confirmability was maintained through reflexive note-taking and peer debriefing with an academic supervisor to reduce bias and validate interpretations (McGinley et al., 2021). Transferability was addressed by providing rich contextual detail on participants, firm types, and ESG practices, enabling others to assess relevance to similar settings (Lim, 2024).

4.9. Research Ethics

This study adhered to strict ethical protocols to protect the autonomy, privacy, and rights of all participants.

4.9.1. Informed Consent

Participants received a formal information sheet outlining the research objectives, procedures, expected duration and their rights. Written informed consent was obtained before each interview, ensuring voluntary participation. Participants were informed that they may withdraw from the study at any point without consequence.

4.9.2. Confidentiality and Anonymity

All interviews were anonymised during transcription, and no personally identifiable information was disclosed in the research outputs. Company and individual names were replaced with coded identifiers, and sensitive commercial data was excluded from reporting. Audio files and transcripts were securely stored on a password-protected cloud system and submitted to the university as part of the formal research process.

4.9.3. Ethical Clearance

Ethical clearance was granted by the university's research ethics committee prior to data collection. No interviews were conducted before approval was obtained.

4.9.4. Data Handling and Storage

In line with the university's ethics policy and the Protection of Personal Information Act (POPIA) in South Africa, all data will be securely stored for the required retention period and then responsibly destroyed. Data were not shared with third parties and were used solely for this research.

4.9.5. Research Limitations

As with most qualitative research, this study is interpretive and context-specific, meaning that its findings are not intended for statistical generalisation. While efforts were made to ensure rigour through reflexivity, triangulation, and peer validation, the insights remain shaped by the researcher's perspective and the social dynamics of the interviews (Cairns-Lee et al., 2022). Access to participants posed a limitation. While the study targeted both private equity professionals and portfolio company executives, the latter group could not be accessed. However, the inclusion of ESG consultants who work closely with portfolio companies helped to partially address this gap (Singh et al., 2021). Another limitation lies in the reliance on self-reported data, which may be affected by recall bias or social desirability bias, especially in a field where ESG practices are evolving and closely scrutinised (Cairns-Lee et al., 2022). Despite these constraints, the study offers rich, practice-oriented insights into ESG integration at the pre-investment stage in South African private equity, with relevance for both scholars and practitioners.

CHAPTER 5: RESULTS

5.1. Introduction

This chapter presents the empirical findings of the study, organised thematically around the four research questions. The analysis is based on semi-structured interviews with PE professionals operating in South Africa's manufacturing sector. These interviews explored how ESG factors are interpreted, prioritised, and embedded in pre-investment decision-making, particularly during screening, due diligence, and deal structuring. To ensure conceptual alignment, findings are grouped and presented according to the four secondary research questions. The codes, themes and frequencies are presented in Appendix B and C respectively.

Each section presents dominant themes that emerged across interviews, supported by anonymised quotations to illustrate variation and consistency. The findings highlight both shared practices and divergence in ESG integration, shaped by firm size, investor expectations, and sectoral dynamics. This thematic structure ensures the analysis responds directly to the study's objectives while setting the stage for interpretation in Chapter 6.

5.2. Sample Description

This chapter draws on insights from 13 semi-structured interviews with professionals active in South Africa's private equity (PE) ecosystem. Participants were purposively selected to reflect diversity in role, seniority, firm type, and ESG exposure. The sample includes PE investment professionals, PE executives, ESG specialists in PE firms and ESG Consultants working with PE firms and portfolio companies. Roles ranged from ESG leads to investment principals, capturing both operational and strategic perspectives. The sample was drawn from domestic PE firms with varying sizes from small, mid-market funds and large pan-African firms, impact investors, and PE firms with DFI-linked LPs and detailed in Appendix A.

All participants had direct experience with manufacturing-sector investments, the study's focal area, while two ESG consultants offered indirect insights from supporting both PE firms and portfolio companies. Firms represented varied in ESG maturity, from those with formal frameworks to others adopting more informal or compliance-led approaches. This mix enabled analysis of both common practices and context-specific variations in ESG integration. To preserve confidentiality,

participants are anonymised as P1–P13, with firm-level identifiers withheld. A summary of participant roles and firm types is available in Appendix D.

5.3. Thematic Results by Research Question

This section presents the thematic results of the study, organised around the research questions outlined in Chapter One and revisited in Chapter Three. The primary research question guiding the study is:

How do private equity firms in South Africa interpret, prioritise, and integrate ESG factors into pre-investment decision-making processes, particularly in the manufacturing sector?

To address this overarching question, the results are presented through five sub-sections, each corresponding to a secondary research question.

5.3.1. RQ1: Mechanisms for ESG Assessment and Integration

What mechanisms, including frameworks, tools, and heuristics, do private equity firms use to assess ESG factors during the pre-investment stage, and how are these mechanisms interpreted and applied in practice?

This research question examined the mechanisms, comprising tools, frameworks, and heuristics, that South African private equity firms use to assess ESG factors during the pre-investment phase, including screening, due diligence, and deal structuring. It aimed to explore how these mechanisms are applied in practice.

Theme 1: Exclusion Lists and Red Flag Screening - The First Filter

Twelve of the thirteen participants identified exclusion lists and red flag screening as the initial tools used in the ESG assessment process. These tools, typically shaped by LP and DFI mandates, are used to exclude sectors such as coal, tobacco, firearms, and adult entertainment, often before due diligence begins.

“We always start with IFC exclusion criteria. If it’s on that list, we don’t even go further. It’s our first gate.” – P2

“It’s not just about legality, we exclude things like tobacco, adult entertainment, certain chemicals, even if they’re profitable. It’s reputation and alignment with LP values.” – P7

Red flag screening was used to identify softer ESG risks (e.g., legal disputes, environmental fines, labour unrest) that might not disqualify a deal but warranted caution.

Alongside these formal tools, practitioners stressed the importance of contextual judgement in reading early signals, such as management attitudes or what's observed on site visits.

“If you're walking around the plant and see that people are not wearing PPE that tells you a lot about the culture. You don't need a report ... you can see it.”

– P6

This underscores a hybrid approach: ESG screening begins with codified filters but relies heavily on interpretive skill and what is referred to as heuristics in literature.

Commentary on Theme

Exclusion lists and red flag tools serve as first-line filters, ensuring alignment with LP and DFI mandates. Yet, the interviews reveal that ESG screening is not purely procedural. Heuristics, such as site visit observations or perceived openness of management, introduce a layer of tacit judgement. This confirms that ESG assessment is both standardised and interpretive, blending compliance with context-specific intuition.

Theme 2: Global ESG Frameworks – Anchors or Checkboxes?

Eleven participants reported using global ESG frameworks, primarily the IFC Performance Standards and ESG Guides, UN PRI, and the BII Toolkit, as reference points, particularly when LPs and DFIs required alignment.

“We align with IFC because our funders require it. That then talks to how we conduct our ESG assessments.” – P1

These frameworks were rarely adopted wholesale. Instead, firms adapted them, blending them with internal tools or simplifying them for local realities in South African manufacturing.

“We follow IFC, yes, but we also know it doesn't address our specific context, like BEE compliance so we have also built our on-house platform which draws from IFC.” – P13

Some participants warned that the proliferation of ESG standards and frameworks created “framework fatigue,” especially for resource-constrained firms juggling multiple LP demands.

“Honestly, there are too many. It becomes a compliance theatre.” – P5

While these frameworks helped standardise ESG, they were also seen as overly generic when applied uncritically in local, high-materiality sectors.

Commentary on Theme

Global frameworks like the IFC Performance Standards and UN PRI provide external legitimacy and standardisation, particularly where DFI funding is involved. However, their application is often selective and shaped by local realities. Many firms adapt them pragmatically, signalling alignment to LPs while avoiding over-bureaucratisation. The reported “framework fatigue” highlights the tension between standardisation and operational practicality, especially for smaller and resource-constrained firms.

Theme 3: Internal Mechanisms

Nine participants highlighted the growing use of internally developed ESG mechanisms, such as dashboards, scoring matrices, and Environmental and Social Management Systems (ESMS) and 100-day plans designed to embed ESG into pre-investment screening, investment committee packs and post-investment planning.

“We score ESG risks from 1 to 5 alongside financial and operational risks. Red means we don’t proceed without action.” – P1

Some firms positioned the ESMS as their “ESG bible”, covering checklists, red flags, monitoring protocols, and 100-day plans.

“Our ESMS is like the ESG Bible, it is the main document that guides ESG integration throughout the investment cycle.” – P4

Others admitted these systems were underutilised, treated more as symbolic than operational, raising concerns about greenwashing, where ESG processes are performed for optics rather than impact.

“It’s in the data room, but not always on the desk.” – P8

“Some GPs just slap the logo on: IFC, UN PRI, but nothing behind it. That’s where greenwashing creeps in.”

Many tools were manual, spreadsheet-based, and subjective, depending on who completed them, suggesting a sector still in transition.

Cross-Cutting Insight: Heuristics as the Glue

Across all themes, heuristics played a critical role. Whether deciding if a founder was “ESG sensitive” or reading contextual cues during site visits, participants emphasised ESG evaluation as a blend of technical criteria and tacit experience.

“ESG is a bit of a science and a bit of an art. The science is the frameworks. The art is reading between the lines.” – P11

Commentary on Theme

Internal ESG mechanisms represent growing institutional maturity. Scorecards, dashboards, and ESMSs enable firms to embed ESG into pre- investment processes and post-deal value creation. Yet, their development is uneven. In some firms, these tools are actively used as operational frameworks; in others, they exist mainly for compliance optics, raising the risk of greenwashing, where ESG mechanisms are displayed without being meaningfully applied. This uneven application reflects a sector in transition, shifting from symbolic ESG compliance to meaningful, embedded integration.

Summary on RQ1

The findings indicate that ESG integration in South African private equity operates through a hybrid configuration of mechanisms, encompassing global frameworks, internal tools, and heuristics. These mechanisms are deployed across the pre-investment phase, particularly during screening, due diligence, and deal structuring.

Firms typically begin with structured tools such as exclusion lists and red flag screenings, often mandated by LPs, mostly DFIs, to filter out high-risk sectors and ESG-sensitive issues early in the pipeline. These tools introduce procedural rigour but are consistently complemented by judgement-based heuristics, including management cues, on-site impressions, and contextual risk interpretations. As one participant remarked, ESG is both a “science and an art,” underscoring the interpretive nature of application.

Global ESG frameworks, such as the IFC Performance Standards, UN PRI, and BII Toolkit, serve as compliance anchors, providing legitimacy and comparability, especially when dealing with international investors. However, these standards are frequently adapted to local realities, and their application varies across firms. While some firms integrate these standards meaningfully, others adopt them more symbolically to meet funder expectations, leading to a sense of framework fatigue, particularly among smaller firms navigating multiple overlapping ESG requirements.

Internally developed tools such as ESG scorecards, dashboards, and Environmental and Social Management Systems (ESMS) indicate a trend toward institutionalisation. These tools help embed ESG into investment committee packs and post-investment strategies. In more mature firms, the ESMS acts as an operational guide, what one participant called the “ESG bible.” In others, it remains a static compliance document, used more for reporting than real decision-making. Continued reliance on manual processes and uneven usage of internal tools suggests that ESG systems in many firms remain transitional rather than fully embedded.

Ultimately, the use of ESG integration mechanisms in South African private equity reflects a dynamic interplay between structure and judgement. While frameworks and tools provide the scientific scaffolding, bringing procedural consistency, legitimacy, and alignment with investor expectations, it is the art of contextual interpretation, informal heuristics, and practitioner discretion that shapes their use in practice. ESG integration at the pre-investment stage is therefore neither wholly standardised nor ad hoc, but rather a balancing act shaped by external demands, internal capacity, and the tacit knowledge of investment professionals navigating high-stakes decisions. As one participant aptly noted, “ESG is both a science and an art”, a sentiment that captures the interpretive and evolving nature of ESG decision-making in emerging markets. Yet, this interpretive flexibility also brings the risk of greenwashing, where ESG mechanisms are applied superficially, more for optics than substance, undermining their potential for genuine impact.

5.3.2. RQ2: External and Institutional Drivers

What external and institutional drivers, such as limited partner mandates, regulatory frameworks, and global ESG norms, influence the interpretation and integration of ESG factors in South African private equity?

This research question examines which external and institutional drivers, such as mandates from LPs, regulatory frameworks, and global ESG norms, shape the way South African PE firms interpret and integrate ESG factors during the pre-investment phase. It explores how these drivers influence the use and adaptation of ESG mechanisms, including formal frameworks, internal tools, and informal heuristics. The aim is to understand whether ESG integration is primarily a response to external expectations or a reflection of internally embedded practices, and how firms balance alignment with global standards against local operational realities.

Theme 1: LPs and DFIs as ESG Enforcers

Participants overwhelmingly described ESG integration as capital-driven, with LPs and DFIs positioned as the main drivers of ESG standards. These institutions embed ESG expectations into fund mandates, legal agreements, and reporting requirements, making ESG a precondition for capital access, rather than a discretionary add-on.

“ESG follows the money. When your LP is a DFI, it becomes a priority. Their money comes with conditions, and that’s what drives the agenda.” – P13

“If your LP is European, you don’t have a choice. They will ask for UN PRI and TCFD alignment before you close the deal.” – P4

Participants noted a shift: older funds with commercial LPs faced lighter oversight, while newer funds backed by DFIs and global pensions demand strict ESG adherence.

“Previously our LP didn’t have as much of a stringent requirement on ESG... Now it’s a very important part of us being good stewards of money.” – P9

“I think it’s the nature of the LPs that have changed. Previously we had a big financial institution, not a DFI... their target was make a return. Our current fund is more DFIs... they invest for impact... and so because of that requirement, you also have to transform because you’re accountable to whoever has given you the money.” – P9

Interestingly, one participant observed that South Africa is relatively mature in ESG integration compared to other emerging markets, precisely because of the long-term involvement of DFIs in the region.

“South Africa is actually ahead of many peers. DFIs have been here for a long time. That has forced us to get serious about ESG earlier than others.” – P3

ESG expectations were not only implicit but also contractual, embedded in side letters and Limited Partner Agreements (LPAs).

“If LPs are DFI-based... their criteria is a lot more focused on ESG. And that’s captured in the LPAs and side letters.” – P4

Commentary on Theme

In South African private equity, ESG integration largely *follows the money*. DFIs and European LPs have emerged as the primary drivers by embedding ESG requirements into funding terms and reporting frameworks. Their financial leverage effectively mandates ESG adoption, shaping how general partners interpret and implement sustainability practices. While this dynamic reflects a clear power imbalance, the long-standing presence of DFIs has also contributed to South Africa’s relative maturity in ESG integration, fostering stronger awareness, institutional frameworks, and norms that extend beyond mere compliance.

Theme 2: Regulatory and Policy Pressures

Participants acknowledged South Africa’s comparatively advanced ESG policy environment, shaped by a combination of hard law and voluntary codes. Frameworks like Regulation 28, King IV, and CRISA set expectations for ESG integration, especially in relation to fiduciary duties and governance standards.

“CRISA, King IV, Regulation 28... they all set the tone. But it’s really the DFIs that drive ESG in practice.” – P3

While Regulation 28 was seen as enforceable, King IV and CRISA were described as soft law, useful for signalling legitimacy but not strictly binding.

“King IV and CRISA are there, but no one’s going to take you to court for not following them. It’s more about reputation.” – P6

Still, alignment with these frameworks was often strategically important for investor perception and capital raising.

“If you’re bidding for capital, LPs want to see you are in step with King IV, CRISA... It’s not binding, but it’s expected.” – P8

Commentary on Theme

South Africa’s regulatory landscape provides an enabling but non-coercive framework for ESG integration. These policies reinforce ESG legitimacy, particularly when raising local capital or interfacing with civil society, but they are rarely the main reason firms adopt ESG processes. Their true function is reputational, signalling alignment with global governance norms and enhancing investor confidence.

Theme 3: Transformation, Job Creation, and Organisational Ethos

A uniquely South African dimension of ESG is the centrality of transformation, inclusion, and job creation. These themes were non-negotiable for DFI and pension-backed capital, often appearing directly in investment mandates and performance scorecards.

“Regulation 28 is very clear: you need to show impact, not just returns. Job creation, transformation, inclusion ... it’s part of the scorecard they expect you to report on.” – P9

“We get our funding from investors who also have their own transformation targets. They want to see that flow through in the businesses we invest in.” – P2

Social metrics were often tracked quarterly, alongside financial KPIs:

“Every quarter we report on how many jobs were created or saved. It’s not optional... it’s part of our mandate.” – P13

Importantly, these priorities were often internalised as core values, not merely investor demands. For participants that identified as impact funds, ESG was framed as part of a stewardship ethos:

“It’s not just about ticking ESG boxes. We’re an impact fund. Job creation and transformation are part of our DNA and ethos.” – P11

“We always have to think about the pensioners when making decisions.” – P10

This internalisation of external expectations contributed to a hybrid ESG identity, blending financial accountability with developmental purpose.

Commentary on Theme

In South African PE, the “S” in ESG is dominant. Job creation and transformation aren’t simply compliance items they are embedded in both funding structures and organisational values. This reflects the country’s socio-political realities and legacy of structural inequality. However, the strong emphasis on transformation also raises questions about whether environmental and governance dimensions receive equal focus.

Summary of RQ2: Stakeholder Pressures and LP Influence

The findings reveal that ESG integration in South African private equity largely follows the money. Stakeholder pressures, particularly from DFIs and European LPs are the dominant force behind ESG integration in South African private equity. ESG requirements are often embedded in fund mandates, side letters, and reporting frameworks, making them a condition for capital rather than a voluntary initiative. In this context, capital providers become the true ESG architects, shaping practices through contractual obligations and expectations, rather than firms independently innovating ESG from within.

While South Africa’s regulatory environment, through frameworks such as Regulation 28, King IV, and CRISA, provides an important enabling backdrop, its influence is largely reputational. These frameworks serve as signalling devices to institutional investors and civil society, aligning firms with global governance norms but lacking enforcement power. Their function is more about credibility and optics than coercion.

A defining feature of ESG in South Africa is the centrality of transformation and job creation. These priorities are not only external requirements from DFIs and pension funds but are often internalised as organisational values. The “S” in ESG clearly dominates the agenda, shaped by the country’s socio-political history and ongoing developmental needs. However, this strong emphasis also raises concerns about whether the environmental and governance dimensions receive sufficient attention, pointing to a need for greater balance across all ESG pillars.

5.3.3. RQ3: Sector-Specific ESG Materiality in Manufacturing

How does sector-specific materiality influence how private equity firms interpret and prioritise ESG factors during the pre-investment phase in the manufacturing sector?

This research question explored how the characteristics of the manufacturing sector shape the materiality of ESG factors during pre-investment screening. Unlike generic ESG approaches, this question sought to understand which ESG dimensions carry the most weight in a sector consistently described by participants as “high-risk” and “impact-heavy.” Participants identified environmental and social risks as particularly salient, with governance serving as an enabling foundation. Interlinkages between ESG pillars were also frequently emphasised, suggesting that ESG in manufacturing must be assessed holistically.

Theme 1: Energy and Environmental Intensity “E”

Environmental factors, especially energy use, emissions, water, and waste, were consistently cited as critical to ESG screening in manufacturing. These issues were not only compliance concerns but also direct cost drivers and indicators of long-term operational viability.

“If you’re looking at a manufacturer, the first thing you ask is: how do they use energy? What’s their exposure to load-shedding? Can they pivot to renewables?” – P12

“Environmental factors are huge, waste, water, emissions. In manufacturing, you can’t ignore that. It goes straight to cost and compliance.” – P3

The local energy crisis added unique urgency to these concerns. Load-shedding and unstable supply were seen as significant investment risks. However, environmental factors also presented value creation opportunities, especially through renewable energy adoption and efficiency upgrades.

“If you put in solar or safety systems, it’s not charity - it must reduce costs or avoid bigger risks later.” – P9

Commentary on Theme

In manufacturing, environmental performance is directly tied to operational resilience and cost control. Energy intensity, emissions, and regulatory compliance form a baseline for investment viability. Importantly, South Africa’s energy insecurity

elevates environmental due diligence from a standard ESG issue to a strategic investment filter.

Theme 2: Labour, Fairness, and Community Impact “S”

The social dimension of ESG was seen as equally material in manufacturing. Participants focused on not only legal compliance (e.g. minimum wage, safety standards) but also broader issues of worker dignity, equity, and local impact.

“We check if people are paid the minimum wage, but also how they’re treated. Are they remunerating fairly? Do they have policies around promotions?” – P9

“If you walk into a plant and people aren’t wearing PPE, that tells you everything you need to know about safety culture. That’s a big red flag.” – P6

Several noted that manufacturers often function as anchor employers in small towns, placing greater responsibility on firms to support local suppliers, engage communities, and build reputational trust.

“We invested in a company that was the main employer in that town. The question was: are they supporting local suppliers, are they helping the community, and how do their customers see them?” – P12

Commentary on Theme

Social risks in manufacturing extend far beyond compliance. Participants viewed social practices as indicators of broader organisational culture and stakeholder responsibility. This emphasis aligns with DFI and LP expectations for transformation and inclusion, making the “S” pillar both developmental and strategic.

Theme 3: Governance as an Enabler (“G”)

Governance was frequently cited as the foundation for ESG performance. Weak boards, inconsistent record-keeping, and dismissive attitudes toward ESG were viewed as deal-breakers, especially when linked to environmental or labour issues.

*“Governance is the foundation...if it’s not in place, you can’t enable the environmental or social. Without the right governance, the E and S won’t stick.”
– P11*

Although governance often overlaps with legal and commercial due diligence, ESG practitioners noted that culture and commitment were just as important as documentation.

“G is always covered in legal and commercial DDs, so as ESG specialists we don’t go too deep into it.” – P7

Commentary on Theme

In manufacturing, governance is not merely a compliance issue, it is the platform that determines whether ESG measures are sustained or performative. Weak governance often manifests through failures in E and S, making governance quality a leading indicator of ESG maturity.

Theme 4: ESG Interdependencies and Systemic Risk

Participants strongly emphasised the interconnected nature of ESG risks in manufacturing. Rather than treating E, S, and G in silos, firms recognised that failures in one area often cascade into others.

“If governance is weak, you see it in everything, from safety lapses to emissions reporting. E and S problems are just symptoms of bad governance.” – P11

“If your energy costs are out of control and affecting your profitability, it will affect you when workers start demanding higher wages, you will have to cut corners elsewhere to give those wages... it’s all linked.” – P6

Climate change and global investor scrutiny were seen as amplifying these interdependencies. The COVID-19 pandemic further reinforced this by exposing gaps across safety, supply chains, and governance.

“COVID really pushed ESG up the agenda. Suddenly, worker safety, supply chains, and governance all collided.” – P10

“Climate change is driving a lot of ESG conversations now. It affects long-term planning and investor expectations.” – P5

Commentary on Theme

The results highlighted that ESG in manufacturing must be managed as an integrated system. Overemphasis on one pillar, such as transformation, without supporting governance or environmental measures can lead to instability. Climate shocks and systemic risks make integration, not compartmentalisation, the key to ESG resilience.

Summary of RQ3: Sector-Specific ESG Materiality in Manufacturing

The findings for RQ3 reveal that ESG integration in manufacturing is deeply shaped by the sector's operational realities, with distinct material priorities across environmental, social, and governance dimensions.

On the environmental front, factors such as energy intensity, emissions, water use, and waste are not just compliance issues but direct determinants of investment viability. South Africa's unique context, particularly energy insecurity and load-shedding risks, elevated environmental due diligence from a standard ESG requirement to a strategic investment filter, with cost control and resilience central to pre-investment evaluation.

The social pillar was equally critical, extending beyond regulatory compliance to encompass worker dignity, equity, and community relations. In manufacturing, social practices signal organisational culture and stakeholder orientation. This aligned with DFI and LP expectations for transformation and inclusion, positioning the "S" dimension as both a developmental imperative and a strategic differentiator.

Governance was described as the foundation of ESG performance, less visible but more consequential. Weak governance often manifests as poor oversight of environmental and social practices, making governance maturity a leading indicator of credible ESG integration. Without strong governance, ESG efforts risk being superficial or unsustainable.

Finally, participants stressed the interconnectedness of ESG pillars. ESG in manufacturing cannot be managed in silos, failures in one area often amplify risks in others. Rising energy costs (E) can affect wage sustainability (S), while weak governance (G) undermines both. External shocks such as climate change and COVID-19 further expose these interdependencies, reinforcing the need for systemic, integrated ESG management.

In sum, ESG in manufacturing must be approached as a context-driven, interdependent system. Environmental and social performance hinge on governance strength, while sector-specific risks such as energy disruption and local employment dynamics demand tailored, pragmatic responses. Effective ESG in this sector is not about checklist compliance, but about building operational resilience and long-term value through holistic integration.

5.3.4. RQ4: Barriers and Trade-offs in ESG Integration

RQ4: *What barriers do private equity firms encounter when integrating ESG factors into pre-investment decision-making, and how do they manage trade-offs between ESG priorities and financial return objectives?*

This question explored the main challenges PE firms face when embedding ESG into pre-investment decisions, and how they manage the tensions that arise between ESG goals and financial imperatives. The results show that barriers unfold in a layered sequence, starting with awareness, followed by leadership buy-in, then data capacity, and finally, real-world trade-offs in deal execution. These are discussed across four core themes.

Theme 1: Awareness and ESG Skills

Participants noted limited ESG knowledge among both deal teams and portfolio management. ESG was often misunderstood or viewed as a compliance task, not a strategic lever.

“Even our IC need to be educated as to what exactly they are assessing.” – P7

“Sometimes the problem is at the portfolio level. Management teams don’t really understand ESG.” – P3

This was compounded by a shortage of ESG specialists. In many firms, ESG was assigned to HR or admin staff without relevant expertise.

“Some firms just appoint an HR person to do ESG, which shows they don’t really see it as central. It’s treated as a box-tick.” – P3

Still, participants saw this barrier as solvable through training, especially as investor pressure grows.

“Training, training, training...I can’t emphasise that enough.” – P9

“If you don’t take ESG seriously, the pool of money is drying up. Investors are voting with their capital.” – P9

Commentary on Theme

Limited ESG understanding remains the foundational barrier to meaningful integration. Without basic competence, ESG is reduced to symbolic compliance. As ESG expectations become standard among LPs, building skills is not only a governance imperative, it is increasingly a financial necessity.

Theme 2: Management Buy-In

Even with tools in place, ESG failed to gain traction without senior leadership support, both within PE firms and at portfolio companies.

“You can have the best ESG checklist in the world, but if management doesn’t buy in, nothing changes.” – P8

“If leadership is not on board, the ESG issues don’t get fixed.” – P11

Buy-in was often constrained by a lack of understanding and resistance to increased reporting demands.

*“ESG comes with a lot of reporting, and management are not used to that level of reporting. It’s a step up for them, so you have to take them on the journey.”
– P2*

Several participants noted that the challenge was not always a complete absence of ESG practice but rather the lack of formalisation and documentation.

“Most companies are already doing something, it’s just not written down.” – P3

This underscores that ESG maturity often reflects not whether practices exist, but whether they are systematically captured, monitored, and reported.

Commentary on Theme

Management buy-in is not an isolated barrier—it is the hinge between awareness and action. Without leadership conviction and understanding, ESG risks remaining performative or procedural, rather than transformative. Participants emphasised that many firms are already implementing ESG-aligned practices, but without management engagement these efforts remain fragmented and undocumented.

Theme 3: Data Gaps and Measurement Challenges

Even with awareness and buy-in, ESG measurement was described as a major barrier. Many portfolio companies lacked structured ESG reporting, leaving investors to rely on unreliable data.

*“The data is just not there in many cases. Most times you’re piecing it together.”
– P8*

In some cases, poor infrastructure or technical challenges, such as load shedding, disrupted even basic monitoring.

“If a flowmeter is dysfunctional, for instance, due to loadshedding, data on water or energy use would simply not exist.”

Participants clarified that missing data didn’t always indicate the absence of ESG practices. Rather, existing practices were often informal or undocumented.

“We try not to penalise a business just because something isn’t written down. That’s why we are there, to help them formalise and implement data measurement.” – P2

Firms described a pragmatic approach to this challenge, using post-investment tools like 100-day plans to build ESG reporting infrastructure after the deal closes.

Commentary on Theme

Data gaps often reflect missing infrastructure, not the absence of ESG activity. By investing in post-deal formalisation, PE firms enable ESG visibility and accountability, but this requires time, resources, and LP patience. Without credible data, ESG performance remains unverifiable, limiting its strategic value.

Theme 4: Trade-offs Between ESG and Commercial Objectives

Even when firms had the awareness, buy-in, data, and capacity to integrate ESG, participants noted that ESG factors often introduced frictions into the deal process. The most common trade-off described was time: ESG due diligence extended screening periods and slowed down capital deployment.

“Sometimes ESG just means it takes longer to find the right deal. It slows you down, but it doesn’t mean you stop investing.” – P10

In most cases, ESG risks did not lead to deal termination, but to renegotiation or remediation before closure.

“We try to find a way forward. Walking away is the last resort, most issues can be fixed.” – P2

Cost was another tension point, particularly in manufacturing where margins are tight. ESG investments were accepted when they aligned with operational savings or reduced long-term risk, but questioned when costs outweighed perceived returns

“ESG investments must make sense cost-wise. If what needs to be done is going to cost way more than the return then it doesn’t make sense.” – P6

A few participants noted that in impact-focused sectors like renewables, they were willing to accept lower returns if the investment aligned with environmental goals.

“It’s not really a sacrifice on returns, it’s more about aligning with the E, especially renewables and decarbonisation. That’s the bigger picture we’re trying to support.” – P7

Sub-theme: Anticipated but Unrealised Exit Value

While most believed ESG would enhance exit value, participants admitted this had not yet materialised clearly. The benefits of ESG were currently more visible in risk mitigation and operational stability than in pricing premiums.

“I haven’t yet seen an exit where ESG was the main value driver, but generally I believe it will add value. The challenge is proving it...how do you quantify things like happy staff who feel they belong? That’s difficult.” – P8

Commentary on Theme

Trade-offs in ESG are real but manageable. ESG slows deal execution and adds cost, but rarely deters investment. While ESG-linked premiums at exit remain aspirational, firms continue to prioritise integration for long-term alignment with investor values and sector trends.

Summary of Research Question 4: Barriers and Trade-offs

The results for RQ4 show that ESG integration barriers in South African private equity are cumulative and layered. First, many professionals, both within PE firms and at portfolio level, lack the knowledge and skills to assess ESG rigorously, reducing it to compliance. Building competence is now essential, especially as investors increasingly reward credible ESG performance.

From there, leadership buy-in emerges as a pivotal hinge between awareness and action. Without belief at the top, ESG efforts remain symbolic. When leadership commits, ESG becomes embedded in governance, reporting, and operational culture. Even with commitment, however, ESG practices often remain invisible due to poor measurement infrastructure and data gaps, especially in the manufacturing

sector. Firms adopt a pragmatic approach, investing despite documentation gaps and using post-investment tools like 100-day plans to build ESG systems.

Finally, ESG introduces process frictions, slowing deals, raising costs, and occasionally constraining returns. Yet these are managed rather than avoided. Firms pursue remediation, not outright rejection, and in some cases are willing to trade short-term gains for long-term strategic alignment, especially in decarbonisation sectors. While ESG's role in enhancing exit value is widely believed, it remains difficult to quantify and largely unrealised, making ESG more a current instrument of resilience than a proven tool of value uplift.

Overall, ESG integration is happening, but unevenly. These barriers don't block progress; they slow and shape it. As ESG expectations grow and systems mature, firms that invest early in skills, systems, and leadership alignment are likely to be best positioned for the next stage of capital mobilisation and value creation

5.4. Conclusion

This chapter has examined the findings in relation to the study's four research questions, drawing together the what, who, where, and how difficult ESG integration is in South African private equity. It synthesises the mechanisms used to assess ESG factors (what and how), the stakeholder and institutional pressures that drive their adoption (who), and the sector-specific context in which they are applied (where), while also addressing the barriers and trade-offs that make ESG implementation challenging (how difficult). Taken together, these dimensions provide a cohesive understanding of how private equity firms interpret, prioritise, and integrate ESG factors into pre-investment decision-making, as articulated in the overarching research question.

The findings show that ESG integration is not a uniform or purely technical process but a strategic balancing shaped by multiple forces. At its core, ESG in South African private equity follows the money: capital providers, particularly DFIs and European LPs, set expectations through mandates and reporting requirements that cascade down to investment practice. These external pressures are translated internally through a hybrid toolkit that blends formal frameworks and informal judgement, reflecting both the science and the art of ESG assessment.

Within the manufacturing sector, ESG materiality is experienced most acutely in the environmental and social dimensions, energy efficiency, emissions, worker welfare, and community engagement, supported by governance as the structural enabler. However, the findings highlight that these dimensions are deeply interdependent rather than hierarchical: weaknesses in one area often expose vulnerabilities in another. This reinforces that ESG interpretation is context-dependent and systemic, anchored in the operational realities of manufacturing as much as in investor expectations.

ESG integration is also constrained by barriers and trade-offs that shape how principles are translated into practice. Limited ESG understanding among investment and portfolio professionals, weak management buy-in, and inconsistent data availability continue to undermine systematic application. Some deal teams perceive ESG requirements as slowing execution, reinforcing a tendency toward minimum-compliance approaches. Yet, the findings also reveal a pragmatic ethos: rather than abandoning deals, firms often seek remediation and incremental improvement, sometimes accepting short-term financial return trade-offs for long-term sustainability and alignment with impact objectives. Although the financial value of ESG at exit remains largely aspirational, confidence in its future significance is growing, suggesting a gradual shift from obligation to opportunity in ESG thinking.

Overall, the findings suggest that ESG integration in South African private equity is dynamic yet uneven, shaped by investor expectations, sectoral realities, regulatory norms, and organisational capacity. ESG is not yet uniformly embedded across the industry, but it is increasingly positioned as both a condition for capital and a mechanism for strategic resilience. Its practice reflects an ongoing process of balancing external accountability with internal capability, where progress depends as much on leadership and interpretation as on compliance. Collectively, these insights respond to the overarching research question, revealing ESG integration as an evolving system of balancing financial logic with broader stakeholder expectations. These themes are further explored and theorised in Chapter 6, which links the findings to the study's conceptual framework.

CHAPTER 6: DISCUSSION OF RESULTS

6.1. Introduction

This chapter interprets the findings presented in Chapter 5 in relation to the research questions, theoretical framework, and existing literature on ESG integration in private equity. Anchored in stakeholder theory, and informed by institutional, agency, and signalling perspectives, the discussion examines how private equity firms in South Africa interpret, prioritise, and integrate ESG factors during the pre-investment stage.

The analysis explores how these findings confirm, extend, or challenge prevailing academic perspectives, positioning ESG integration as a strategic balancing process through which firms navigate competing stakeholder, financial, and regulatory demands. Consistent with the study's interpretivist orientation, ESG integration is viewed as neither uniform nor purely technical, but as an evolving practice shaped by organisational ethos, sectoral dynamics, and institutional context.

The chapter is structured around the four secondary research questions which focus on: (1) mechanisms used and how they are used, (2) external and institutional pressures, (3) sector-specific materiality, and (4) barriers and trade-offs. Through this structure, the discussion connects empirical insights to theoretical and practical considerations, advancing a grounded understanding of ESG integration within South African private equity.

6.2. RQ1: Mechanisms for ESG Integration

What mechanisms, including frameworks, tools, and heuristics, do private equity firms use to assess ESG factors during the pre-investment stage, and how are these mechanisms interpreted and applied in practice?

The first research question explored the mechanisms through which private equity firms integrate ESG into pre-investment decision-making, and how these mechanisms are interpreted and applied in practice. The findings show that these mechanisms are not simply imposed from above but are actively constructed in response to investor demands, sector realities, and internal strategic intent. They include both formal frameworks and more internal tools, ranging from Environmental and Social Management Systems (ESMS) to red-flag checklists and categorisation matrices, used to assess, rate, and prioritise ESG risks and opportunities. Rather than replacing one another, these mechanisms often operate in hybrid and

complementary ways, shaped by the need to balance global ESG expectations with local investment realities.

6.2.1. ESG Integration Mechanisms: What and How

The findings from this study reveal that ESG assessment mechanisms employed by South African PE firms are not monolithic but rather exist on a continuum between formal frameworks and informal, practitioner-driven heuristics. These mechanisms serve as key instruments for balancing the expectations of multiple stakeholders, particularly limited partners (LPs), regulators, and communities, within the complex, high-materiality environment of the manufacturing sector.

Most participants reported drawing selectively from global ESG frameworks such as the IFC Performance Standards, BII ESG Toolkit, and SASB sectoral guidelines. However, a consistent theme across respondents was the selective and often fragmented use of these mechanisms. While these frameworks provide valuable structure; they were typically not implemented in full. Instead, firms adopt components that align with deal size, sector, investor requirements, and internal capacity, a form of “strategic selectivity” as described by Pitkänen (2022) and Hridhya et al. (2025). Participants pointed to the IFC standards as the most influential in shaping due diligence protocols, especially when Development Finance Institutions (DFIs) were involved in the funding structure.

This fragmentation reflects a broader concern raised in the literature, where scholars have criticised the ESG landscape as an “alphabet soup” of overlapping and often inconsistent frameworks. Critics such as Kotsantonis et al. (2022) and Reis et al. (2025) argue that the proliferation of standards, estimated to exceed 600 globally, has led to conceptual overload and diluted coherence. This abundance of competing frameworks can result in superficial adoption, selective compliance, and a shift toward flexibility over rigour. Echoing these concerns, several participants in this study described experiencing framework fatigue, expressing frustration with having to navigate and reconcile multiple ESG requirements driven by varying LP expectations and fund mandates, each referencing different frameworks or compliance protocols.

In the South African context, this fatigue is compounded by the additional need to balance international ESG expectations with local regulatory imperatives through incorporation of local mechanism such as B-BBEE compliance, labour legislation, and governance principles outlined in King IV and CRISA. Importantly, this

complexity also heightens the risk of greenwashing, where the appearance of alignment with multiple frameworks may obscure shallow or inconsistent implementation, a concern similarly raised by Boni et al. (2024) in their critique of ESG standard convergence.

6.2.2. Hybridisation with Internal Mechanisms

To manage these competing demands, many firms have developed bespoke ESG mechanisms, with one of the most widely referenced by participants being the Environmental and Social Management System (ESMS). One participant referred to the ESMS as their “ESG Bible”, describing it as a living, comprehensive internal guide that operationalises ESG policy, risk ratings, due diligence templates, and red-flag indicators across the investment lifecycle. These systems are typically developed in alignment with fund-specific mandates and DFI requirements yet are tailored to local realities and sectoral dynamics. This aligns with findings from GIIN (2020) and IFC (2019), which note that ESMSs are increasingly seen as foundational tools for ESG integration in private equity, particularly in frontier and emerging markets where ESG risks are highly context specific.

Alongside the ESMS, firms also employ internal ESG mechanisms such as risk matrices, scorecards, and categorisation tools, which are often seen as more practical and responsive than rigid global frameworks. These tools typically synthesise elements from multiple sources, including SASB metrics, CRISA guidelines, IFC Performance Standards, and LP-specific ESG clauses, while still allowing space for practitioner judgment. This reflects a strategy of blending standardisation with contextual agility, a pattern consistent with what Pitkänen (2022) describes as “strategic selectivity.” Such hybridisation has been widely observed in emerging markets, where firms must navigate competing ESG expectations across jurisdictions and investor mandates (Marais et al., 2022). As GIIN (2020) notes, this flexible structuring allows firms to demonstrate ESG alignment while maintaining operational feasibility and internal coherence.

In addition to pre-investment screening tools, several participants highlighted the use of 100-day plans as a key mechanism for ESG integration aligning with Pistner (2025). Although formally implemented post-investment, these plans are often negotiated and structured during the deal phase, allowing ESG priorities to be embedded early in the investment lifecycle. This approach reflects the practical

reality that many South African portfolio companies are already engaging with ESG issues informally but lack structured documentation and reporting (Marais et al., 2022). As one participant explained, “Most companies are doing something, it’s just not written down.” The 100-day plan therefore becomes a bridge between existing practice and formal ESG alignment, allowing firms to co-develop action steps and performance targets soon after acquisition.

A particularly rich theme emerging from the interviews was the characterisation of ESG integration as both an art and a science. Several respondents noted that while checklists and frameworks offer structure (“the science”), real-world ESG assessment often relies on intuition, experience, and on-the-ground observations (“the art”). This duality reflects a more interpretive approach to ESG, where practitioners must balance formal indicators with gut instinct and sectoral nuance. Scholars such as Wallin & Alizad (2025) have similarly argued that ESG assessment cannot be reduced to quantitative measures alone; rather, it involves complex judgment, especially in under-researched, high-risk environments.

6.2.3. Use of Heuristics

This is where heuristics and red-flag indicators come into play. In the absence of reliable ESG data, particularly among SMEs or in manufacturing sub-sectors, PE practitioners reported often resorting to informal assessments. These may include site visit observations (e.g., missing safety gear, poor waste management), stakeholder cues (e.g., community unrest), or even body language and tone during due diligence discussions. These findings echo Reis et al. (2025) and Lo & Zhang (2024), who highlight how private equity firms in emerging markets often rely on intuitive, experience-driven processes due to limited access to verified ESG data.

6.2.4. Theoretical Linkage

Crucially, these mechanisms are not just about assessing ESG risk, they also serve a stakeholder signalling function. From the lens of stakeholder theory, ESG mechanisms help build credibility and legitimacy with salient actors, particularly DFIs and ESG-focused LPs. Even when the tools are selectively applied, they provide evidence that the firm is actively balancing ESG expectations against commercial realities. From an institutional theory perspective, this partial but strategic adoption also reflects mimetic and normative isomorphism: firms emulate or internalise

external practices to maintain access to capital and peer legitimacy (DiMaggio & Powell, 1983; Bauckloh et al., 2023).

6.2.5. Conclusion RQ1

In sum, ESG integration mechanisms in South African PE are best understood not as rigid instruments, but part of a strategic balancing process. They combine formal frameworks, tailored internal tools, and informal judgment, a hybrid response to a dynamic and sometimes contradictory set of expectations. This blending of the “art and science” of ESG integration marks a significant contribution to the literature, showing how ESG integration mechanisms are not simply technical tools, but part of a multidimensional, interpretive practice shaped by organisational realities, and interconnected influences. However, the flexibility in the use of the mechanisms also creates the potential for greenwashing, where procedural compliance may substitute for genuine integration, an issue that underscores the need for transparency, capacity building, and stronger alignment between intent and implementation.

6.3. RQ2: Drivers of ESG Integration

RQ2: How do external and institutional drivers, such as limited partner mandates, regulatory frameworks, and global ESG norms, influence the interpretation and integration of ESG factors in South African private equity?

The second research question examined the external and institutional drivers that influence ESG integration during the pre-investment phase. The findings reveal a multi-layered set of forces shaping ESG behaviour, ranging from the formal influence of DFIs and regulatory frameworks to global systemic drivers such as Covid and climate change. Rather than acting in isolation, these drivers interact in reinforcing ways, embedding ESG not only as a compliance requirement but also as a source of reputational value and strategic alignment.

6.3.1. LP and DFI Influences

The integration mechanisms described in the previous section do not operate in a vacuum, they are shaped by a range of external and internal drivers that compel PE firms to embed ESG into pre-investment decision-making. Foremost among the drivers of ESG integration is the influence of LPs, particularly DFIs. Participants described DFIs as the main drivers to integrating ESG into the fund structure, often

from inception, with ESG clauses written into Limited Partnership Agreements, side letters, and reporting covenants. In this sense as one participant said, “ESG follows the money”. ESG is institutionalised through the flow of capital, where funding terms and investor expectations shape the depth and direction of ESG integration. This mirrors findings by Toschi & Metz (2022) and Panulo & Van Staden (2022), who note that DFIs in South Africa not only provide capital but shape the very design of ESG frameworks and reporting systems. In this study, several respondents referred to DFIs as “anchor influencers,” whose requirements cascaded across internal policies and deal evaluation practices.

This dynamic is further supported by Emmanuel et al. (2024), who argue that even when fund managers have internal ESG capacity constraints, compliance with DFI standards is prioritised to retain access to capital. Moreover, ESG integration has become a precondition for successful fundraising, especially in the eyes of DFIs European LPs and impact-aligned institutions (Bhuiyan, 2025; Yang et al., 2024). In fact, some respondents indicated that demonstrating ESG credentials was now critical to fundraising success, a trend that echoes global shifts in private equity fundraising environments (Carter & Ayres, 2024).

This study finds that LPs influence not only capital access but also strategic direction, often tying funding to broader agendas such as gender equity, climate adaptation, and inclusive growth, an observation that aligns with Forster’s (2023) findings. This requires PE firms to remain responsive to evolving ESG focus areas, continually adjusting internal policies, assessment criteria, and reporting tools. A notable and novel finding was that South Africa’s ESG landscape is relatively more mature than that of many other emerging markets, due in part to the long-standing and strategic influence of DFIs in shaping ESG norms and practices. This perspective reflects findings by Hunter (2022), who links South Africa’s ESG maturity to sustained institutional engagement.

Nonetheless, several participants acknowledged that smaller or locally focused funds struggle to meet these rising expectations, particularly when ESG requirements extend beyond compliance into demonstrable alignment with LP-defined impact themes, an issue also identified by Emmanuel et al. (2024). Firms also reported feeling pressure from a “shifting norm environment”, where ESG is increasingly regarded as a baseline expectation rather than an optional add-on. This reflects broader institutional theory dynamics, particularly normative isomorphism, whereby

organisations adopt certain practices in response to evolving professional norms and reputational standards (Bauckloh et al., 2023; DiMaggio & Powell, 1983).

6.3.2. Regulatory Drivers

While LPs serve as powerful external drivers of ESG integration, local regulatory frameworks also shape how ESG is adopted and operationalised in South African private equity. Several participants referred to King IV and CRISA as soft-law instruments that, while not legally binding, promote integration of ESG into investment decision making and thus shaping market expectations and norms. Though firms are not always formally required to comply, these frameworks function as coercive institutional pressures that reinforce the need for ESG integration, particularly when dealing with pension fund capital (Chawarura et al., 2025). Additionally, Regulation 28 of the Pension Funds Act introduces a formal ESG consideration, mandating that pension fund trustees account for material sustainability risks in investment decisions. This has a knock-on effect on local PE firms who seek capital from pension-backed LPs, driving more deliberate ESG integration strategies and disclosures. One participant noted that local institutional investors increasingly expect evidence of ESG integration as part of their fiduciary screening process, even if ESG performance is not yet a strict gating item.

These regulatory forces, while less prominent than DFI mandates, reinforce coercive isomorphism by embedding ESG expectations into local capital markets and fund governance norms (DiMaggio & Powell, 1983). They also highlight the multi-layered accountability environment that PE firms must navigate, responding not only to global LPs but to local policy instruments and evolving regulatory interpretations. In this way, regulatory frameworks serve both as guidance and enforcement tools, shaping not just what ESG means, but how it is practiced on the ground.

6.3.3. Global Systemic Drivers

Beyond investor and regulatory pressures, participants highlighted global disruptions, notably COVID-19 and climate change, as key accelerators of ESG integration. Several noted that COVID-19 shifted ESG from a peripheral concern to a core risk lens, especially around social and operational resilience. This mirrors findings by Bhuiyan (2025) and Toschi & Metz (2022), who link the pandemic to a global redefinition of material risks within investment processes.

Climate change was similarly viewed as unavoidable. Even when firms continued investing in carbon-intensive sectors, they acknowledged growing conversations around transition risk and long-term sustainability. As GIIN (2020) and Panulo & Van Staden (2022) observe, such global ESG themes now shape both capital allocation and investor expectations.

6.3.4. Impact and Internal Ethos

In addition to compliance or reputational drivers, a few participants framed their internal ethos, with one stating it was “part of our DNA”, due to their identification as impact investors, as one of the drivers for ESG integration. While ESG and impact investing are conceptually distinct, participants’ narratives revealed how the boundaries between them blur in practice. One firm reported aligning all investments to specific Sustainable Development Goals (SDGs), a feature more typical of impact investing than ESG compliance. This echoes Cheng et al., (2023)’s observations that, particularly in emerging markets like South Africa, firms may use ESG mechanisms to meet investor expectations while simultaneously pursuing impact-style goals such as transformation and job creation. Although this convergence can create inconsistencies in how ESG is applied, it also reflects how firms with dual mandates integrate both ESG and impact logic into investment processes. These findings reinforce the idea that ESG in practice is not only shaped by external compliance but also by internal values, strategy, and developmental priorities.

6.3.5. Theoretical Linkage

Theoretically, these shifts reflect processes of normative institutional change, where systemic disruptions, such as global climate imperatives, the COVID-19 pandemic, and the growing prominence of DFIs, redefine what constitutes responsible investment behaviour (DiMaggio & Powell, 1983; Forster, 2023). As institutional fields evolve, private equity firms respond to coercive and normative pressures from capital providers and regulatory bodies, aligning internal practices with globally legitimised ESG norms (Marais et al., 2022). These dynamics simultaneously broaden the scope of stakeholder influence, reinforcing ESG not only as a compliance obligation but as a strategic and societal imperative (Freeman, 1984; Pitkänen, 2022)

6.3.6. Conclusion RQ2

These findings reveal that ESG behaviour in private equity is shaped by overlapping forces: investor expectations, regulatory pressures, global disruptions, and internal values. Theoretically, this reflects both coercive and normative isomorphism, with DFIs, local regulation, and systemic risks like climate change and COVID-19 reinforcing ESG adoption. Stakeholder theory helps explain how firms navigate legitimacy demands across multiple actor groups, while signalling and agency theories clarify ESG's role in reducing information asymmetry and positioning firms as credible, resilient investment partners.

6.4. RQ3: Sector-Specific ESG Materiality in Manufacturing

How does sector-specific materiality influence how private equity firms interpret and prioritise ESG factors during the pre-investment phase in the manufacturing sector?

The third research question explored how the unique characteristics of the manufacturing sector shape the way ESG risks and opportunities are identified and prioritised in pre-investment decision-making. The findings underscore that ESG materiality in manufacturing is not only high but also interdependent, with environmental, social, and governance issues often compounding each other in complex ways. Participants described ESG integration in this sector as deeply contextual, shaped by infrastructure limitations, sector-specific risks, and cascading operational challenges, reinforcing the need for integrated, rather than siloed, ESG approaches during deal screening.

6.4.1. Manufacturing Materiality

Participants consistently emphasised that ESG integration during pre-investment is shaped not just by firm-level priorities, but by the nature of the sector in which a target operates. In the manufacturing sector, characterised by high operational complexity, labour exposure, and environmental impact, respondents identified a distinct set of material ESG risks that required upfront attention. These included emissions intensity, energy reliability, waste and water management, worker safety, and compliance with local labour codes. Even funds using cross-sectoral ESG tools reported re-weighting ESG criteria or applying deeper due diligence when evaluating industrial deals.

This aligns with the premise set out in Eccles & Klimenko (2019) and OECD (2021) that manufacturing is a high-materiality ESG context. However, unlike frameworks

that rank ESG pillars hierarchically, many participants described a fluid, interdependent relationship among environmental, social, and governance dimensions. A breakdown in one, such as poor health and safety practices, was seen to cascade rapidly into reputational, regulatory, or even environmental risks. This reflects the co-constructed and contextual materiality model advanced by Lu et al. (2025) and Chang & Lee (2022), where materiality emerges through interaction between sector dynamics, stakeholder expectations, and governance capacity.

South African-specific factors, like load shedding, water scarcity, and regulatory volatility, further compound this interdependence. As Maditsi & Herbert (2024) and Mhlanga & Adegbayibi (2024) argue, ESG risks in manufacturing are often systemic, and pressures in one domain frequently intensify vulnerabilities in others. One respondent illustrated this by describing how poor energy reliability impacted not just operational output but worker safety, supplier timelines, and regulatory reporting, creating a ripple effect across ESG dimensions.

The COVID-19 pandemic was cited by several participants as a turning point, making ESG risks more visible and interconnected. These reflections mirror those of Yang et al. (2024) and Posadas et al. (2023), who describe how labour vulnerabilities, governance failures, and supply chain fragility during the pandemic revealed the need for integrated rather than siloed ESG assessment. For manufacturing, this has meant moving from compliance-based ESG checklists to more dynamic and interdisciplinary ESG risk mapping, something multiple participants noted they had started embedding into their pre-investment processes.

6.4.2. Theoretical Linkage

Theoretically, these findings align with institutional theory, which posits that firms adapt ESG practices to meet contextual legitimacy pressures within their operating environment (DiMaggio & Powell, 1983; Scott, 2014). In manufacturing, this reflects sector-specific institutional logics, where issues such as emissions, labour, and community impact dominate ESG salience (Bouteska et al., 2025; Chang, 2024). The results also reinforce stakeholder theory, showing that ESG priorities are shaped by the influence and expectations of key actors, employees, regulators, and communities (Freeman, 1984; Mitchell et al., 1997). Collectively, these perspectives highlight ESG integration as both context-dependent and stakeholder-driven.

6.4.3. Conclusion RQ3

In conclusion, the manufacturing sector's high materiality and operational complexity demand a deeply contextual approach to ESG integration in private equity. Rather than treating ESG issues as discrete categories, firms operating in this space recognise the interconnected nature of environmental, social, and governance risks. Participants highlighted how systemic issues, like load shedding, labour dynamics, and climate volatility, intensify ESG interdependence, requiring nuanced judgement and integrated screening tools. These findings reinforce the need for sector-specific ESG strategies that balance technical rigour with contextual agility during pre-investment assessment.

6.5. RQ4: Barriers and Trade-offs in ESG Integration

What barriers do private equity firms encounter when integrating ESG factors into pre-investment decision-making, and how do they manage trade-offs between ESG priorities and financial return objectives?

The fourth research question explored the barriers that private equity firms face when integrating ESG into pre-investment processes, and how tensions between ESG and financial return priorities are navigated. The findings reveal that these barriers are layered, progressing from issues of awareness and buy-in, through to capacity gaps, data limitations, and ultimately, the trade-offs firms must make between ESG goals and financial imperatives. These challenges do not occur in isolation but often intersect and compound one another, shaping how ESG is practiced on the ground.

6.5.1 Barriers to ESG Integration

Despite growing ESG uptake, participants highlighted a range of persistent barriers that limit full integration into pre-investment processes. These challenges were described as layered, beginning with awareness gaps and extending to technical and organisational constraints.

Several respondents noted that ESG is still poorly understood by some investment teams and portfolio company executives. This echoes findings by Rajput & Jindal (2026), who argue that low awareness can diminish ESG salience and lead to superficial application. In this study, awareness gaps were not limited to junior staff,

some participants described even investment committees as lacking confidence in interpreting ESG risks, which created friction in deal approval stages.

Beyond awareness, a common concern was skills and expertise. Participants described difficulties in sourcing professionals with deep ESG knowledge who could bridge technical risk assessment with investment logic. This aligns with literature highlighting capacity gaps in ESG assessment and inconsistent due diligence practices across funds (Al-harbi, 2025; Narain & Karan, 2023).

Even where technical knowledge existed, organisational culture and leadership emerged as key. Several participants reported resistance from portfolio company management who viewed ESG as external and burdensome. This reinforces Ong et al. (2025), who note that leadership buy-in is often the make-or-break factor for ESG implementation.

On top of awareness, skills and management buy-in, an additional layer of constraint was operational and infrastructural. Multiple firms cited a lack of reliable ESG data, difficulty accessing sectoral benchmarks, and poor availability of measurement tools, issues particularly pronounced in small and medium enterprises. As highlighted by Gupta (2025), these constraints are often exacerbated in emerging markets with infrastructure limitations.

A final barrier noted by participants was the risk of superficial ESG adoption. Some pointed to cases where ESG was assigned to underqualified staff, like HR personnel; as one participant noted, which evidenced weak internal commitment. Another participant warned, “If you don’t take ESG seriously, the pool of money is drying up,” highlighting that poor implementation can undermine fundraising prospects. This reinforces earlier findings on investor influence, where LPs increasingly expect credible, embedded ESG practices as a condition for capital access.

Taken together, these findings suggest that ESG integration is not just a technical challenge but a cultural and systemic one, requiring shifts in mindset, leadership engagement, and ecosystem-level support. From a theoretical lens, this aligns with institutional theory, where misalignment between external ESG norms and internal capabilities creates implementation friction. It also reflects agency theory, where gaps between LP expectations and GP capacity can lead to symbolic rather than substantive ESG practice.

6.5.2. Navigating ESG- Financial Return Trade-offs

While ESG integration is increasingly seen as strategically important, participants noted that they have not yet experienced an exit where the value-add of ESG was fully realised in financial terms. Several emphasised that ESG is currently understood more as a risk mitigation or reputational factor, with anticipated value creation expected to materialise in the longer term, particularly as ESG priorities become embedded across investor ecosystems. This view aligns with Nsama (2025), who argues that while ESG mechanisms, may not immediately translate into financial gain, they contribute to enhanced market valuation over time, especially as investor confidence grows in firms with credible ESG practices. Nonetheless, participants acknowledged challenges in quantifying the impact of ESG, particularly for intangible dimensions such as employee wellbeing, governance quality, or long-term reputational capital.

In the meantime, ESG integration is largely viewed as a strategic filter and risk lens, one that slows deal timelines but strengthens investment discipline. One participant described it as “taking longer to find the right deals,” while another explained that ESG does not stop investments, but rather forces more upfront work to de-risk them. This sentiment aligns with recent literature (e.g., Pitkänen, 2022), which frames ESG not as a constraint, but as a tool for selectivity and long-term value preservation.

Importantly, participants emphasised that ESG concerns rarely lead to deal abandonment. Instead, firms pursue remediation strategies, adjusting deal structures, embedding post-investment action plans, or negotiating ESG improvements as preconditions for closing. This pragmatic posture reflects the view that ESG challenges are problems to be managed, not deal-breakers, and supports literature suggesting that adaptive ESG strategies are gaining traction in private equity (Bian et al., 2023; Malik & Sharma, 2025).

6.5.3. Theoretical Linkage

From a theoretical perspective, these trade-offs reflect the tension between financial performance and broader stakeholder expectations central to stakeholder theory (Freeman, 1984). The findings show that firms seldom reject ESG-challenged deals outright but instead balance ESG priorities with commercial viability, aligning with the theory’s emphasis on negotiation and compromise among competing stakeholder claims (Mitchell et al., 1997; Pitkänen, 2022). From the perspective of signalling

theory, the findings suggest that ESG mechanisms are used to project credibility and alignment with global investment expectations, even when the tangible financial payoff is deferred or uncertain (Nsama, 2025). The continued investment in ESG practices, despite limited exit-based returns, suggests that firms use ESG to signal good governance, risk awareness, and long-term value orientation, which may influence capital raising or reputational standing more immediately than financial returns at exit in line with signalling theory assertions (Moussa & Elmarzouky, 2024). These findings also reinforce stakeholder theory, as the prioritisation of ESG integration, despite the absence of proven exit value, underscores the instrumental influence of stakeholder expectations in shaping private equity firm behaviour. ESG becomes not only a strategic concern, but a normative obligation embedded in capital-raising and reputational logic. Agency theory further explains internal execution barriers, particularly accountability gaps and misaligned incentives, where ESG responsibilities are disconnected from decision-making authority (Jensen & Meckling, 1976; Marais et al., 2022). Together, these perspectives illustrate ESG integration as a process of managed tension rather than full convergence between ethical and financial objectives.

6.5.4. Conclusion RQ4

In conclusion, ESG integration in South African private equity is shaped by layered challenges, from limited awareness and skills to data gaps and internal resistance. These barriers are intensified by local constraints, yet firms respond pragmatically through deal repricing, post-investment remediation, and prioritisation of material issues. While ESG is not yet seen as a short-term value driver in terms of financial value at exit however participants increasingly view it as a long-term strategic necessity amid shifting investor expectations.

6.6. Conclusion

This chapter has unpacked how ESG is understood, operationalised, and contested within the pre-investment practices of South African private equity firms. Drawing on the four research questions, the findings demonstrate that ESG integration is neither linear nor uniform, it is shaped by a dynamic interplay of global frameworks, investor demands, sectoral realities, and internal values.

Across all themes, the study reveals a process of balancing and negotiating, between formal frameworks and practical heuristics, compliance and ethos, global norms and local relevance, and commercial returns. Rather than rigidly adopting ESG models, firms selectively adapt mechanisms to fit their context. While progress has been made, particularly in firms anchored by DFIs, consistent integration remains aspirational, limited by capacity, infrastructure, and competing deal pressures.

Ultimately, ESG integration in South African private equity emerges not as a checklist exercise but as a strategic balancing act, one shaped by evolving stakeholder expectations, contextual pressures, and internal constraints. Firms operate within a landscape of institutional ambiguity, where global standards, local imperatives, and commercial realities continually intersect. The findings suggest that ESG is becoming embedded more through adaptive interpretation, than through compliance, where practitioners translate complexity into actionable investment logic. These insights provide the foundation for Chapter 7, which distils the study's theoretical, policy, and practical implications.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

7.1. Overview and Purpose of the Study

This study examined how South African private equity firms integrate ESG factors into pre-investment decision-making, particularly within the manufacturing sector. It responded to growing scholarly and practitioner interest in ESG integration, especially in emerging markets where ESG challenges are amplified by institutional, infrastructural, and socio-political complexity. The study investigated the what, who, where, and how difficult of ESG integration: what mechanisms and frameworks are used, who drives and influences adoption, where sectoral and contextual dynamics shape materiality, and how difficult implementation becomes amid competing financial and operational pressures. By doing so, the research addressed four key gaps in the existing literature: it examined how ESG is operationalised during pre-investment decision-making, offered a context-specific perspective from South African private equity, highlighted sectoral materiality within manufacturing, and uncovered the barriers and trade-offs that shape ESG integration in practice.

Understanding these dynamics matters because pre-investment decisions have long-term implications for both financial and sustainability outcomes. While much attention has been paid to ESG practices post-acquisition, relatively less is known about how ESG is factored into deal origination, screening, and valuation. This is especially relevant in markets like South Africa, where ESG frameworks must align with both international standards and local development imperatives such as B-BBEE, job creation, and climate resilience.

7.2. Research Context: ESG in South African Private Equity

The South African PE landscape presents a distinctive environment for studying ESG integration. It is shaped by deep exposure to global capital markets, particularly DFIs, while simultaneously embedded in a complex local regulatory and socio-economic context. These dual pressures create a hybrid ESG ecosystem where global frameworks, such as the IFC Performance Standards or SASB metrics, are adapted to local conditions through mechanisms like the Environmental and Social Management System (ESMS) and B-BBEE alignment.

Moreover, South African PE firms often invest in sectors with high ESG materiality, including manufacturing, where risks and opportunities are closely tied to social and environmental conditions. The context is further influenced by governance codes

such as King IV and CRISA, which promote stewardship and integrated thinking, even in the absence of strong enforcement mechanisms. These features provided a rich empirical base for understanding how ESG is integrated in practice.

7.3. Existing Knowledge and Research Gaps

While research on ESG integration in private equity has expanded, most studies focus on post-investment activities such as monitoring and value creation (Malik & Sharma, 2025), leaving the pre-investment phase comparatively underexplored. Existing literature, largely developed in mature markets, assumes strong data systems, regulatory coherence, and ESG-literate actors (Marais et al., 2022; Pistner, 2025), limiting its relevance to emerging contexts where ESG adoption is shaped by institutional fragmentation and selective compliance (Reis et al., 2025; Wadesango, 2023).

In South Africa, studies acknowledge a hybrid ESG model, combining global frameworks with local imperatives such as B-BBEE and community upliftment (Marais et al., 2022; Wadesango, 2023), yet little is known about how firms operationalise these mechanisms in practice. Sectoral materiality remains another blind spot: although manufacturing poses high environmental and social exposure (Bouteska et al., 2025; Chang, 2024; Mhlanga & Adegbayibi, 2024), the literature offers limited insight into how these risks are prioritised or managed during investment screening.

Finally, research has identified barriers such as limited ESG literacy, weak management buy-in, and data scarcity (Ong et al., 2025; Rajput & Jindal, 2026), but few studies examine how firms navigate these constraints or balance ESG and financial imperatives (Pitkänen, 2022). This study addresses these gaps by examining ESG integration as a stakeholder-driven, contextual driven process during the pre-investment phase of South African private equity.

7.4. Research Questions and Analytical Focus

This study was guided by a central question: *How do private equity firms in South Africa interpret, prioritise, and integrate ESG factors into pre-investment decision-making, particularly within the manufacturing sector?*

To address this, four interconnected sub-questions examined ESG integration through complementary lenses: the mechanisms firms use and how they use them

(RQ1), the external and institutional drivers that shape their practices (RQ2), the sector-specific materiality of ESG in manufacturing (RQ3), and the barriers and trade-offs that complicate implementation (RQ4).

Together, these questions provided a coherent analytical framework for exploring ESG as both a technical process and a relational balancing act between stakeholder expectations, organisational capacity, and financial discipline. This integrative structure ensured that the study captured not only what ESG integration entails but also how and why it unfolds in context.

7.5. Methodological Approach

The study employed a qualitative research design, grounded in 13 semi-structured interviews with professionals from South African private equity firms. Participants included PE investment professionals, ESG specialists, ESG consultants and PE executives across large, mid-size, and DFI-backed funds. Thematic analysis was conducted to identify patterns across responses. Triangulation was supported by the inclusion of the ESG consultants, who work closely with both PE firms and their portfolio companies, providing a cross-cutting perspective on ESG integration in practice. The qualitative approach enabled rich, context-sensitive insights into how ESG is understood, implemented, and adapted across different institutional settings.

Data were analysed thematically using an abductive approach, allowing for iterative dialogue between emerging themes and existing theory. The analysis drew on institutional theory, stakeholder theory, and agency theory in support of stakeholder theory as the core framework to interpret how ESG is shaped by both structural and subjective factors.

7.6. Key Findings and Theoretical Contributions

7.6.1. ESG Integration Mechanisms (RQ1)

This study found that South African private equity firms integrate ESG factors using a range of mechanisms including global frameworks, internal tools and heuristics applied in a pragmatic and hybrid manner. Global frameworks included frameworks such as the IFC Performance Standards, SASB sector materiality guides and the BII ESG Toolkit. These are not adopted in their entirety; firms adapt them to local realities, supplementing them with internal scorecards, red-flag tools, and ESG

questionnaires. Local governance codes such as King IV and CRISA are also used to provide normative guidance but are interpreted flexibly rather than prescriptively.

In many cases, these mechanisms are codified within Environmental and Social Management Systems (ESMS), which consolidate ESG screening and risk-rating tools across the fund lifecycle. Additionally, 100-day post-investment plans emerged as important extensions of pre-investment ESG due diligence, serving to institutionalise ESG priorities flagged during the pre-investment phase. As one participant described it, ESG integration is both a science and an art, a process that combines structured tools with practitioner discretion. This characterisation underscores that ESG decision-making is not only technical but also a context-sensitive balancing act, shaped by experience, fund ethos, and institutional constraints.

These findings confirm prior research that ESG practices in South African PE are applied selectively due to institutional constraints, data scarcity, and fragmented regulatory enforcement (Marais et al., 2022; Wadesango, 2023). This study adds to the literature by showing how these constraints are not only barriers but also drivers of innovation, prompting firms to adapt ESG mechanisms to context through what Reis et al. (2025) describe as interpretive, heuristic-based judgment.

An unanticipated insight was the perception that South Africa's ESG integration practices are relatively mature compared to other emerging markets, driven by long term involvement of DFIs in the private equity sector. This adds to the literature by supporting Panulo et al. (2023) who argue that DFIs play a pivotal role in shaping ESG integration across emerging market contexts.

This finding reinforces stakeholder theory by supporting Johnson-Rokosu's (2025) view that private equity firms adopt ESG mechanisms during the pre-investment phase in response to legitimacy pressures from diverse actors, such as DFIs, LPs, and governance bodies, who demand evidence of responsible investment before capital is deployed. This study also affirms the relevance of institutional theory to ESG integration, which, as Posadas et al. (2023) argue, helps explain how stakeholder expectations are translated into coercive and normative pressures, particularly via DFI requirements and prevailing industry norms. Additionally, it supports the application of signalling theory by showing how ESG mechanisms are strategically deployed to demonstrate alignment with LP expectations and governance standards, especially in settings marked by asymmetric information

(Moussa & Elmarzouky, 2024). This theoretical blend captures the multi-dimensional ways in which stakeholders influence ESG practices and aligns with emerging market literature that emphasises the adaptive, often hybridised application of ESG tools in contexts marked by institutional fragmentation (Pitkänen, 2022; Pistner, 2025).

7.6.2. External and Institutional Drivers of ESG Integration (RQ2)

The second research question examined the drivers influencing ESG integration during the pre-investment phase in South African private equity. This study found that ESG integration in South African private equity is primarily driven by a convergence of external forces. Chief among these are LP expectations, particularly those from DFIs, which embed ESG requirements into fund agreements through side letters, reporting obligations, and ESG clauses. Participants described DFIs as anchor influencers, shaping not only fund strategy but also internal ESG tools and deal screening processes. This aligns with findings by Toschi and Metz (2022) and Panulo and Van Staden (2022), who show that DFIs do not simply finance but also design ESG frameworks in the region. The pattern observed in this study is that private equity firms consistently prioritise compliance with DFI expectations, even when internal ESG capacity, whether financial or technical, is constrained. This aligns with Emmanuel et al. (2024), who similarly note that adherence to DFI standards is a non-negotiable prerequisite for capital access, a dynamic that reflects the high salience of DFIs as stakeholders, given their power, legitimacy, and urgency (Mitchell et al., 1997).

Other external pressures included South Africa's regulatory and normative environment, particularly frameworks like Regulation 28 of the Pension Funds Act, King IV, and CRISA. Though not always enforced with the same rigor as DFI mandates, these frameworks reinforce ESG alignment through reputational and signalling channels, shaping expectations of fiduciary responsibility and responsible stewardship. As Wadesango (2023), observe, such frameworks create a governance culture that normalises ESG expectations even when legal mandates are soft. This study affirms the role of normative and coercive pressures described in institutional theory, while also extending signalling theory by illustrating how even non-binding codes can function as market signals of governance quality and legitimacy.

Participants affirmed that both climate-related disruptions and the COVID-19 pandemic heightened their perception of ESG as a strategic risk management tool and also an indicator of operational resilience, rather than merely a compliance requirement. This finding agrees with Broadstock et al. (2021) who show that firms with stronger ESG profiles were more resilient during systemic shocks. This view is also echoed by Islam and Habib (2022), who highlight how the pandemic exposed governance and social fragilities. In the South African context, where infrastructure fragility and socio-economic volatility are persistent, respondents described ESG as increasingly essential to maintaining operational continuity. These findings align with institutional theory by illustrating how external shocks can intensify normative and coercive pressures to embed ESG more deeply into investment practices (Posadas et al., 2023).

Internally, some firms reported that ESG integration was driven by organisational ethos or identity, particularly among those with impact investing mandates or developmental roots. In such cases, ESG was described as “part of our DNA.” Several firms aligned their portfolios with the Sustainable Development Goals (SDGs), blurring the lines between ESG integration and impact intentionality. This underscores the interplay between external legitimacy demands and internal mission alignment, where ESG becomes both a compliance necessity and a strategic commitment. While this ethos often stems from internal value systems or impact-oriented mandates, it is also shaped by the sustained presence of DFIs, whose influence extends beyond compliance. As Panulo and Van Staden (2022) observe, DFIs play a formative role in embedding ESG norms into fund structures and culture, while Emmanuel et al. (2024) highlight how long-term DFI involvement can shape the strategic orientation of firms, reinforcing ESG as a core institutional value rather than a procedural obligation.

This finding confirms that ESG integration in private equity is driven by diverse legitimacy pressures. DFIs and global LPs exert coercive influence by tying capital to ESG integration, as noted by Bhuiyan (2025), while local regulatory frameworks further shape normative expectations around fiduciary duty and governance standards, encompassed in the ESG pillars (Carter & Ayres, 2024). These pressures operate across institutional theory dimensions: coercive (e.g., DFIs, Regulation 28), normative (e.g., King IV, CRISA), and mimetic (e.g., peer benchmarking via SAVCA). Signalling theory also plays a role, as ESG alignment becomes a way to demonstrate

governance quality, risk awareness, and fundraising readiness in the face of information asymmetry. Additionally, global systemic forces such as climate change and pandemic-related disruptions have intensified these pressures, reinforcing ESG as a strategic imperative. This layered convergence of drivers reveals that ESG in South African PE is not merely a checkbox exercise but a response to intersecting forces that shape strategy, legitimacy, and capital access.

7.6.3. Sector-Materiality (RQ3)

This research question examined how the unique characteristics of the manufacturing sector influence how ESG risks and opportunities are identified and prioritised during the pre-investment phase. The findings indicate that ESG factors in the manufacturing sector are treated as highly interdependent rather than hierarchically ranked. For example, participants described how persistent energy shortages (an environmental issue) directly compromise production uptime and worker wages (a social concern), illustrating how pressure in one ESG pillar can create ripple effects across others.

This confirms arguments in the literature that materiality in manufacturing is contextual and co-constructed, influenced by stakeholder expectations, infrastructure constraints, and sector exposure (Chang & Lee, 2022; Lu et al., 2025). South Africa's manufacturing sector is exposed to compounded ESG risks, such as load shedding, water scarcity, and labour unrest, which further heighten this interdependence (Mhlanga & Adegbayibi, 2024). These dynamics highlight the limitations of generic ESG frameworks that treat ESG pillars in isolation and reinforces the need for integrated approaches to ESG assessments.

Theoretically, this finding supports the contextual legitimacy perspective within stakeholder theory, where firms prioritise ESG risks based on perceived salience to key stakeholders and operational realities. It also reinforces institutional theory, showing how sectoral norms shape what is considered "material" or legitimate ESG action. This context-driven approach to prioritisation offers a more nuanced understanding of ESG integration, particularly in high-impact sectors like manufacturing, which remain underexplored in much of the global literature.

7.6.4 Barriers and Trade-offs (RQ4)

The final research question explored the barriers that private equity firms face when integrating ESG into pre-investment processes, as well as how they manage trade-offs between ESG priorities and commercial objectives. The findings reveal that these barriers tend to unfold in a layered and sequential fashion, beginning with limited awareness, followed by capacity gaps, resistance from internal stakeholders, and finally data and measurement challenges. This sequencing suggests that ESG integration is not hindered by a single constraint but by a compounding set of organisational and systemic frictions. Participants noted that many investment professionals and portfolio company executives lack foundational ESG literacy, including at the investment committee level. Even when ESG awareness is present, skill shortages, particularly in technical assessment and data interpretation, pose further challenges, echoing concerns raised by Rajput and Jindal (2026) and Narain and Karan (2023) about ESG capability gaps in emerging markets. Moreover, successful ESG integration was said to hinge on portfolio company management buy-in. Where leadership viewed ESG as peripheral, efforts often stalled, echoing Ong et al.'s (2025) emphasis on the role of leadership in driving ESG integration.

Some firms reported assignment of ESG responsibilities to HR personnel within portfolio companies, a practice seen as superficial and misaligned with growing LP and DFI expectations. Participants warned that such tokenism undermines credibility, echoing Bhuiyan (2025) and Saxena et al. (2022), who note that weak ESG integration can erode investor appeal. The study also found that trade-offs between ESG integration and commercial returns rarely led to deal abandonment. Instead, firms adopted adaptive strategies, embedding remediation plans post-investment, focusing on material risks, and sourcing deals that balance ESG with commercial viability. This supports Pitkänen's (2022) view of ESG as a constraint to be managed, not avoided. A new theme and contribution to literature emerged, linking ESG integration to extended timelines in deal sourcing, as participants emphasised the importance of identifying investment opportunities where ESG integration was not only desirable but practically feasible.

Theoretically, these findings are grounded in stakeholder theory, which helps explain how barriers to ESG integration emerge from the competing expectations and influence of multiple stakeholders, particularly DFIs and LPs demanding ESG compliance, internal investment teams facing capacity gaps, and portfolio company

leadership that may resist ESG as non-core or externally imposed (Freeman et al., 2021). Barriers such as limited awareness, skills gaps, and resistance reflect these tensions, as each group brings different expectations and priorities. At the same time, agency theory provides a complementary lens to understand internal misalignments and accountability gaps. ESG responsibilities are often delegated to lower-level staff, such as HR personnel, revealing weak monitoring structures and incentive misalignment between principals (PE firms) and agents (portfolio company executives). Together, these theories show that ESG trade-offs are not only strategic but relational, emerging from differing risk appetites, time horizons, and definitions of value across stakeholders.

Another key insight emerging under this research question is that, despite the growing emphasis on ESG, firms have yet to realise tangible financial value from ESG at exit. None of the participants reported an exit in which ESG integration had demonstrably improved valuation or financial return. ESG was instead described as a reputational safeguard or a risk-mitigation strategy, with value anticipated to materialise in the future as investor ecosystems increasingly reward responsible investing. As one participant noted:

This perception aligns with Nsama (2024), who finds that ESG is often pursued on a forward-looking basis, with value realisation expected to lag integration efforts. Participants acknowledged difficulties in quantifying ESG-related value, especially for intangible aspects like employee wellbeing, governance quality, or long-term reputational capital. These limitations reflect broader methodological gaps in linking ESG integration directly to valuation outcomes in private markets.

From a theoretical standpoint, this reinforces stakeholder theory, as the prioritisation of ESG, even in the absence of proven financial benefit, demonstrates the instrumental role of stakeholder expectations in shaping firm behaviour. Additionally, signalling theory is relevant here: ESG integration was seen as a way to convey alignment with LP and DFI values under conditions of information asymmetry, particularly when exits were not immediately realisable. The anticipated long-term value of ESG, even in the absence of short-term returns, underscores the strategic signalling role ESG plays in maintaining credibility and investor trust.

7.6.5 Culminating Insight: Answering the Main Research Question

Firstly, ESG integration is not linear or uniform but balanced across multiple layers of stakeholder influences; blending global frameworks, internal tools, and local governance mechanisms (RQ1). It is operationalised through internal scorecards, ESMS, red-flag indicators, and post-investment plans like 100-day initiatives. This study found that pre-investment ESG decision-making is both a science: anchored in structured tools and an art, shaped by practitioner judgement, fund ethos, and contextual constraints. Together, these mechanisms reflect a hybridised approach where technical compliance and strategic discretion coexist.

Secondly, ESG integration is strongly driven by multi-level stakeholder pressures (RQ2), with access to capital, particularly from DDFIs, emerging as a dominant driver. ESG integration has become a threshold requirement for securing DFI investment, making it a non-negotiable component of fundraising. These external pressures are reinforced by local regulatory frameworks such as Regulation 28, CRISA and King IV, operating through a combination of coercive, normative, and mimetic forces. Together, these dynamics underscore how ESG serves not just as a governance standard but as a strategic enabler of capital access, legitimacy, and market positioning.

Thirdly, in high-impact sectors like manufacturing (RQ3), ESG integration is shaped by sector-specific materiality and interdependencies, with firms recognising that issues such as energy instability, labour safety, and environmental compliance are interconnected rather than siloed. This highlights the contextual sensitivity of ESG prioritisation, where cascading risks demand integrated, rather than hierarchical, ESG assessments.

Finally, in addressing RQ4, the study found that ESG integration is hindered primarily by limited ESG literacy, which cascades into broader capacity gaps and internal resistance. Training emerged as the key enabler to overcome these constraints. On the question of trade-offs between ESG and financial returns, participants were clear: ESG factors do not trump commercial viability, but neither are deals simply abandoned. Instead, firms take longer to identify investments that meet both ESG and return thresholds and adopt practical strategies such as sequencing ESG remediation post-investment to make deals viable. A further insight is that, although ESG is prioritised in pre-investment processes, firms have yet to realise its financial value at exit. Participants viewed ESG more as a reputational or risk mitigation tool

than a proven value driver, though many anticipate that ESG will enhance exit valuations over time as investor ecosystems evolve. This forward-looking stance reflects the strategic signalling function ESG plays, especially in the absence of short-term financial proof points.

Synthesis

Taken together, these findings show that ESG integration in South African private equity is a multi-stakeholder, interpretive, and context-sensitive process that is selectively institutionalised. It is driven by external legitimacy demands, from DFIs, LPs, and regulators and, in some cases, these external pressures have been internalised into firm values and organisational ethos, particularly through sustained DFI influence. In addition to external legitimacy demands, broader global shifts such as climate change and the COVID-19 pandemic, have further accelerated ESG integration, as firms increasingly view ESG practices as essential risk mitigation tools for navigating systemic shocks and ensuring long-term resilience.

Materiality assessments play a central role, guiding firms in prioritising ESG issues most relevant to each transaction or sector. However, the process is challenged by inconsistent data, limited ESG expertise, and capacity gaps, which constrain the depth and consistency of integration. Trade-offs are also evident, particularly where commercial imperatives conflict with ESG expectations, forcing firms to navigate tensions between short-term returns and long-term impact.

Notably, while ESG is prioritised upfront, participants acknowledged that they have not yet experienced an exit where its financial value has been fully realised. Instead, ESG is currently perceived more as a reputational safeguard and risk management tool, with anticipated value creation expected to materialise over time as ESG becomes more deeply embedded across investor ecosystems.

Despite these challenges, the study reveals a clear shift toward strategic hybridisation, in which firms blend global frameworks with local heuristics, internal tools, and normative codes to navigate institutional complexity, manage risk, and sustain credibility in increasingly ESG-conscious capital markets.

7.7. Managerial Implications and Practical Relevance

This study offers several practical insights for private equity professionals, ESG practitioners, and fund stakeholders operating in South Africa and similar emerging markets. First, it underscores the strategic importance of ESG integration at the pre-investment stage, not only as a tool for risk mitigation but also as a prerequisite for capital access, particularly from DFIs and other ESG-sensitive LPs. For fund managers, this highlights the need to embed ESG factors early in the deal lifecycle, using structured tools like ESG scorecards, ESMS, and post-investment 100-day plans to institutionalise ESG and broader sustainability priorities.

Second, the findings suggest that capacity building within both PE firms and portfolio companies is essential. Training investment professionals and ensuring ESG ownership at senior levels can help overcome internal resistance, elevate ESG from a compliance obligation to a value driver, and avoid superficial implementation practices.

Third, the research reveals that ESG integration requires balancing commercial and ESG goals rather than treating them as trade-offs. Firms do not abandon financially viable deals due to ESG risks; instead, they adopt adaptive strategies such as ESG remediation planning. This pragmatic stance supports deal execution while maintaining alignment with investor expectations.

Importantly, the study also highlights a nuanced reality: although ESG is prioritised upfront, often due to strong stakeholder expectations, most firms have not yet realised its financial value at exit. This finding suggests that ESG integration is currently driven more by perceived reputational and strategic benefits than demonstrable financial returns. Nevertheless, firms anticipate that ESG value will become more visible over time, particularly as investor ecosystems mature and valuation models evolve to capture intangible factors such as governance quality and employee wellbeing. For managers, this underscores the importance of staying the course with ESG, even in the absence of immediate financial payoff.

Finally, the study emphasises that local context matters. Managers must adapt global frameworks to suit institutional realities, regulatory environments, and sector-specific risks, especially in resource-intensive sectors like manufacturing. Doing so not only improves ESG relevance and impact but also strengthens stakeholder credibility and long-term fund performance.

7.8. Limitations of the Study

While this study provides rich insights into ESG integration during the pre-investment phase in South African private equity, it is not without limitations.

First, the research was limited to a single national context, meaning that findings may not be fully transferable to other emerging or developed markets with different regulatory, institutional, or investment dynamics. Future research could adopt a comparative approach across regions to better understand how ESG integration varies in different contexts.

Second, the study focused exclusively on the pre-investment phase, although ESG is increasingly treated as a full lifecycle consideration in private equity. Future research could examine how pre- and post-investment practices interact, particularly how early ESG commitments are followed through operationally and how they influence outcomes at exit.

Third, while the study incorporated the views of 16 professionals across 14 firms, it primarily reflects the perspective of general partners. The inclusion of limited partners and portfolio company executives could deepen understanding of how ESG expectations and interpretations align or diverge across stakeholder groups.

Finally, the study followed a qualitative design, prioritising depth over breadth. While this approach was appropriate for exploratory inquiry, future research could complement these insights with quantitative studies to assess how specific ESG mechanisms influence investment performance, risk-adjusted returns, or fundraising success.

By addressing these gaps, future research can contribute to a more holistic and actionable understanding of ESG integration in private equity, particularly in contexts characterised by institutional fragmentation and developmental priorities.

7.9. Recommendations for Future Research

Building on these limitations, several directions for future research are recommended. First, comparative studies across African and other Global South markets could help elucidate how ESG integration practices evolve in different institutional contexts, regulatory regimes, and capital ecosystems. Such cross-country research could uncover how local norms, DFI involvement, and policy environments shape ESG implementation strategies and legitimacy pathways.

Second, there is a need to investigate the full ESG lifecycle by tracking how pre-investment ESG commitments are monitored, adapted, or diluted during ownership, and whether they translate into measurable impact or enhanced exit value. Longitudinal studies could offer insight into the durability of ESG integration and its influence on portfolio company transformation over time.

Third, future studies should widen the stakeholder lens to include LPs, DFIs, and portfolio company executives. This would enrich understanding of how ESG priorities are communicated, interpreted, and reconciled across the investment chain, highlighting areas of alignment, tension, or disconnect. A particular focus could be placed on how expectations differ between international investors and local actors.

Fourth, given the prominent role of heuristics and local adaptations in this study, further research could explore the strategic use of “hybrid” ESG approaches, how firms combine global frameworks with local knowledge and tools to navigate institutional complexity and materiality challenges.

Fifth, the study surfaced persistent barriers including ESG literacy gaps, capacity constraints, and data unavailability. Future work could focus on designing and evaluating training interventions, capacity-building models, and context-appropriate ESG data frameworks to address these issues at both the firm and ecosystem level.

Finally, quantitative or mixed-methods research could test the relationship between ESG integration and financial outcomes, including deal timelines, portfolio resilience, and capital mobilisation. This would support evidence-based policymaking and provide clarity for practitioners seeking to link ESG performance to commercial returns, especially given the current gap between ESG integration and demonstrable value realisation at exit.

7.10. Conclusion

This study investigated how private equity firms in South Africa integrate ESG factors into the pre-investment phase, with a particular focus on the manufacturing sector. Drawing on insights from 13 interviews with 16 professionals across the industry, the research found that ESG integration is a strategic, interpretive, and context-sensitive process, shaped by global frameworks, local regulatory expectations, firm-level tools, and practitioner judgement.

Mechanisms such as ESG scorecards, ESMS, and 100-day post-investment plans reflect a combination of structure and flexibility, demonstrating that ESG integration is both technical and relational, as firms tailor their approaches to specific transactions and stakeholder expectations. Capital access, especially from DFIs and ESG-oriented LPs, emerged as a dominant driver, reinforcing ESG's role in investor signalling and legitimacy-building. Sector-specific dynamics, particularly in manufacturing, further highlighted the interdependence between material ESG issues and commercial risk, reinforcing the need for prioritisation and early identification of these risks at deal origination.

Despite growing strategic intent, integration remains uneven. Key barriers include ESG literacy gaps, limited internal and portfolio-level capacity, and challenges in data availability, particularly at the pre-investment stage. Participants also noted that while ESG is increasingly prioritised, most had not yet seen a deal exit where ESG value was fully realised in financial terms, though they anticipated this would change as ESG expectations become more embedded in investment ecosystems.

Instead of abandoning deals, firms have adopted adaptive and pragmatic strategies to navigate ESG-commercial trade-offs, such as repricing, sequencing post-investment remediation, or sourcing deals where ESG integration is more feasible. These findings reveal a shift toward strategic hybridisation, where firms blend global ESG standards with local heuristics, organisational norms, and sector-specific knowledge to manage complexity, enhance credibility, and meet evolving stakeholder expectations.

By focusing on the underexamined pre-investment phase, this study offers original insights into ESG practice in emerging markets and expands the literature on ESG institutionalisation in private equity. It underscores that ESG integration is not only a matter of compliance or risk management, but a multi-stakeholder, evolving, and opportunity-driven process, one that is simultaneously shaped by global imperatives,

local realities, and the relational dynamics between investors, fund managers, and portfolio companies.

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APPENDIX A: PARTICIPANTS AND FIRM TYPES

| Participant ID | Participant Role | Firm Type |
|-----------------------|---------------------------------|-------------------------------------|
| P1 | ESG Specialist | Local Large PE Fund |
| P2 | Partner | Mid-Size DFI-backed Impact Fund |
| P3 | PE Transactor | Impact-focused PE Fund |
| P4 | PE Transactor | Large Local PE Fund |
| P5 | Associate Director | Pan-African PE |
| P6 | Investment Principal | Local PE Fund |
| P7 | Investment Principal | Local Pension backed PE Fund |
| P8 | PE Transactor and PE Principal | Local Pension backed PE Fund |
| P9 | Investment Principal | Mid-Size Impact/ESG Specialist Fund |
| P10 | ESG Specialist and ESG Director | South African PE (with ESG focus) |
| P11 | Small PE Fund | DFI Partnered Fund |
| P12 | Managing Director | ESG Consulting Firm |
| P13 | ESG Specialist | PE Firm with LP/DFI mix |

APPENDIX B: THEMATIC MAP

| Code | Definition | Verbatim Excerpt | Participant | Analytical Memo |
|---|---|--|-------------|---|
| Investor-driven ESG integration | ESG priorities driven primarily by investor requirements and mandates. | 'You do what your investors tell you, if the LP cares about ESG, then you care.' – P6 | P6 | Highlights LP power in defining ESG integration priorities. |
| Fragmented framework adoption | Selective adoption of global frameworks such as IFC, UN PRI, SASB. | 'We use IFC standards, but not all of them, it depends on deal size.' – P3 | P3 | Frameworks are applied pragmatically, not comprehensively. |
| ESG follows the money | ESG standards follow capital sources and LP expectations. | 'ESG follows the money; if you want DFI capital, you play by their ESG rules.' – P9 | P9 | Reinforces the role of capital origin as ESG driver. |
| DFIs as ESG architects | DFIs shape ESG frameworks and reporting covenants from fund inception. | 'The DFIs put ESG in from the start, it's part of the Limited Partner Agreement.' – P2 | P2 | Shows DFIs as institutional shapers of ESG norms. |
| Hybridisation of frameworks | Combination of structured frameworks and informal heuristics in ESG assessment. | 'It's both an art and a science, you have to balance checklists with judgment.' – P5 | P5 | Demonstrates interpretive flexibility of ESG tools. |
| Sectoral interdependence of ESG pillars | Mutual reinforcement between E, S, and G pillars in manufacturing contexts. | 'G is the foundation, without it, E and S won't stick.' – P11 | P11 | Shows integrated ESG dependencies in manufacturing. |
| Limited ESG literacy | Lack of deep ESG understanding among investment teams and ICs. | 'Even our IC needs to be educated on what exactly they are assessing.' – P4 | P4 | Illustrates ESG skill gap across decision-making layers. |
| Management buy-in barriers | Leadership buy-in determines operationalisation of ESG strategies. | 'You can have the best checklist, but if management doesn't buy in, nothing changes.' – P8 | P8 | Points to leadership engagement as critical enabler. |
| Data constraints | Limited ESG data availability impedes monitoring and measurement. | 'We don't always have reliable ESG data to base our reports on.' – P10 | P10 | Identifies systemic challenge of data quality in ESG reporting. |
| ESG reporting fatigue | Increasing administrative burden due to overlapping ESG frameworks. | 'Sometimes it feels like too many frameworks, everyone wants a report.' – P7 | P7 | Indicates ESG overload due to multiple overlapping demands. |
| Remediation over exclusion | Preference for corrective action rather than deal rejection. | 'We'd rather fix the issues post-investment than walk away.' – P3 | P3 | Highlights pragmatic approach favouring improvement over exclusion. |
| Perceived trade-offs with deal speed | ESG seen as slowing deal closure or requiring more due diligence time. | 'ESG just makes us take longer to find the right deal.' – P12 | P12 | Shows commercial-ESG balance as a recurring challenge. |

APPENDIX C: FREQUENCY MAPPING BY RESEARCH QUESTION

| Code | Frequency (No. of Participants) | Related Theme | RQ |
|---|---------------------------------|----------------------------------|-----|
| Investor-driven ESG integration | 8 | ESG as Investor Mandate | RQ1 |
| Fragmented framework adoption | 6 | Hybridisation of ESG Mechanisms | RQ1 |
| ESG follows the money | 7 | ESG as Investor Mandate | RQ2 |
| DFIs as ESG architects | 5 | ESG as Investor Mandate | RQ2 |
| Hybridisation of frameworks | 9 | Hybridisation of ESG Mechanisms | RQ1 |
| Sectoral interdependence of ESG pillars | 7 | Sectoral ESG Interdependence | RQ3 |
| Limited ESG literacy | 10 | Execution Gap in ESG Integration | RQ4 |
| Management buy-in barriers | 11 | Execution Gap in ESG Integration | RQ4 |
| Data constraints | 6 | Execution Gap in ESG Integration | RQ4 |
| ESG reporting fatigue | 5 | Execution Gap in ESG Integration | RQ4 |
| Remediation over exclusion | 8 | Execution Gap in ESG Integration | RQ4 |
| Perceived trade-offs with deal speed | 4 | Execution Gap in ESG Integration | RQ4 |