

COVID sky - bright and blue

Sustainability - an imperative for the new normal

August 2020



Building a better
working world



Rajiv Memani

Chairman and Managing Partner,
EY India

Even though sustainability has been on the agenda for many countries and companies for a while, the COVID-19 pandemic has truly accelerated the adoption of sustainable practices. We have been presented with a once-in-a-generation opportunity to heal the environmental damage caused by over exploitation and untenable business operations. This is the time to hit the reset button - build resilience and create long-term stakeholder value that is inclusive and sustainable.

• We acknowledge contributions from: •



Sandip Khetan

Partner and National Leader
Financial Accounting Advisory Services (FAAS),
EY India
Sandip.Khetan@in.ey.com



Chaitanya Kalia

Partner and National Leader
Climate Change and Sustainability
Services (CCaSS), EY India
Chaitanya.Kalia@in.ey.com



Saunak Saha

Associate Partner
Climate Change and Sustainability
Services (CCaSS), EY India
Saunak.Saha@in.ey.com



Sayooj Thekkevariath

Senior Manager
Climate Change and Sustainability
Services (CCaSS), EY India
T.Sayooj@in.ey.com



Priya B

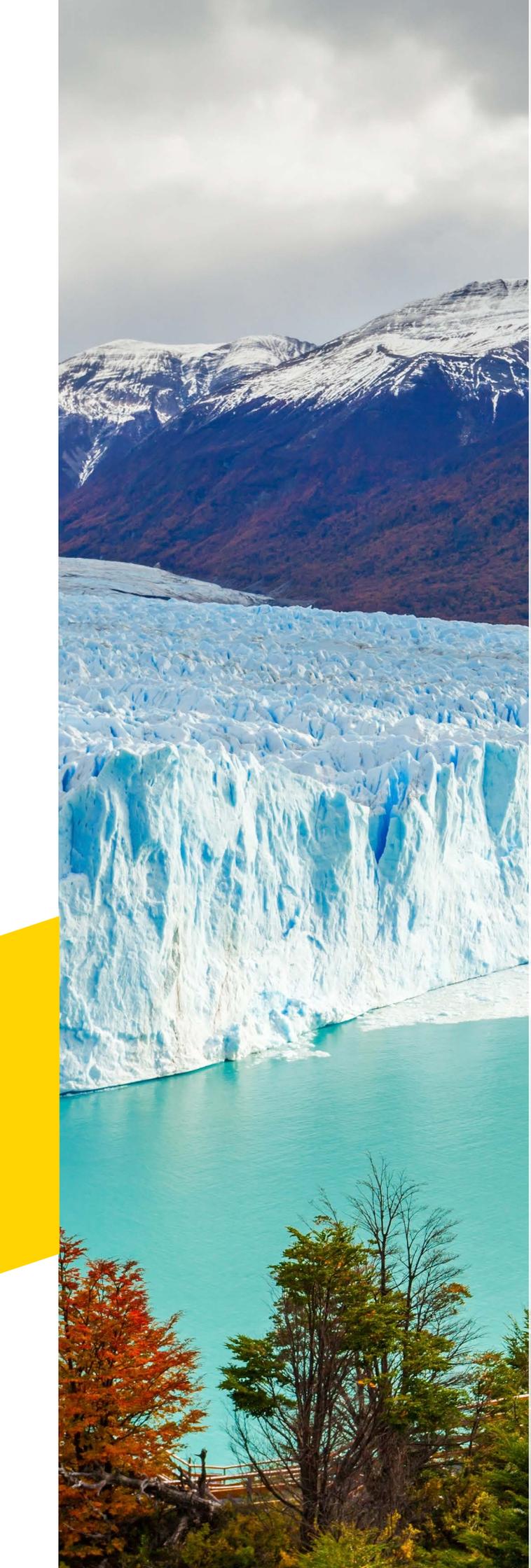
Manager
Climate Change and Sustainability
Services (CCaSS), EY India
Priya.B@in.ey.com



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1

Summary

As the world battles the COVID - 19 pandemic, and its effects on societies and economies, businesses across sectors are facing an unprecedented and uncertain future. The key variable shaping this volatile future in the short-medium term is likely to be the extent of progression or suppression of the pandemic. As businesses confront this reality, they must be mindful of the critical risks to the environment which existed prior to the spread of the pandemic. While the slowdown in economic activity eased some pressure on the environment in the short term, the risks of climate-related events and resource scarcity still remain. Furthermore, as per the United Nations (UN) Sustainable Development Report 2020, the pandemic has caused 'a severe negative impact' on many of its Sustainable Development Goals (SDGs).

The message is clear: responding to these challenges requires a multi-stakeholder approach that prioritizes equitable and sustainable development. As businesses confront the sweeping changes brought about by the pandemic on globalization, technology, society and consumer behavior, prioritizing the deeper integration of Environmental, Social and Governance (ESG) guidelines has the potential to deliver long term value. In this publication, a comprehensive approach to sustainability is presented through the 'Sustainable by Design' framework, which can guide organizations toward greater long-term value and help them thrive in the Now, Next and Beyond.



2

A healing planet

The COVID-19 pandemic has emerged as one of the greatest challenges that humankind has witnessed post the Second World War. Since its outbreak in Wuhan, China in December 2019 and its subsequent spread across continents, many parts of the world have come to a standstill or experienced a dramatic slowdown. The scale of social and economic disruption is truly unprecedented.

While the global effort against COVID - 19 is in full swing, the planet has also started to witness another remarkable phenomenon: Planet Earth has been healing. Lockdowns across the world have given our planet a bit of a breather. The slowdown in human activity has resulted in plummeting air pollution levels, cleaner water bodies and unusual sightings of animals. Stories from across the world give us a glimpse of how certain ecosystems are reacting positively.

Reports have emerged across the world that pollution levels have dramatically fallen to magnitudes much lower than those in normal conditions. Studies indicate that there was a 60% reduction in nitrogen dioxide pollution levels across Northern China, Western Europe and the US in early 2020 as compared to the same time in 2019.

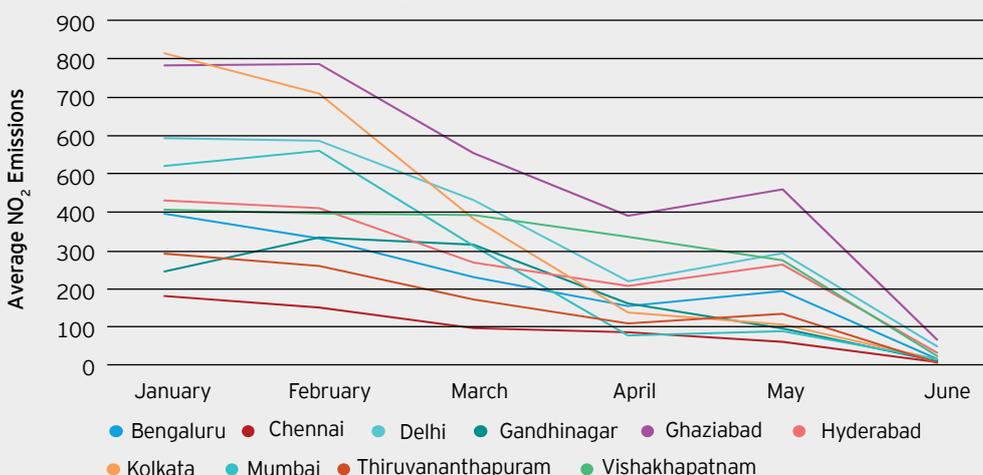
India, with 6 of the 10 most polluted cities in the world, also witnessed a significant decline in pollution levels since the imposition of the lockdown (Figure 1). According to the Center for Research on Energy and Clean Air (CREA), there was a 15% reduction in the nitrogen dioxide pollution levels and a 22% reduction in the particulate matter pollution levels (PM2.5) on the very first day of the lockdown.¹ The sharp slowdown

in vehicular movement, air traffic, and other industrial activity has resulted in a decline in global greenhouse gas emissions. There has been a reduction of over a billion tons of carbon dioxide emissions globally. India has also witnessed a momentous reduction in its carbon emissions for the first time in four decades. Studies indicate that CO₂ emissions fell by 15% in March and by about 30% in April 2020.²

Is the pandemic a wakeup call that the planet had been waiting for?

During the lockdown, there was a drop in daily global CO₂ emissions by **17%**
 Source: <https://www.nature.com/articles/s41558-020-0797-x>

Figure 1: Improvement of Air Quality due to COVID-19



Source: World Air Quality Index, EY Analysis

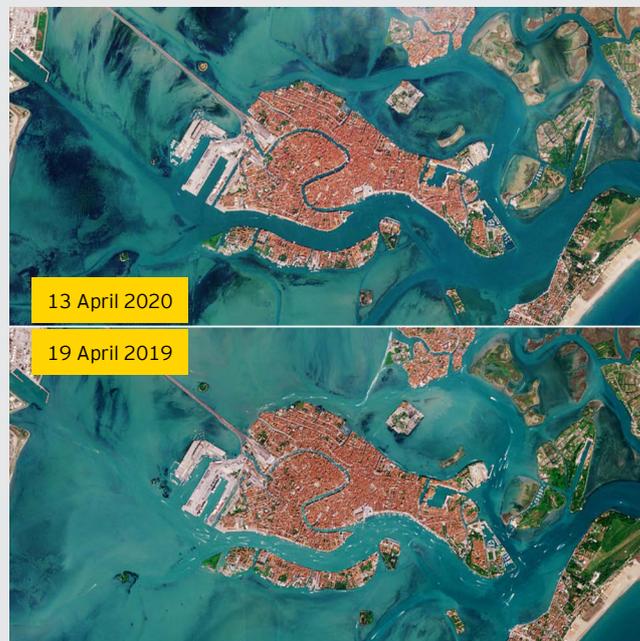
1. <https://energyandcleanair.org/tag/coronavirus/>
 2. <https://www.carbonbrief.org/analysis-indias-co2-emissions-fall-for-first-time-in-four-decades-amid-coronavirus>

There has also been an improvement in water quality in some areas. The European Space Agency (ESA) released satellite images of Venice (Figure 2) from 2019 and 2020 which depict less turbid waters in 2020 due to reduced motorboat traffic.³ Unimpeded by tourist activity, fish and swans were found swimming in the water ways. Similar cases have been seen in India as well. According to a report published by the Delhi Pollution Control Committee (DPCC), water quality of the Ganga and Yamuna rivers have shown a significant improvement due to reduced nitrate concentration.⁴ According to the Central Pollution Control Board (CPCB), the water has become safe for humans to bathe in without any health concerns, while also supporting aquatic life.⁵ Ponds which used to be dumping grounds in cities have started attracting bird life. According to the Bombay Natural History Society (BNHS) estimates, there has been a 25% increase in the migration of flamingos to the wetlands of Mumbai.

For the first time in 30 years, residents of Jalandhar, Punjab could see the world's tallest mountain range, 200 km away, probably owing to the reduced pollution levels in the country⁶ (Figure 3). From the Nilgai's in Noida to Rhinos in Guwahati, animals stepped out into the open as humans remained locked inside⁷.

The pandemic, and the resulting decline in human activity has eased some pressures on ecosystems. It has also clearly demonstrated the extent to which planetary health is connected to human activity.

Figure 2: Venetian water ways in 2019 and 2020



Source : European Space Agency

Figure 3: Mountain range visible from Jalandhar, Punjab



Source: TrailMagazine (2020), 8 April, Available at: <https://twitter.com/TrailMagazine/status/1247808306468368386/photo/1> (Accessed on 29 July 2020)

3. https://www.esa.int/ESA_Multimedia/Images/2020/04/Deserted_Venetian_lagoon

4. <https://yamuna-revival.nic.in/wp-content/uploads/2020/04/Water-Quality-of-River-Yamuna-during-the-Lockdown.21.04.2020.pdf>

5. <https://cpcb.nic.in/openpdf.php?id=TGF0ZXN0RmlsZS8yOTNfMTU4Nzk3ODU3MV9tZWRRpYXBob3RvMTY3MDYucGRm>

6. <https://www.esquireme.com/content/45334-the-himalayas-are-visible-from-india-for-the-first-time-in-30-years-because-of-covid-19-lockdown>

7. <https://economictimes.indiatimes.com/news/politics-and-nation/coronavirus-lockdown-unusual-sightings-of-animals-in-india/nilgai-in-noida/slideshow/75230929.cms>

While some environmental indicators show a favorable trend, the battle against the virus has hindered efforts worldwide to combat plastic pollution. Plastics have been protecting our frontline workers since most Personal Protective Equipment (PPE) is made using different types of plastic and rubber. While most countries had banned the use of single use plastics, some governments like those of England, California, and South Australia recently lifted this ban⁸. There has been a surge in the use of plastics and wastes generated every day, presenting a challenge in the management of contaminated plastic waste. While combating the virus safely remains the need of the hour, the proper and safe disposal of PPE waste is critical, both in the fight against COVID - 19 and in the fight against plastic pollution. Biodegradable options such as Polylactide (PLA) and Polyhydroxyalkanoate (PHA polymers) are being explored. To ensure the rational use of disposable face masks, various healthcare and government agencies are advising on using reusable personal protective equipment for people who are at very low risk of infection.⁹

According to the World Wildlife Fund for Nature, even if only 1% of the masks are disposed of incorrectly, and perhaps dispersed in nature, it would imply that over 10 million masks or over 40,000 kilograms of plastic waste is disposed into the environment.

(Source: <https://www.wwf.it/scuole/?53500%2FNello-smaltimento-di-mascherine-e-guanti-serve-responsabilita>)

Recent academic studies have indicated that the positive environmental trends observed during the pandemic are temporary and we may revert to 'Business-as-Usual' in the absence of a sustainable recovery. For instance, nature climate change estimates that the direct effect of the pandemic-driven response would be negligible, as compared with an economic recovery aligned towards green stimulus and increased renewable investment.¹⁰ In envisioning the road to a socio-economic recovery, it is essential for governments, policymakers and businesses to bear in mind that the next set of global challenges are very likely to be climate-related and environmental in nature. Progress in the post-pandemic world must therefore be within our planetary boundaries, if we are to avoid or effectively mitigate the impacts of large-scale disruptions, such as COVID - 19.



- 8 <https://www.edie.net/news/5/Ban-on-plastic-straws-in-England-pushed-back-to-October-2020/>
<https://www.nytimes.com/2020/04/24/us/california-plastic-bag-ban-coronavirus.html>
<https://www.abc.net.au/news/2020-04-30/plastic-ban-delayed-to-help-cafes-reopen-amid-coronavirus/12200530#:~:text=The%20legislation%20banning%20single-use,to%20undertake%20such%20a%20move>
- 9 [https://www.thelancet.com/journals/lanres/article/PIIS2213-2600\(20\)30134-X/fulltext#coronavirus-linkback-header](https://www.thelancet.com/journals/lanres/article/PIIS2213-2600(20)30134-X/fulltext#coronavirus-linkback-header)
- 10 Forster, P.M., Forster, H.I., Evans, M.J. et al. Current and future global climate impacts resulting from COVID-19. Nat. Clim. Chang. (2020). <https://doi.org/10.1038/s41558-020-0883-0>



3

The emergence of a
new normal

The COVID - 19 crisis has taken an unprecedented human toll and has accelerated an economic slowdown across the major economies of the world.

Global leaders, policy makers, researchers and institutions are focusing their energies on saving lives and flattening the pandemic curve. Faced with a slowdown in economic activity, governments across the world have come up with fiscal support and stimulus packages.

The pandemic has affected large businesses and corporations as well; with many sectors facing revenue drops, deferred cashflows and layoffs. Companies are realigning their business strategies and revisiting cost and operating models to deal with increasingly price sensitive and cautious markets as restrictions are being gradually eased. Over 436 million enterprises belonging to wholesale and retail trade, vehicle repair, manufacturing, hospitality, food services, real estate, business and administrative activities are at a high risk of serious disruption.

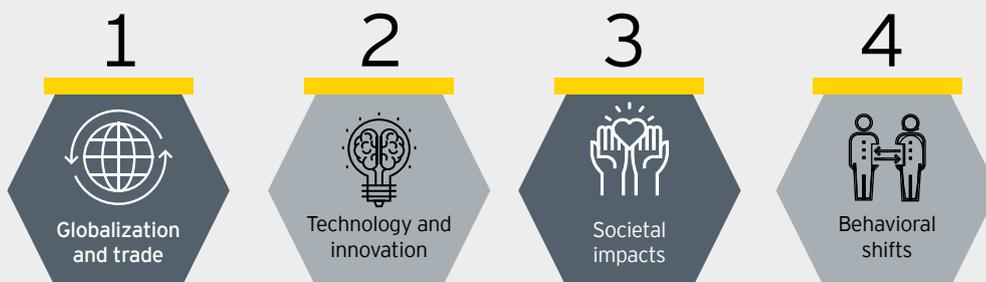
Keeping in mind these unprecedent circumstances, a slow-paced, uneven recovery trajectory is more likely with varying rates of growth across sectors and geographies, and periods of acceleration offset by setbacks.¹¹

The COVID-19 pandemic is forcing a unique social, economic, and business response. Although the pandemic's lasting impact is still to be determined, we see four primary areas in which it's likely to spur sweeping changes¹² (Figure 4).

The World Economic Outlook published by International Monetary (IMF) Fund projects global growth in 2020 fell to **3%**, a downgrade of 6.3 percentage points from January'20

(Source: <https://www.wwf.it/scuole/?53500%2FNello-smaltimento-di-mascherine-e-quanti-serve-responsabilita>)

Figure 4: Four factors driving sweeping changes



Source: EY Research

Globalization and trade

The COVID-19 pandemic has induced a high degree of volatility into globally integrated supply chains. The World Trade Organization (WTO) has estimated the best and worst-case scenario for the fall in world trade volumes at 13 % and 32% respectively¹³. Organizations that rely on lean and just-in-time (JIT) supply chains spread across multiple countries have

been particularly affected, due to restrictions on movement of labor and material. More specifically, a model with reliance on a single overseas supplier or a handful of overseas suppliers concentrated in one region now appears particularly fragile.

11 https://www.ey.com/en_uk/news/2020/04/new-consumer-categories-emerge-as-covid-19-fundamentally-changes-the-way-people-shop-and-buy

12 https://www.ey.com/en_gl/covid-19/will-you-define-the-new-normal-or-watch-it-unfold?WT.mc_id=12001670&AA.tsrc=internal-comms

13 Economic Times, "World trade to decline 13-32% in 2020, says WTO" article dated 08 April 2020, accessed on 23 June 2020



Geopolitical forces and the backlash against globalization and trade has further exacerbated volatility in global value chains. Major economies are contemplating an array of policy measures to reduce reliance on other countries, particularly for strategic goods and services. Erecting trade barriers, changing Foreign Direct Investment (FDI) policies and repatriating supply chains to either domestic markets or other allied countries are being considered. Some examples at glance are as follows:^{14,15,16,17}

The European Union has tightened its FDI screening regulations to control investors from third world countries. EU through its common platform has declared a number of recovery funds to strengthen its internal economy and encourage regionalization. European Investment Bank has been provided with EUR 25 billion in government guarantee to support up to EUR 200 billion financing to Small and Medium Enterprises (SMEs).

The United States is taking major steps like funding new drug-based startups for shifting drug supply chains completely back to the domestic markets. The Whitehouse has already awarded US\$ 350 million to a US based drug startup to accelerate its operations. Also, it has invoked its Defense Production Act and has announced an estimated US\$ 2.3 trillion toward the CARES Act itself, apart from other packages in the healthcare sector to support hospitals, virus testing etc.

Australia has also tightened its regulations on foreign takeovers fearing easy and cheap sales of its strategic assets. A term funding facility of almost AUD 90 billion has been established to increase funding to its SMEs.

The **Indian government** has declared its focus on Make in India policy more than ever with the PM's declaration of being 'Vocal for Local'. In its FDI policy, India has mandated

the requirement of clearance approval for investment from the neighboring countries which are sharing land borders with India. Due to this policy change, the events like transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership transfer to a party which may fall within above purview, such transfers will also require approvals.

China has taken steps such as liquidity injection into the banking systems, expansion of re-lending and re-discounting facilities to support healthcare, agriculture and essential goods, reduction of reverse repo rates to support medium and small enterprises etc. The revival of the Chinese economy is also largely tied to global economic growth, due to its high share in trade. The Chinese economy is slowly reopening with restrictions on mobility being gradually eased and essential sectors being prioritized.

The unstable global economy is also expected to affect global capital flows. The Organization for Economic Co-operation and Development (OECD) predicts FDI flows to contract by 30% in 2020 with respect to 2019 levels.¹⁸ In short, the backlash against globalization is likely to result in a restructuring in supply chains - with a focus on greater redundancy and resilience, at the cost of efficiency. This will enable businesses to weigh various risk mitigation alternatives such as moving from offshoring to near-shoring and even reshoring.

Operating in a volatile global environment requires businesses to futureproof themselves for the next disruptive event, particularly natural resource scarcity and climate-related events. An agile, networked ecosystem in which all stakeholders work collectively, emphasize on risk management and create end-to-end value chain visibility through leveraging on digital technologies can help businesses react at pace to disruption.¹⁹

14 <https://www.washingtonpost.com/business/2020/05/19/trump-takes-first-step-toward-returning-medical-supply-chains-us/>

15 <https://www.washingtonpost.com/opinions/2020/03/28/use-defense-production-act-more-than-just-ventilators/>

16 https://dipp.gov.in/sites/default/files/pn3_2020.pdf

17 <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

18 <http://www.oecd.org/coronavirus/policy-responses/oecd-investment-policy-responses-to-covid-19-4be0254d/>

19 https://www.ey.com/en_gl/covid-19/supply-chain-global-trade

Technology and innovation

The pandemic has triggered a fundamental re-evaluation of the way businesses operate. The fear of the contagion is driving a surge in digital payments, video conferencing and virtual classrooms at an unprecedented scale. Going ahead, there is likely to be an acceleration in technology adoption across industries and geographies thereby acting as a spark to harness the 4th Industrial Revolution – delivering advantages such as lower costs, improved efficiency, faster decision making and greater traceability.

In the short-term, technology is expected to drive risk-mitigation efforts such as tracking of employee health and also reduce direct human-to-human interactions through remote working. Adoption of emerging technologies such as blockchain, Artificial Intelligence (AI), Machine Learning (ML), the Internet of Things (IoT) and AR/VR is also expected to accelerate as the focus shifts from physical to digital. These initiatives will need to be fast-tracked to not only address the immediate aftermath but to make supply chains more resilient²⁰.

Innovation and technology are levers to address the challenges of next frontier – those brought about by sustainability risks. These include enhancements in productivity and resource efficiency, closed-loop manufacturing ecosystems as well as alternative business models such as the circular economy.

Societal impacts

The COVID-19 pandemic has starkly highlighted and exaggerated the socio-economic vulnerability of many segments in society. The human cost of the pandemic continues to be significant and extends beyond the immediate health impacts on patients and frontline workers. Rising unemployment along with the lack of health coverage has disproportionately impacted the most vulnerable sections of society. In India for example, high population density and cramped living conditions in cities makes social distancing difficult to enforce. The lockdowns have also left large numbers of migrant workers in urban areas displaced without incomes or livelihood support.

In light of widening social disparities and labor unrest, the role of businesses (particularly large corporations and brands) in the society is being reexamined. The pandemic is likely to deepen calls from various stakeholders – consumers, investors, activists and the civil society – for businesses to play a more active role in addressing societal challenges.

The Great Recession of 2007-09 saw transformational companies emerge in segments such as, the sharing/gig economies and alternative currencies. This crisis will likely spur innovation that is every bit as transformative. As some big players retrench and focus on their most valuable customers, nimble innovators will find space to offer cheaper, “good enough” solutions that gain market traction

Source: https://www.ey.com/en_in/covid-19/will-you-define-the-new-normal-or-watch-it-unfold

Many businesses have been supporting the fight against the pandemic through donations of funds, masks, and other healthcare equipment. They are also supporting their employees through remote ways of working and strengthening collaboration mechanisms through the use of technology. Some businesses have been refocusing their Corporate Social Responsibility (CSR) efforts to address the challenges faced by the beneficiaries of their CSR programs.

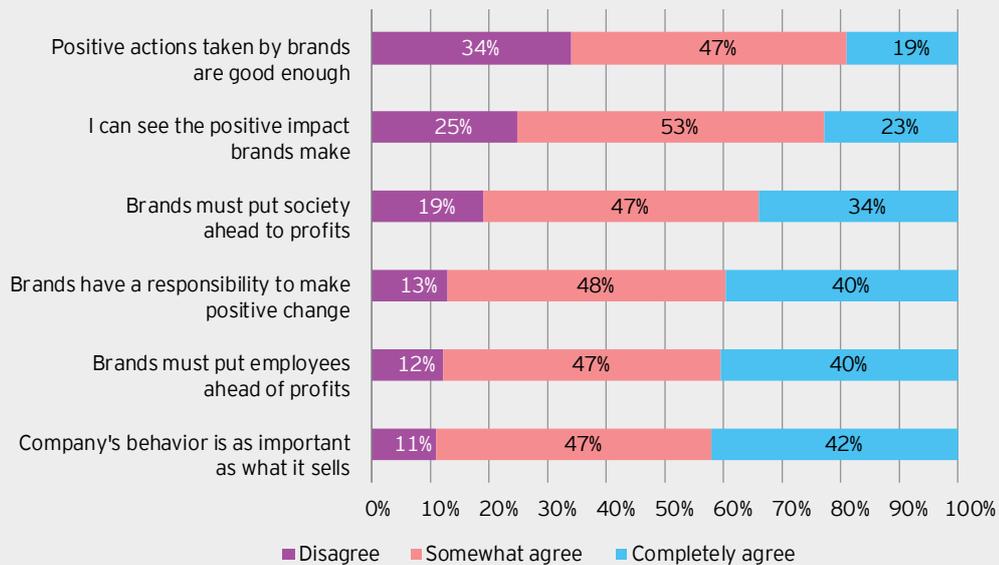
It is essential for businesses to appropriately respond to the growing trust deficit in society – toward governments, institutions and toward themselves, particularly considering the changing demographics and values of the next generation (Millennials and Gen Z). **They must expect to be held to a higher standard by their stakeholders and accordingly respond to the challenges – both social and environmental – that the post-COVID world is expected to bring about.**

²⁰ https://www.ey.com/en_in/supply-chain/supply-chain-is-the-key-to-retailers-battle-against-covid-19

Behavioral shifts

The pandemic has brought about a shift in consumer behavior across brands, channels and products. As consumers juggle with the need for physical safety, financial uncertainty and a trust deficit in society, their consumption patterns are shifting, with some changes likely to be permanent in nature.

Figure 5: What consumers think of company behavior



Source: The EY Future Consumer Index, May 2020

At this stage of the pandemic, consumers are in an anxious territory, with uncertainties around their health and economic well-being. As observed in the 'EY future consumer index' study conducted across multiple countries and sectors, there is a deficit of trust, and an increasing recognition from consumers on the social responsibilities of business (Figure 5).

New consumer segments are expected to emerge as a result of the pandemic. According to the results of the surveys conducted for the EY future consumer index, there are 5 dominant consumer segments that describe consumers beyond COVID - 19²¹. These segments are likely to emerge as time passes and the short-term anxiety of consumers on health and hygiene starts to reduce. These 5 segments are based on the research carried out in the EY Future Consumer index, which is EY's collaborative approach to understand the consumers of the future²².

51% of consumers say the way they shop will fundamentally change because of COVID-19

Source: https://www.ey.com/en_gl/covid-19/are-you-agile-enough-to-move-with-the-changing-consumer

21 https://www.ey.com/en_gl/consumer-products-retail/future-consumer-index-keep-up-changing-consumer

22 https://www.ey.com/en_gl/future-consumer-now

Consumer segment	Percentage of consumers	Description
Affordability first	30%	I will try to live within my means and my budget. I will try not to buy things I do not really need. When I do need something, I will look out for the best deals. I would not care much about what brands I buy, I will just want to know that the product delivers.
Health first	26%	I will make choices that protect the health of myself and my family before anything else. I will focus more on what I think are the important things in life and what feels right for the long term. I will choose brands and products that I trust to be safe.
Planet first	17%	I will be more aware of what I do and the impact it has on the world. I will seek out other people who share my values and I will buy brands that reflect what I believe. I will think more about what I spend my money on, and I will do what I can to cut waste and reduce my environmental footprint. I do not mind having less choice about what I buy if it means I am doing the right thing for future generations.
Society first	16%	I will be a strong believer in the idea that we should all work together for the greater good. I will buy from organizations that are honest and transparent about what they do. I will want proof that they are putting the needs of society and the community.
Experience first	11%	I will live for the moment and look for experiences that help me get the most out of life. When it comes to what I buy, I will enjoy trying new things. I will also look for products and services that feel like they are made just for me and what I need.

The research shows that affordability, health and sustainability are the crucial issues that brands are to focus on, if they are to effectively address the needs of the future consumer. About a third of the consumers surveyed are expected to prioritize the social and environmental performance of the products they buy.

With consumers increasingly holding brands accountable and focusing on the social good through their consumption choices, the integration of sustainability, transparency and value chain traceability is essential for brands to differentiate themselves in the post-COVID world.

Impact on the SDGs

The socio-economic impact of the pandemic has brought about a significant negative effect on many of the UN SDGs, and in certain instances, reversed some of the previous progress made. For example, the World Bank estimates that more than 71 million people will be pushed into extreme poverty²³.

According to the Sustainable Development Report 2020, while the environmental impacts have been largely positive, the COVID - 19 crisis has severely affected SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good health and well-being), SDG 8 (Decent work and economic growth) and SDG 10 (Reduced Inequalities)²⁴.

The crisis has highlighted the need to double down on the SDGs, while focusing in the short term to control the spread of the disease. According to the Sustainable Development Report 2020, in the medium-long term, focusing on the SDGs is essential if we are to sufficiently address the social, environmental and economic challenges of the next decade.

“COVID-19 offers a chance to reset and reshape the world in a more sustainable way”
 Source: <https://www.weforum.org/agenda/2020/05/the-covid-19-reset-sustainability/>

23 “Updated estimates of the impact of COVID-19 on global poverty” ,Daniel Gerszon Mahler,Christoph Lakner,R. Andres Castaneda Aguilar,Wu, dated JUNE 08, 2020

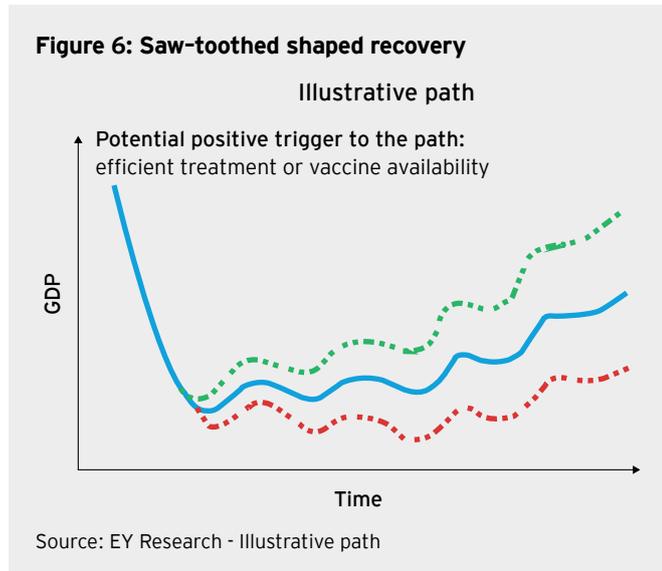
24 Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.



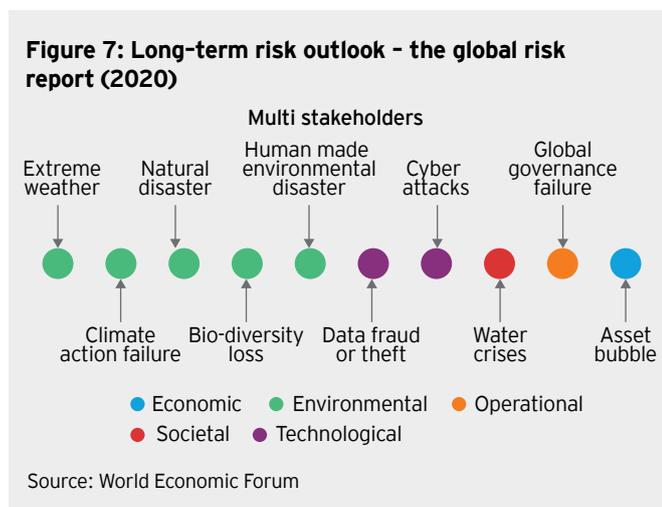
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Sustainability in the new normal

We project the most-likely recovery scenario to be a 'saw-toothed' or a W-shaped recovery, depending on the gradual subsidence of the pandemic, with aftershocks leading to local-level suppression efforts²⁵ (Figure 6).



The shape of the recovery curve will depend on the capabilities of individual countries to control the pandemic. The key implication for businesses is that they must be prepared to deal with unpredictable shifts in the business environment. In the medium term, the recovery curve is expected to experience further volatility owing a high likelihood of climate change-related events. According to the Global Risk Report (2020) published by the World Economic Forum (WEF), several climate-related and environmental risks rank in the top 10 risks of the coming decade²⁶ (Figure 7).



While the immediate focus remains on curtailing the spread of the pandemic, the social and environmental concerns prior to the widespread prevalence of COVID - 19 still remain. It is encouraging to see a reduced pressure on certain ecosystems since global lockdowns began, it is essential to not take this mild progress for granted. Any vision of a recovery needs to be sustainable and resilient, so as to effectively respond to the challenges of the future. For example, the International Energy Agency (IEA) has developed a Sustainable Recovery Plan that proposes the rapid generation of employment opportunities in the energy industry along with a plan to boost economic growth through investments in energy infrastructure, renewable energy and energy efficiency.²⁷

As businesses look to define and adapt in this new normal, it is essential for every business to make environmental and social sustainability a core focus of its corporate strategy.

Sustainable by design

Over the past few decades, EY's Climate Change and Sustainability Services (CCaSS) team has been helping organizations understand and manage the risks and opportunities arising from climate change and sustainability issues. We have observed that the enhancement of an organization's sustainability maturity is a journey: a gradual and rewarding process. The prioritization of stakeholder and long-term value creation is best achieved when the entire organization is aligned and involved in this journey.

As mentioned earlier, the COVID - 19 crisis is also an opportunity for companies to enhance their long-term value and resilience. EY's Climate Change and Sustainability Services (CCaSS) team, India, has therefore developed this 'Sustainable by Design' framework with an objective to assist organizations in generating long-term sustainable value by integrating sustainability principles across the product value chain. To thrive in the new normal, organizations need to steer their strategies and products toward sustainability to remain relevant and resilient.

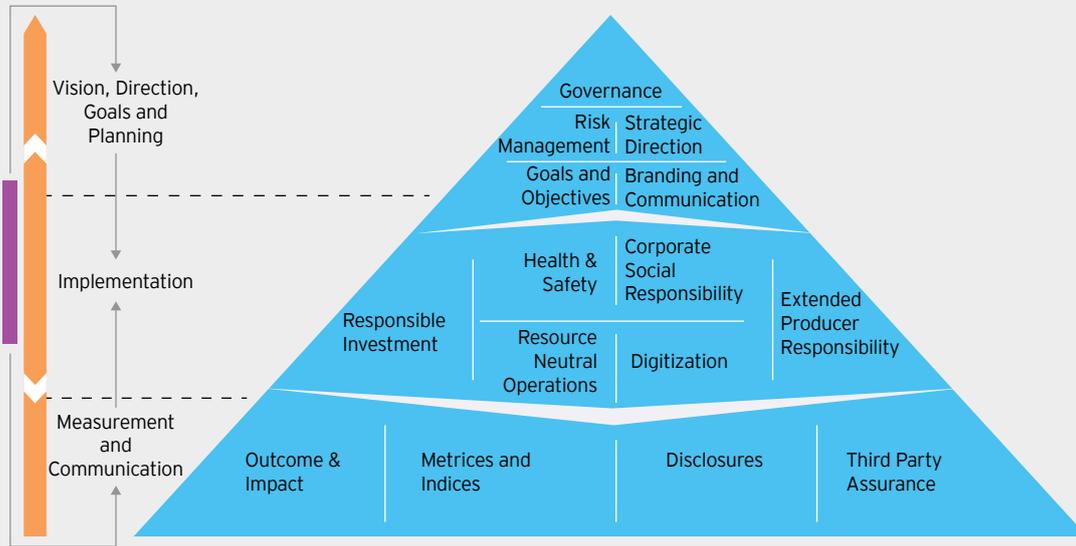
Our 'Sustainable by Design' framework is a three-layered framework that guides organizations in the design, development, implementation and communication of sustainability initiatives (Figure 8).

25 https://www.ey.com/en_cz/long-term-value/covid-19-critical-choices-businesses-should-make

26 http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

27 <https://www.iea.org/reports/sustainable-recovery>

Figure 8: 'Sustainable by Design' - Framework



Source: EY Research

This framework enables the integration of Environmental, Social and Governance (ESG) principles across the strategy, operations, and value chain of the organization. It encompasses a robust governance mechanism, risk management procedures, measurable goals and targets and a strategic vision with sustainability at the core. The framework contains a detailed implementation plan along with instruments to measure and communicate shared value to stakeholders.

Through this framework, organizations can realize tangible and non-tangible benefits such as enhancements in brand perception, stakeholder engagement, operational efficiency and long-term value.

Decision Making	Data-driven decision making and reduction in uncertainty
Long Term Value	Definition of a purpose, stakeholder focus and action on material issues
Market Differentiation	Definition of a sustainable positioning for consumers
Risk Management	Mitigation of risk impacts and dependencies

Vision, direction, goals and planning:

This layer is the most critical layer of the framework and comprises: a robust governance mechanism; managing risks; defining strategic direction, and goals and objectives for embracing opportunities.

To begin with, an organization needs to establish an 'Effective Governance Model' that extends far beyond compliance and incorporates the concerns of its stakeholders. The model can focus on enabling the latest and most robust standards of corporate governance and also establish a conducive environment to ensure that organizational values are not compromised. Oversight of ESG initiatives is ideal if driven from the top management and the board, requiring clearly defined roles and responsibilities and the use of various policies and systems for implementation.

The second component of this layer is the integration of ESG risks into the existing risk management frameworks. This implies developing an understanding of various ESG-related shifts, impacts, and dependencies - both generic and sector-specific. A 'robust risk management' framework in accordance with global frameworks such as The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Enterprise Risk Management (ERM) - Environment Social Governance (ESG) framework, ensures systemic identification, prioritization, and management of risks associated with business operations and / or product lifecycle.

Lastly, organizations can adopt a comprehensive 'sustainability strategy' by enabling product stewardship and gradually decoupling their environment and social impacts from business growth (Figure 9). The sustainability strategy of an organization is to be supported by well-defined measurable goals and targets. 'Defining Goals' is the first step in turning the invisible into the visible. It is essential to define specific and time-bound goals for the organization's sustainability program; which remain feasible despite the changing business environment. In the development of strategy, goals, and targets, the business could consider FOUR vital aspects:

1. Global and industry trends
2. Peer performance and leading practices
3. Regulatory landscape
4. Businesses objectives and sustainability maturity

The UN SDGs are another set of benchmarks that organizations can align their strategies with, particularly as the next decade is considered the 'Decade of Action' to achieve these SDGs. A sustainability strategy also considers the risks and opportunities identified through a risk management framework.

Lastly, this layer also emphasizes the adoption of a 'communication theme' and a plan for establishing a continuous dialogue with stakeholders - both internal and external. The **branding** and **communication themes** are to be consistent with the overall sustainability strategy and goals - so as to showcase the unique approach of the organization. Credible communication also helps an organization demonstrate the stakeholder value created through its various sustainability initiatives.

Implementation:

The 'Sustainable by Design' framework has implementation as its second layer, which comprises a detailed implementation roadmap with a list of activities aligned with the sustainability strategy. Organizations can institutionalize systems and processes that strengthen the ESG performance of the entire value chain i.e., product conceptualization (new product development), supply chain (including manufacturing, suppliers, and logistics), and downstream (use and end of use) phase.

The Framework also aims at highlighting the key concept of product stewardship, which is based on the concept of making every process, work step and ingredient to manufacture a product - sustainable; thereby achieving a sustainable product as an outcome. Right from the design stage, product designers can be provided with options and sustainable



alternatives while conceptualizing the product. This can enable designers to make informed decisions on the choice of raw material, vendors and packaging by balancing different product attributes.

Product packaging, particularly plastic packaging is a prominent concern, driven by consumer perception and regulatory pressures. The significant global push on the safe and proper management of waste has led to the concept of Extended Producer's Responsibility (EPR). EPR places the responsibility on brand owners and manufacturers for the proper treatment and disposal of waste.

Along with a focus on product development, the framework emphasizes the transformation to 'sustainable value chains'. Extending the sustainability agenda beyond the operational boundary, organizations can achieve further improvements in sustainability performance through inclusive stakeholder engagement with their value chain partners and collaboratively establishing systems for the same. These systems may include awareness, capacity building, assessment, as well as recognition which can be implemented through a supply code of conduct, resulting in prioritization of responsible sourcing.

Within the operational boundary, organizations need to focus on achieving resource neutral or resource positive production (i.e., carbon neutral and water neutral), adopting sustainable and innovative production techniques and the usage of sustainable raw materials. Safeguarding the human rights of the participants in the value chain and creating a workplace which encourages inclusivity, diversity and equality is another critical component of achieving a sustainable value chain. To strengthen downstream performance in the use and end-of-use phase of the product lifecycle, organizations can primarily focus on increasing the longevity of products by equipping consumers with necessary product care and repair mechanisms. Alternative business models such as



'product-as-a-service' can be adopted to further extend their usable life. Emerging concepts such as extended producer responsibility and circular economy provide further avenues for responding to sustainability risks in the supply chain through the use of reusable or recycled materials.

The Environmental, Social and Governance (ESG) challenges faced by businesses are of concern to all stakeholders, particularly the investors. In an environment of uncertainty where ESG risks can impact business profitability and even survival, mainstream investors want to know that the material ESG risks are being identified, managed and, when appropriate, disclosed in the organization's risk filings. Organizations can therefore align their sustainability interventions with leading ESG performance standards, and also integrate ESG analytics to provide a complete picture of the organization's value creation to investors and other stakeholders.

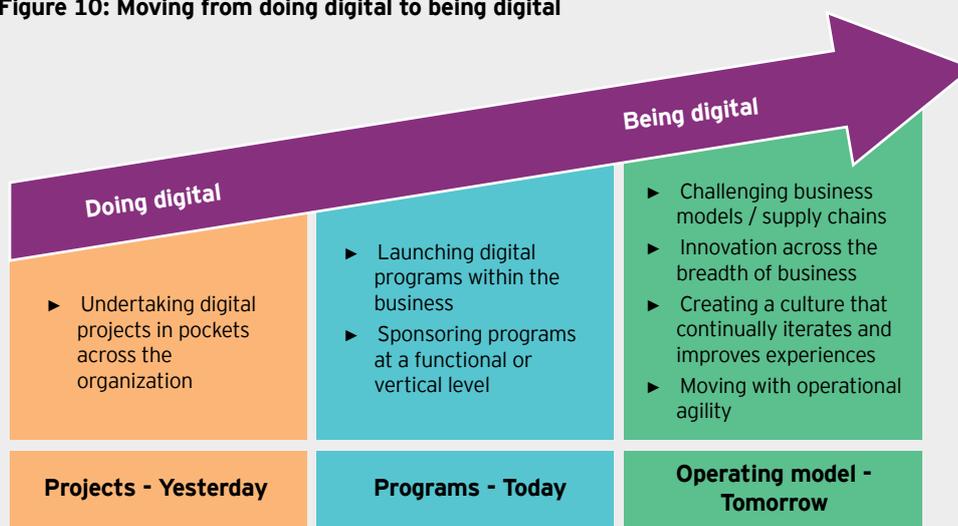
In the current scenario as well as in a post-COVID world, the establishment and institutionalization of best-in-class Environment Health and Safety (EHS) management systems that foster good health, well-being and occupational safety

across the value chain is of paramount importance. Leading organizations have been reviewing their ERM frameworks to include Pandemic Response Plans (PRP) in response to the crisis.

As identified earlier, the role of business in the society is being re-examined across stakeholder groups. While many organizations have contributed to the battle against COVID - 19 in various forms, there is an opportunity to unlock social value by addressing the concerns of various stakeholder groups in the value chain that are closely connected with the organization. For example, strategic Corporate Social Responsibility (CSR) programs can achieve the multiple objectives of strengthening the relationship between the organization and its beneficiaries and enhancing the living conditions of the beneficiaries in alignment with the organization's sustainability objectives.

The implementation of sustainability initiatives can be effectively strengthened through the use of data and platforms that analyze sustainability parameters across the value chain. Well-integrated MIS support in the rapid identification of hotspots, real-time target tracking and transparent reporting (Figure 10).

Figure 10: Moving from doing digital to being digital



Source: EY Research

Measurement and communication:

This layer comprises a two-pronged approach of effectively monitoring sustainability performance and communicating it to various stakeholders including consumers. The development of a comprehensive sustainability strategy and roadmap necessitates the periodic monitoring of performance, outcomes and impacts of the various interventions of the organization. This can be done by developing & monitoring internal organizational metrics and KPI's. Indicators shared by international standards such as the Global Reporting Initiative (GRI) and ESG ratings such as Dow Jones Sustainability Index (DJSI), MSCI ESG Indexes, FTSE4Good Index among others can act as reference points or benchmarks while developing these metrics. These ESG ratings are of particular interest to investors, and can enable organizations to gain access to additional 'ESG- focused' pools of capital, and the reduce the cost of capital in some cases.

With increasing pressure from consumers on social and environmental responsibility, organizations can also consider sustainable product labels on their products (similar to star rating of electrical appliances) (Figure 11). Conventional disclosures under global sustainability frameworks such as the Global Reporting Initiative (GRI) Standards, the International Integrated Reporting Council Framework (IIRC) and the Carbon Disclosure Project (CDP) are crucial instruments of communicating the value created across various stakeholder groups. Third party assurance of the sustainability data and approach can further enhance the credibility of the disclosures.

Figure 11: Sustainable product labelling



Engagement and communication with internal stakeholders, particularly employees, is equally important in an organization's sustainability journey - particularly in the development of a conducive culture that raises awareness and empowers employees. Various initiatives such as periodic events, newsletters and internal trainings support the top-down and bottom-up diffusion of the organization's sustainability agenda.

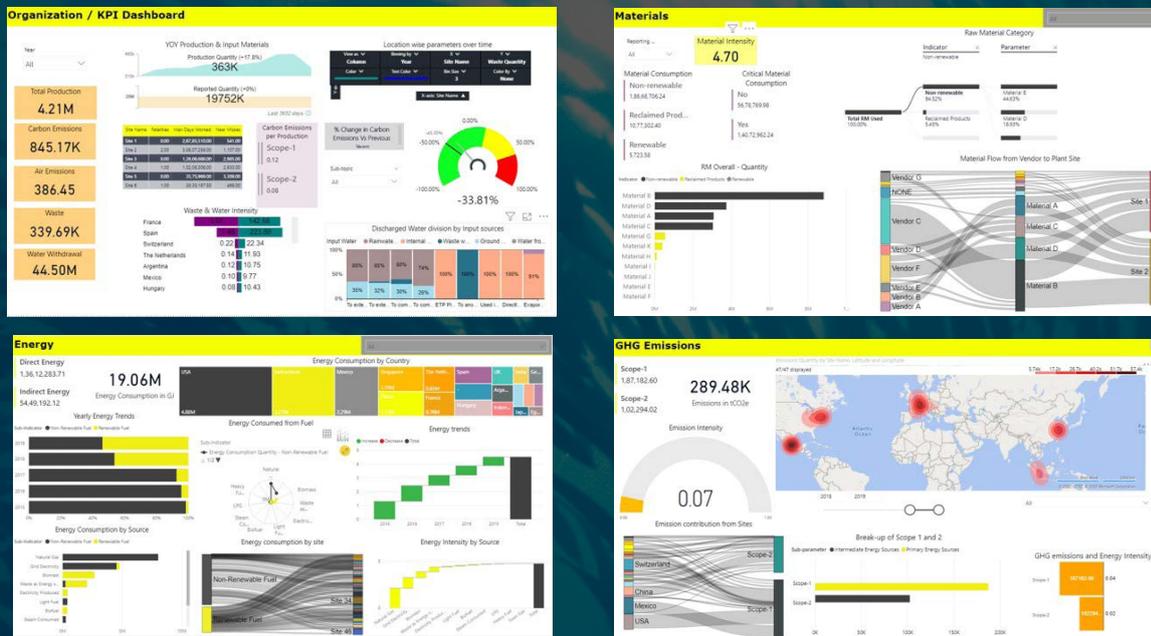
The 'Sustainable by Design' framework is a comprehensive approach to sustainability integration which can be further strengthened by a collaborative approach across the various layers through strategic partnerships with solution providers and active participation on global forums such as the United Nations Environment Program (UNEP), the Organization for Economic Co-operation and Development (OECD) and other sector-specific forums.

All three layers of the framework are well supported by our tools that provide quantitative analysis of sustainability performance and enable data-driven decision making. We are also in the process of developing smart tools such as:

- ▶ **EmploYee Care:** A mobile application developed to help companies navigate health, safety and operational issues in the present COVID-19 pandemic crisis. The application allows companies to track health of their workforce, report and investigate incidents or local outbreaks, assess preparedness against guidelines and inspection checklists, tracks employees' locations to make informed decisions related to return to work and maintains a dashboard for various indicators and many more.
- ▶ **EY SustainbyDesign:** A product stewardship tool to help companies in making their products more sustainable. The tool helps drive efficiency into their entire process, use lesser resources, reduce man-hours, and enhance durability and quality. The outcome of the tool may be used as a product label to describe how sustainable the product is.

EY SusTrack: A sustainability data management tool to address sustainability challenges and to help integrate and improve business related non-financial performance with varied maturity levels (amateur to advanced). The solution leverages Robotic Process Automation (RPA) technology to avoid any manual intervention and seamlessly interacts with various ERP systems alongside reading/scanning PDFs, images, and Excel workbooks. It generates interactive dashboards customized to different users thereby allowing them to track performance and report non-financial data.

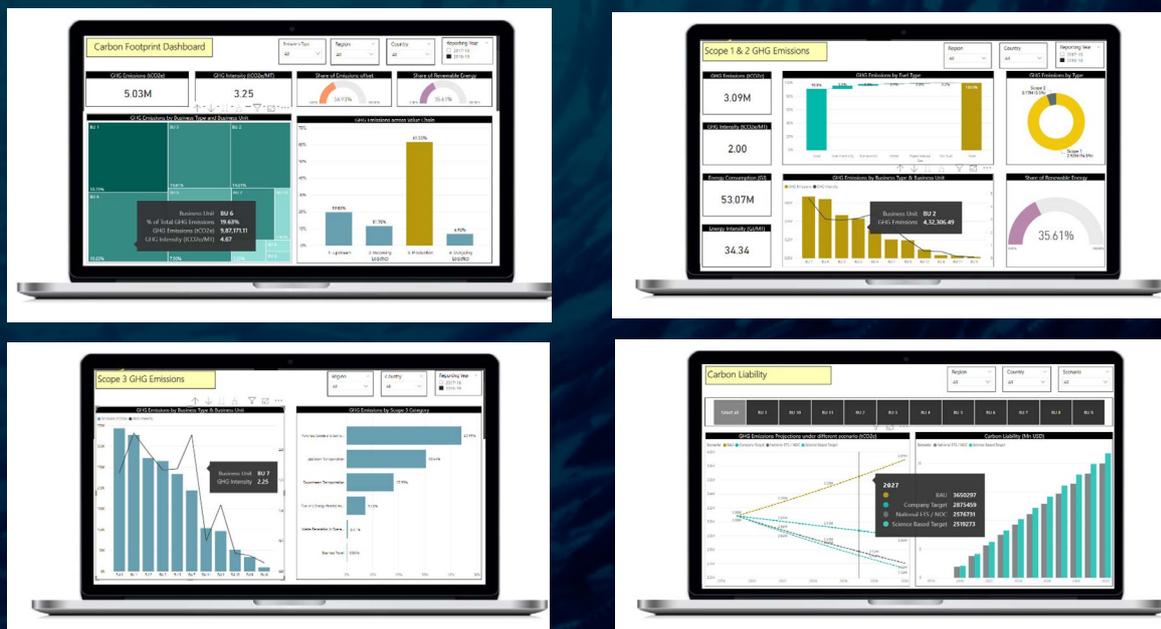
Figure 12: EY SusTrack - Interactive dashboards and Reports



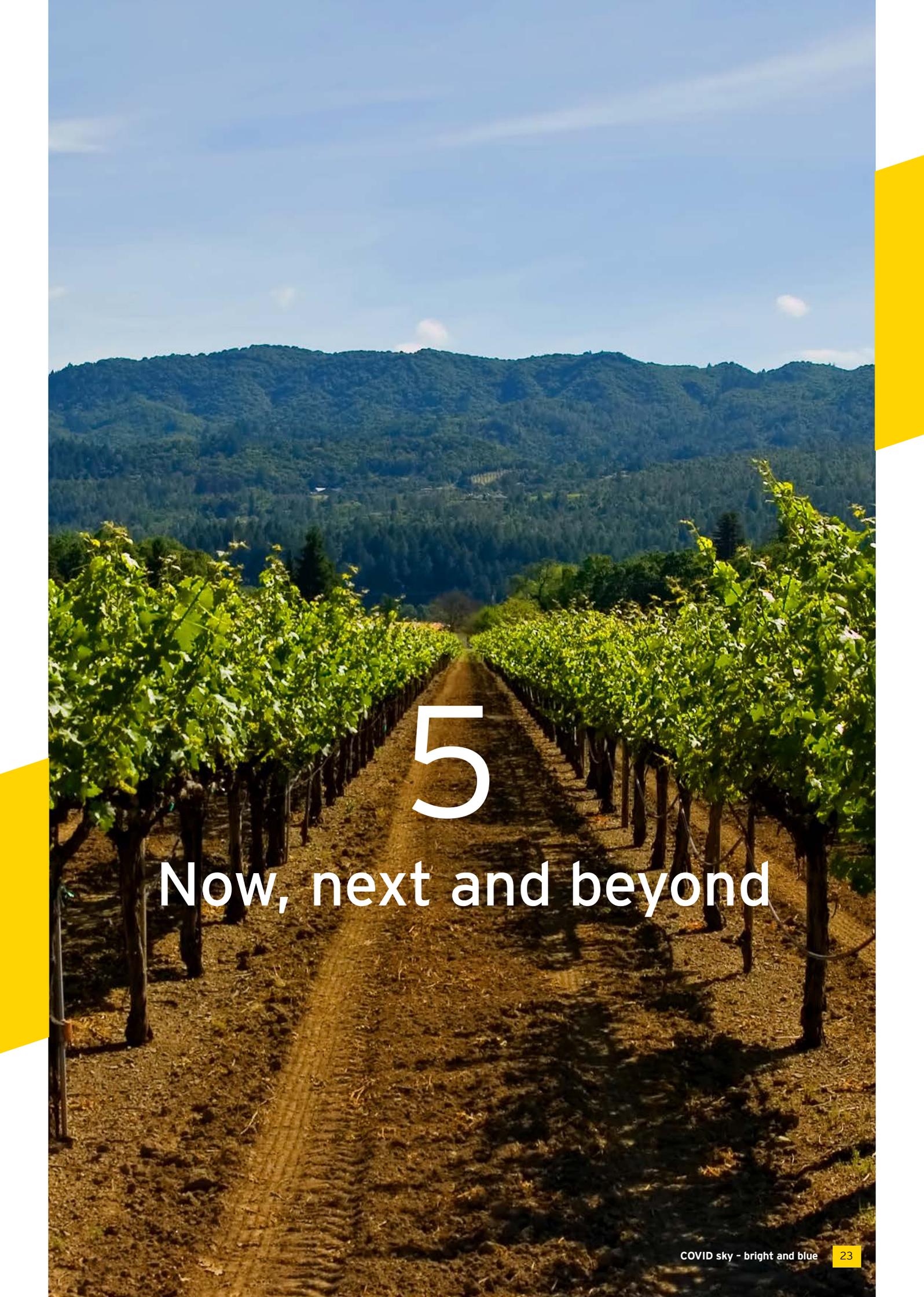
Source: EY Research

EY DigiCarbon: A GHG management tool to help companies understand the risks and opportunities associated with climate change and help improve decision making for recycling efforts, renewable energy, and investment in climate change. Further, inbuilt libraries and the tool's alignment with global standards help companies in overcoming current climate change challenges.

Figure 13: EY DigiCarbon - Interactive dashboards and Reports



Source: EY Research



5

Now, next and beyond

As businesses envision the now, next and beyond in the face of a disruptive and unpredictable environment that is likely to be dominated by social, environmental and economic headwinds, it is imperative for them to develop resilience and heighten their response to public health and sustainability. EY's 'Sustainable by Design' framework is a guide that can enable organizations to strengthen their foundations and set a trajectory for a climate resilient recovery.

The immediate concern in the 'Now' is to gradually recover from the pandemic and apply policies and resources effectively to minimize any possible spike in the COVID -19 trajectory. The focus for businesses is likely to remain on employee health, supporting public health efforts, operational continuity and securing financial stability.

With a 'W-shaped' recovery to be the most likely scenario, the focus for the 'Next' is to adapt operations and enhance resilience. With the climate change-related events likely to be the next set of challenges to the global order, there is a chance to press the reset button. Today, more than ever, there is need for a coordinated effort at the global, national and local levels to create the foundation for a greener, socially inclusive and resilient recovery.

In the 'Beyond' of the COVID - 19 crisis, organizations could reframe their business models and strategies to make the most of the megatrends of the future and thrive in the new normal. With increasing influence of stakeholder capitalism, sustainability is likely to take the center-stage in the new normal, with investors, consumers, employees, suppliers and all other stakeholders asking questions of organizations on risk management and preservation of long-term value. The various layers of the 'Sustainable by Design' framework provide the planning, implementation and communication levers that organizations can use to strengthen resilience as well as enhance the trust and confidence of their stakeholders.

There is, therefore, a great opportunity for businesses to integrate the principles of sustainability into their strategies and develop products and services that create value according to what the earth needs as well as what their stakeholders want. Organizations have long since been at the forefront of innovation and catalyzers of change. Their role is crucial in ensuring that the sky in the post COVID world is bright and blue and the earth continues to heal toward a truly sustainable future.

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Those companies that set an agenda for climate-resilient growth will be seen as an attractive prospect in terms of their long-term ability to withstand systemic shocks.

Matthew Bell, EY Asia Pacific
Climate Change and Sustainability
Services Leader



EY offices

Ahmedabad

22nd Floor, B Wing, Privilon,
Ambli BRT Road, Behind Iskcon
Temple, Off SG Highway,
Ahmedabad - 380 015
Tel: + 91 79 6608 3800

Bengaluru

6th, 12th & 13th floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground Floor, 'A' wing
Divyasree Chambers
11, O'Shaughnessy Road
Langford Gardens
Bengaluru - 560 025
Tel: + 91 80 6727 5000

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A,
Industrial & Business Park, Phase-I,
Chandigarh - 160002
Tel +91 172 6717800

Chennai

Tidel Park, 6th & 7th Floor
A Block, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Golf View Corporate Tower B
Sector 42, Sector Road
Gurgaon - 122 002
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Noida - 201 304
Gautam Budh Nagar, U.P.
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "Zone A"
Survey No 83/1, Raidurgam
Hyderabad - 500032
Tel: + 91 40 6736 2000

Jamshedpur

1st Floor, Shantiniketan Building
Holding No. 1, SB Shop Area
Bistupur, Jamshedpur - 831 001
Tel: + 91 657 663 1000

Kochi

9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

Pune

C-401, 4th floor
Panchshil Tech Park
Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

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EYIN2008-015

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