

Building long-term business resilience

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INDIAN CHAMBER OF COMMERCE



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Foreword

As the world grapples with the COVID-19 pandemic, the impact on businesses across sectors, societies, and economies has been extraordinary and uncertain. Governments, businesses, and investors are navigating through this new reality. While there was less pressure on the environment during the pandemic, the risks of climate change still persist. In addition, the pandemic has adversely impacted socio-economic measures. According to the United Nations Sustainable Development Report (UN SDG), the pandemic has augmented socio-economic inequality and has had an adverse impact on 17 Sustainable Development Goals (SDG).¹

The message is strong and clear: to respond to these challenges, we need a multi-stakeholder approach to build resilience for the future. As businesses navigate through changes brought by globalization, technology, society and consumer behaviour, embedding Environment, Social, Governance (ESG) factors into their core strategy can deliver long-term value. Further, there has been a change in mindset from the balance sheet to long-term value creation among the investment community, employees, customers, and all other stakeholders.

ESG integration will facilitate businesses to consider all stakeholders in their decision-making process, which would benefit everyone in the process. There have been many insights from this pandemic COVID-19 for businesses to sustain for the long-term. This paper discusses insights emerging from COVID-19 in detail and how business can build resilience by integrating ESG factors to deliver long-term value.

To understand the role of ESG integration in building resilience for the long term, the Indian Chamber of Commerce (ICC) is organizing the 11th edition of the India Corporate Governance and Sustainability Vision Summit and Awards on 19th March 2021 on a virtual platform.

This event, over the years, has provided the right platform for organizations to effectively showcase their corporate governance and sustainability practices. EY has joined hands with ICC as the Knowledge Partner. This platform will bring together stakeholders to discuss, share and evolve suitable sustainable strategies and development models.



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¹ https://www.ey.com/en_in/climate-change-sustainability-services/sustainability-an-imperative-for-the-new-normal



Contents

Introduction

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The past year has been a landmark year in the history of mankind with the COVID-19 pandemic overpowering the might of multi-trillion-dollar economies and years of science and research. The pandemic also exposed the fragility and vulnerabilities of our current economic systems. Specifically, for India, it has pushed the country for the first time into recession with a steep contraction of about 24%. It has also made us rethink our existing public health and social safety frameworks and their ability to adapt to uncertainties and doing away with inequalities.

The silver lining of this disruption being improved environment, greater focus on health and sanitation, digitization and integration of technologies, community building and most importantly to continuously build greater resilience. This approach of building resilience will not only be critical for tackling the pandemic but will go far towards dealing with other larger challenges.

Currently, we are in the ring battling the pandemic but there are greater challenges of biodiversity loss and climate change, waiting in the wings, which would not only paralyze our economies but pose existential threats

to humanity and mankind. To prepare for these larger challenges we not only need to adapt to the new normal but also build back better at an unprecedented speed.

With growing interconnectedness and interdependencies across the world, we are uniquely placed in a complex ecosystem and would have to consider all factors as we move ahead to build a more resilient future. These factors need to include long-term business value, ecosystems, communities, economies, the rule of law, effective governance as fundamental blocks. The most important factors that would be shaping the future would involve:

	1	2	3
Primary force	Exponential Climate Impacts	Gen Z rising	Powering human augmentation
Description	The world is now entering a new phase of climate change marked by exponential climate impacts, volatility and related economic and social disruptions	The next generation will be shaped by the maturation of generation Z, whose cohorts are generally more progressive on social issues than preceding generations and share a commitment to global sustainability	We are on the cusp of a revolution powered by human augmentation technologies -AI, autonomous vehicles, robots, virtual and augmented reality and more.
Business Impact	Climate impacts threaten more than supply chains and physical infrastructure- they endanger growth by exacerbating system-level disruptions to customers, investors, employees and communities.	As consumers, investors and employees, Gen Z will likely bring different expectations-related to sustainability, society, technology and ethics, and the role of private companies in providing public goods.	These accelerating technological disruptions simultaneously uncover opportunities for more strategic and creative work and raise questions about the training and broader economic security of the workforce.

Source: ESG Strategic value, EY Research

Defining resilience and its attributes

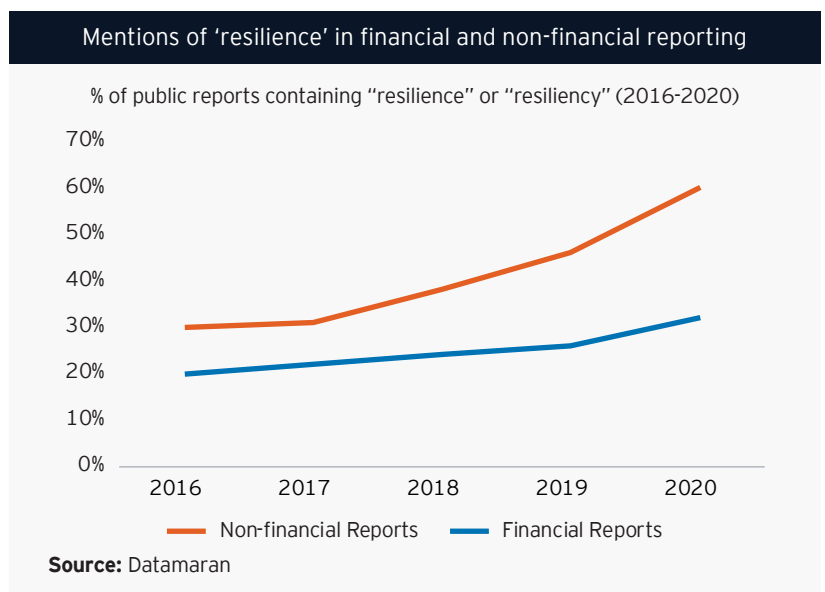
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Typically, resilience is about identifying risks, adopting an approach to mitigate and adapt to risks while also delivering on long term value and future proofing the business with improved sustainability. According to World Business Council for Sustainable Development (WBCSD), *“Business resilience is the ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long-term”*.² WBCSD has also highlighted the shift from a view of resilience as the ability to sustain or return to an existing state to redefine resilience as something more complex, dynamic and consciously transformational.

There has also been a growing recognition of resilience in business communication, which is reflected from the below chart representing the percentage of public reports containing “resilience” in financial and non-financial reporting from 2016–20. The chart below represents data from global (mostly North American and European) publicly traded companies.

Critically, long-term resilience advocates businesses that meet stakeholder expectations and have sustainable business models in addition to profitability. Therefore, WBCSD has identified specific attributes of resilience, pointing to Diversity, Modularity, Cohesion and Adaptability as foundational.



1. Diversity relates to ‘variety’ among different elements in the system. Driving diversity of skills, background or opinions would eventually support organizations to be resilient in different crises by bringing in different perspectives. Diversity is also demonstrated when any organization takes different pathways for delivery and options for achieving goals.³
2. Modularity is defined as the separation and recombination of components of the system. The key to achieving modularity is openness and connectivity. It allows organizations to become flexible in operations and response modes.
3. Cohesion is likely to express any society, system, or organization which are resilient on social cohesion and trust. It enables organizations to build trust among stakeholders.
4. Adaptability is achieved when diversity, modularity, and cohesion are imbibed in the right manner. Based on the finding, organizations which are resilient, learning from past experiences and transforming when required possess “adaptability” as one of the most common attributes.

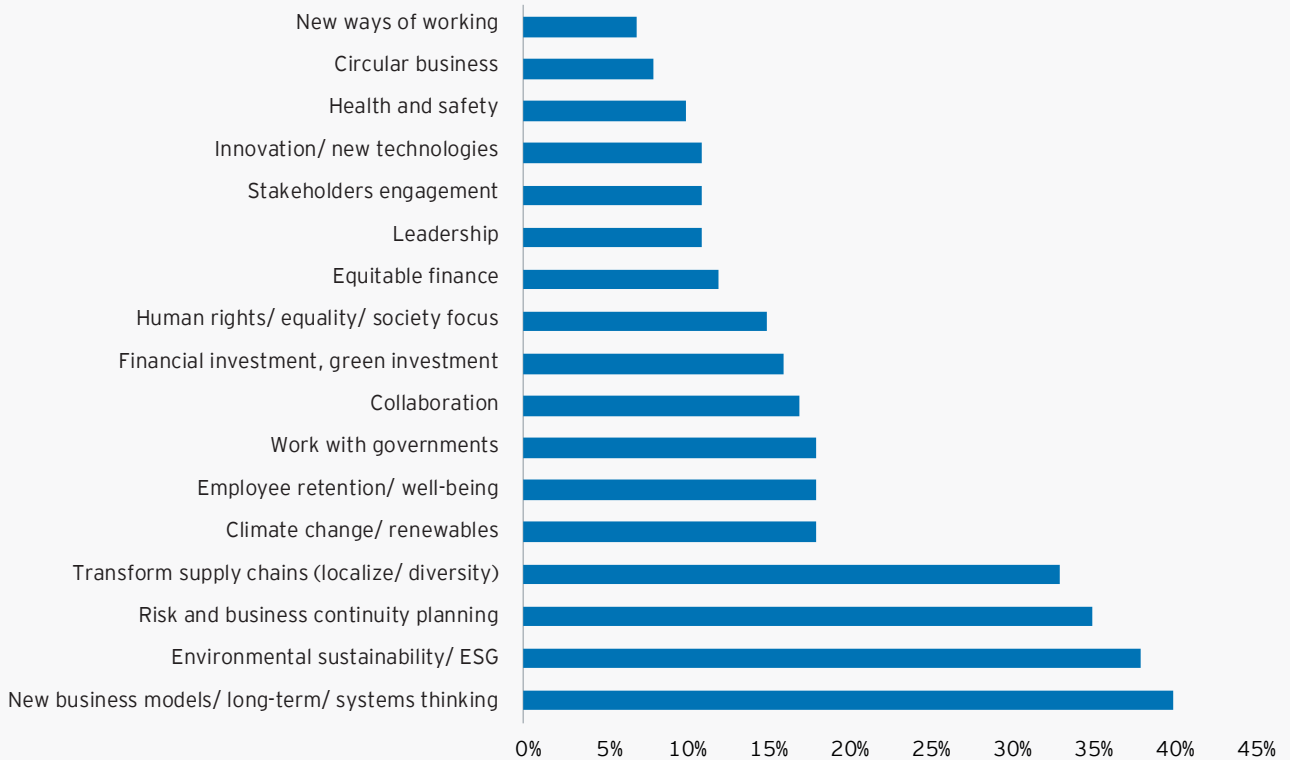
² <https://www.wbcSD.org/Overview/About-us/Vision-2050-Refresh/Resources/Building-long-term-business-resilience>

³ https://www.ey.com/en_gl/covid-19/covid-19-10-ways-boards-can-help-guide-the-business-during-the-crisis



A resilient organization is agile, driven by individuals who embrace innovation and recognize the value of learning from past challenges to change their approach. Such organizations embed feedback loops which are triggered when thresholds are breached and plans for multiple uncertain scenarios.

Sustainability experts recommend four key priorities for business to increase long-term resilience



Source: Building long-term business resilience, WBCSD

Insights emerging from business' response to COVID-19

3

To build trust and brand affinity in an unpredictable scenario, organizations need to make informed decisions

The novel coronavirus has caused an unprecedented level of disruption in the ecosystem. The situation has been unpredictable with organizational exposure uniquely impacted by industries, geographies, and operating models. These factors have been compounded by complex supply chains and global travel. While the disruption has been overwhelmingly adverse and destructive, there appears to be a break in the clouds. To weather the impacts of COVID-19, EY has identified six areas to improve future long-term resilience:

1 Clear communication with relevant stakeholders



Organizations that operate with transparency and open communication have inherent advantages when events require quick actions to react and reshape⁴

Organizations that are agile and decisive during a crisis are clear about values and purpose. The values and purpose are deeply embedded and widely understood at all levels. This helps in building trust and openness along with cultural alignment on vision and purpose. Another component of communications is to enable collaborations among different functions and departments as well as between leaderships and employees.⁵ Therefore, collaboration and culture alignment play a significant role during any crisis.

During any crisis, clear, transparent, and timely communication with all stakeholders is necessary to secure support from customers, employees, suppliers, creditors, investors and regulatory authorities.

▶ **Customers:** During any crisis, organizations need to keep their customers informed about any impact on product or service delivery. If there are any unmet contractual obligations due to disruptions, it is essential to keep clear and open communication and to revisit timelines or invoke “force majeure” or “act of God” clauses. These actions will help mitigate damages due to disruption. Not only this, organizations need to connect emotionally with their customers as every crisis has lifecycle and emotional states which could differ from one cycle to another. Organizations can achieve this in following ways:

- ▶ By innovating communication channels to minimize physical interactions
- ▶ By actively contributing and communicating towards safety of an individual
- ▶ By communicating clearly to provide a helping hand in financial distress
- ▶ By interacting personally with care and compassion
- ▶ **Employees:** The COVID-19 pandemic has dissociated employees from their co-workers, workplaces and familiar routines. In many cases, it has dampened the mindset, added stress and led to drop in a morale. To keep morale high, it is critical for an employer to promote inclusion at the workplace. In view of the same, EY provides the following recommendations:
 - ▶ By establishing regular communication channels to maintain business-as-usual and to keep them aware of any policy change or regulatory development
 - ▶ By showing appreciation and recognizing their efforts on a weekly basis
 - ▶ By entrusting employees and communicating new responsibilities
 - ▶ By providing individualized support through different channels
 - ▶ By updating employees timely through newsletters, emails and other communication channels

⁴ https://www.ey.com/en_in/strategy-transactions/companies-can-reshape-results-and-plan-for-covid-19-recovery

⁵ https://www.ey.com/en_in/strategy-transactions/companies-can-reshape-results-and-plan-for-covid-19-recovery

- ▶ **Suppliers:** Clear communication about delivery of goods and services can help organizations to find an alternative method for recovery on time. During a crisis like COVID-19, a clear understanding of the supplier base can help organizations navigate through any crisis. Effective and regular communication is the first step to mitigate risk. This can be done in following ways:
 - ▶ By clearly communicating the supply shock to all suppliers
 - ▶ By creating the contingency plan in different scenario planning environments and communicating the same to all suppliers
- ▶ By communicating through apps to manage time, availability and safety of suppliers
- ▶ **Creditors and investors:** Proactive communication with creditors and investors can avoid sensitive debts and vital technical debt breaches. This will also help organizations to re-manage any necessary amendments to existing terms or refinancing arrangements.
- ▶ **Government and regulators:** During any crisis, organizations may consult their legal team for advice on potential liabilities and with their business units to manage communications around ongoing breaches and collection of proof, if any.

2 Prioritizing people safety and continuous engagement

COVID-19 has revealed that employees are a critical asset of an organization. Organizations need to make employees their priority. During any crisis or emergency, employees rely on their employer for guidance. To build resilience, organizations need to adopt flexible ways to ensure the health and well-being of employees. Addressing their concern openly and transparently and establishing wellbeing programs, and policies that support a safe environment can go a long way in reassuring

business continuity. Realignment and reallocation of resources based on geography and operating models will also play a significant role in finding ways to secure well-being of employees. Additionally, organizations will need to establish regular communication channels in alignment with government and health authorities' policies so that employees remain aware and engaged as the organization navigate through crisis.

3 Re-examining strategy for business continuity

During COVID-19, businesses are experiencing major disruptions to their business-as-usual operations and facing business underperformance. Businesses have been experiencing significant supply chain and operational disruptions and shifts in consumer demand and behaviours. This is impacting sectors from consumer to retail, to manufacturing, life sciences to automotive.

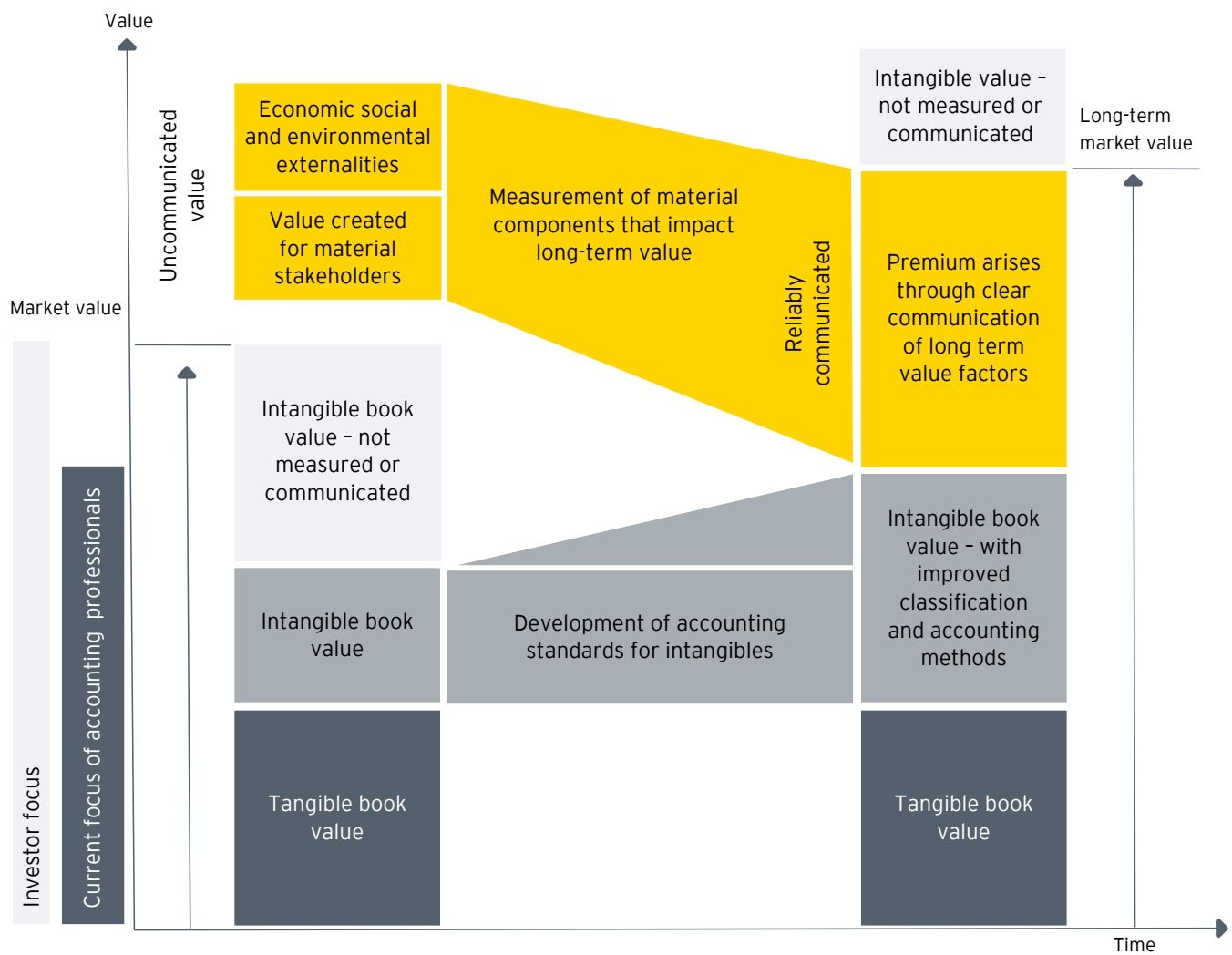
To address these challenges, businesses should:

a. Assess short-term liquidity: To predict cash flow pressures and intervene promptly, businesses should instil short-term cash flow monitoring discipline.

Maintaining strict discipline on working capital and managing inventory build-up will also help businesses to act during crises. Further, it is imperative to be creative and maintain regular contact with suppliers to identify any potential risks.⁶

b. Evaluate financial risks: Regular monitoring of direct cost escalations and their impact on overall product margin would enable businesses to intervene and re-negotiate, where necessary. Businesses that are slow or unable to renegotiate new terms and conditions may be susceptible to long-term financial stress.

⁶ https://www.ey.com/en_be/strategy-transactions/how-to-lead-your-company-through-the-covid-19-crisis-and-its-aftermath

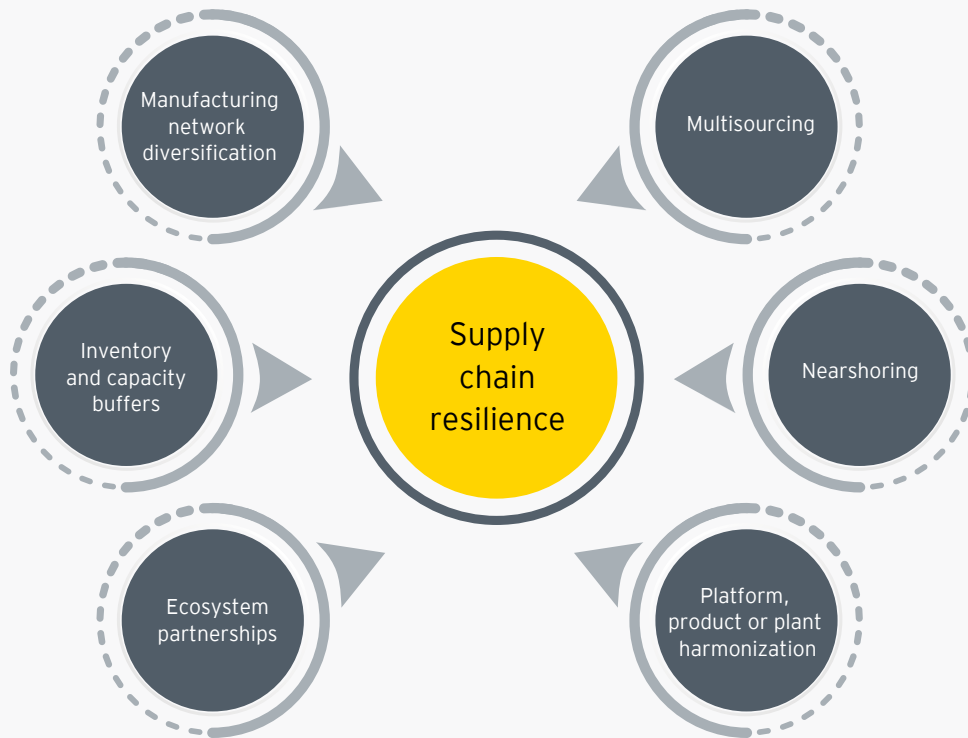


Additionally, businesses need to establish correlation between the impact of externalities and financial stability of the company. Frameworks such as Task Force for Climate Disclosures (TCFD) Natural Capital Protocol and Drought Stress Testing Tool (of UNEP-FI) provide frameworks for integrating such externalities.

c. Supply chain resilience: The emergence of global businesses with operations on every continent due to globalization has made supply-chains longer, more complex and more interdependent. There has been a relentless drive for efficiency, therefore, many businesses have structured operations having a dependency on one or few suppliers in a single region. This leads to the reduction of alternatives available to businesses during any crisis. This has led

to uninterrupted operations during the pandemic, forcing organizations to re-define supply chain models and build long-term resilience. Organizations need to adopt an integrated risk management approach and assess risk across Tier 1 and Tier 2 suppliers while helping them build predictive analysis capabilities. This would also enable them to demonstrate environmental responsibility while balancing the needs of the business.⁷ This is also a time for organizations to adopt and integrate disruptive digital capabilities and technologies like artificial intelligence (AI), machine learning (ML), the Internet of Things (IOT) and advanced analytics. This would enable organizations to make informed decisions and save vital costs at the same time.

⁷ https://www.ey.com/en_gl/consumer-products-retail/supply-chain-reinventionTechnology -



Source: EY research

4 Technology and information security

In response to COVID-19, technology has played a pivotal role in business continuity. Organizations that could embrace digital transformation were able to bounce back quickly.

Technology has been facilitating new ways of working that rely less on physical interaction and save cost at the same time. During COVID-19, enterprise collaboration, cloud and automation adoption to realize performance benefits and cybersecurity has been at the forefront of transformation enablers. To respond to such crisis in the future and to deliver the right level of productivity regardless of the location, device or what business service they need, organizations can enhance workforce solutions in the following ways⁸:

- ▶ By assessing the resiliency of infrastructure technology designs and configurations to provide enough aggregate throughput to sustain business operations.
- ▶ By re-evaluating enterprise collaboration and communication strategy (voice, video, and collaboration tools for remote work, office, agents, and business service) so that organizations can work smarter with greater agility across distributed and remote workforce and customers.
- ▶ By improving current desktop and access solutions so that wider scope of applications and extended number of remote workforces could be supported.
- ▶ By aligning IT infrastructure solutions with business and workforce criticality.
- ▶ By automating IT infrastructure to drive provisioning speed, optimise operation cost, and gain more visibility.
- ▶ By modernizing infrastructure solution capabilities to enable speed of delivery, scale, on-demand and highly connected-business.

⁸ https://www.ey.com/en_gl/covid-19/technology-information-security

5 Redesigning risk processes for long-term

While organizations are navigating through the COVID-19 crisis, there has been a clear indication that the short-term amplifies the difficulties. Organizations and investors' relentless focus on cost reduction and efficiency has left them with limited ability to adapt when things go wrong.

While some organizations identify risk and prepare mitigation measure and perform trend analysis, they rarely go beyond the decade. Risk management is directly linked with resilience in terms of planning and reducing vulnerabilities⁹. Hence, it is imperative to assess risk for the long-term so that organizations can build resiliency

for long-term. EY has identified important components to include in the risk management framework:

1. Risk Planning
2. Risk identification
3. Scenario Planning
4. Continuity and Recovery
5. Response and monitoring

Depending on the nature of the business, organizations can re-define their risk management framework to build resiliency for the long-term.

6 Maximize the use of government support policies

As soon as COVID-19 emerged, the governments started responding quickly by making changes in policies and regulations depending upon the impact of COVID-19 in various geographies. In such unpredictable times, organizations should monitor nation-wide government and organizational opportunities for support and how they can serve better depending upon the individual circumstances. Organizations should track regulatory notifications to make necessary changes in the operating environment. Tracking of regulations would enable organizations to assess the following:

- ▶ A stimulus to protect business
- ▶ Scenario analysis from a regulatory perspective for mid-term and long-term impacts of the pandemic
- ▶ Governance and compliance mechanism

- ▶ Impact on supply chain and business strategy
- ▶ Impact of trade and pricing restrictions
- ▶ Key decisions such as pay cuts/lay-offs, job offers, and termination of temporary staff.
- ▶ Financial institutions invoking insolvency and other banking regulations for recoveries
- ▶ Investors invoking security and corporate law provisions or material adverse conditions of the agreement
- ▶ Risk monitoring framework

While tracking key regulations, organizations can respond to any crisis promptly. This would also help in building resiliency for the future.¹⁰

⁹ https://www.ey.com/en_gl/covid-19/risk#risktransformation

¹⁰ https://www.ey.com/en_us/government-public-sector/how-the-government-should-view-and-manage-risk-in-the-time-of-covid-19

Systematic approach towards risk management for business continuity

4





COVID–19 has altered the functioning of the world. The impacts on governments, businesses and industries are continually unfolding

Before the pandemic, EY survey Global Board Risk Survey revealed that businesses were not adequately equipped to detect, manage and respond to any type of existential threats. It also revealed that only 21%¹¹ of organizations' boards were prepared to respond to any adverse risk event. The risk landscape is continuously evolving, and it is a critical time for boards to pay attention to emerging existential threats. Organizations are under immense

pressure to recover from the crisis of COVID–19. Time is of the substance to get it together on this new sort of crisis. In the time of crisis, the role of business leaders has become more important than ever. Business leaders need to show strong management and sound decision–making.

Steps to achieve business climate resilience



Source: Business Climate Resilience: Thriving Through the Transformation, WBCSD, September 2019

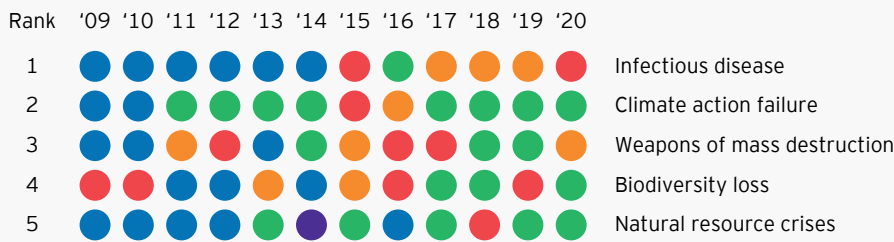
As with COVID–19, the impact of climate change is also emerging in an unbalanced manner across different countries. No one is immune to this risk and it continues to be one of the potentially most catastrophic. Although during COVID–19, global emissions fell due to lockdowns worldwide, from the evidence of 2008–2009 economic downturn, it is clear that emissions could bounce back,

Moreover, the impact is compounding with existing inequality and social cohesion. With this disparity, the risk landscape is transforming from financial to non-financial. According to the World Economic Forum (WEF) global risk survey 2021, top 5 risks are related to environment, social and geopolitical in terms of likelihood and impact.

¹¹ https://www.ey.com/en_gl/board-matters/four-ways-boards-can-oversee-risk-management-beyond-covid-19

Global emerging risks

Top 5 Global Risks in Terms of Impact

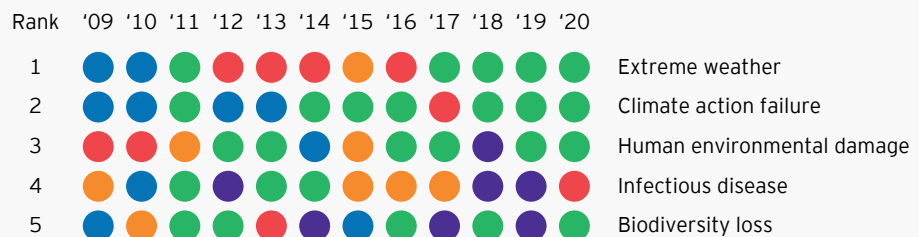


Eco.

Transition

Env.

Top 5 Global Risks in Terms of Likelihood



Types of Risk: ● Economic

● Environmental

● Societal

● Geopolitical

● Technological

Source: WEF Risk Report 2021

The shift towards sustainable economies cannot be delayed until the impact of COVID-19 subsides. Therefore, past encounters with crisis management can act as guidance for organizations. The only way to ensure the future is to continuously identify, prioritize, manage and respond to multiple risks in the operating environment. At many organizations, risk management is the central part of their strategy followed by a structured approach and led by a dedicated team. Having a strong risk management approach can help organizations safeguard the well-being of their people, stakeholders and clients. Therefore, it is critical that organizations prepare themselves for an unpredictable journey. To help organization to have a systematic approach towards risk management, EY has identified six important steps for business continuity:

1 Set up a core team for crisis management

Governance and process management both are important to manage a crisis. Such a team is like an insurance which would come into play only in terms of crisis but would transform into a "Noah's Ark" when the time comes.

For business continuity, business leaders should form a core team of crisis management which should directly report to the Senior Management. The core team should comprise of team members of different departments to manage crisis effectively. The core team would focus on the following tasks:

▶ Risk assessment

- ▶ Analysis, monitor and review
- ▶ Operation management
- ▶ Communication

The core team can act as a project management office (PMO) that will be responsible to address employee wellbeing, customer and brand protection, supply chain, finance management and any legal and contract issues. The approach may vary from business-to-business. Business leaders should take the responsibility to form a core team and assign responsibilities according to their business strategy and operating environment.¹²

¹² https://www.ey.com/en_us/government-public-sector/how-the-government-should-view-and-manage-risk-in-the-time-of-covid-19

2 Diagnose current and emerging risks

During uncertain times, any organization struggles with various kinds of risks. Organizations must initiate first risk assessment while setting up a core crisis management team. To get a realistic sense of what is happening around the outside world, it is important to make an inventory of potential risks. This will also help the core team to manage and respond in a timely manner.

In times of uncertainty, risk diagnostic broadly focuses on four categories:

- ▶ **People:** In this category, risk diagnosis would be focused on safety of employees, clients and other stakeholders. Risks related to negative impact of employee engagement and motivation.
- ▶ **Supply and operations:** In this category, risk diagnosis would be focused on impact of operational processes and risks related to supply chain and production.
- ▶ **Financial business aspect:** In this category, risk diagnosis would be focused on buy and pay and risk related to liquidity.

- ▶ **Demand and commercial activities:** In this category, risk diagnostic would be focused on the impact of demand disruption.¹³

In addition to this, Financial Stability Board (FSB) established the Task Force on Climate Related Financial Disclosure (TCFD)¹⁴ to encourage organizations to disclose information related to Governance and Risk Management. This would enable organizations to achieve financial and operating results. The framework is designed in such a manner that it can allow organizations to know the financial impact of different climate related risks and opportunities in different scenarios. The TCFD recommendations are widely adopted and applicable to various organizations and jurisdictions. According to the EY survey, 67%¹⁵ of investors make significant use of ESG disclosure shaped by TCFD. The recommendations are structured around four thematic areas which represents the core elements of any organization: governance, strategy, risk management, and metrics and targets.



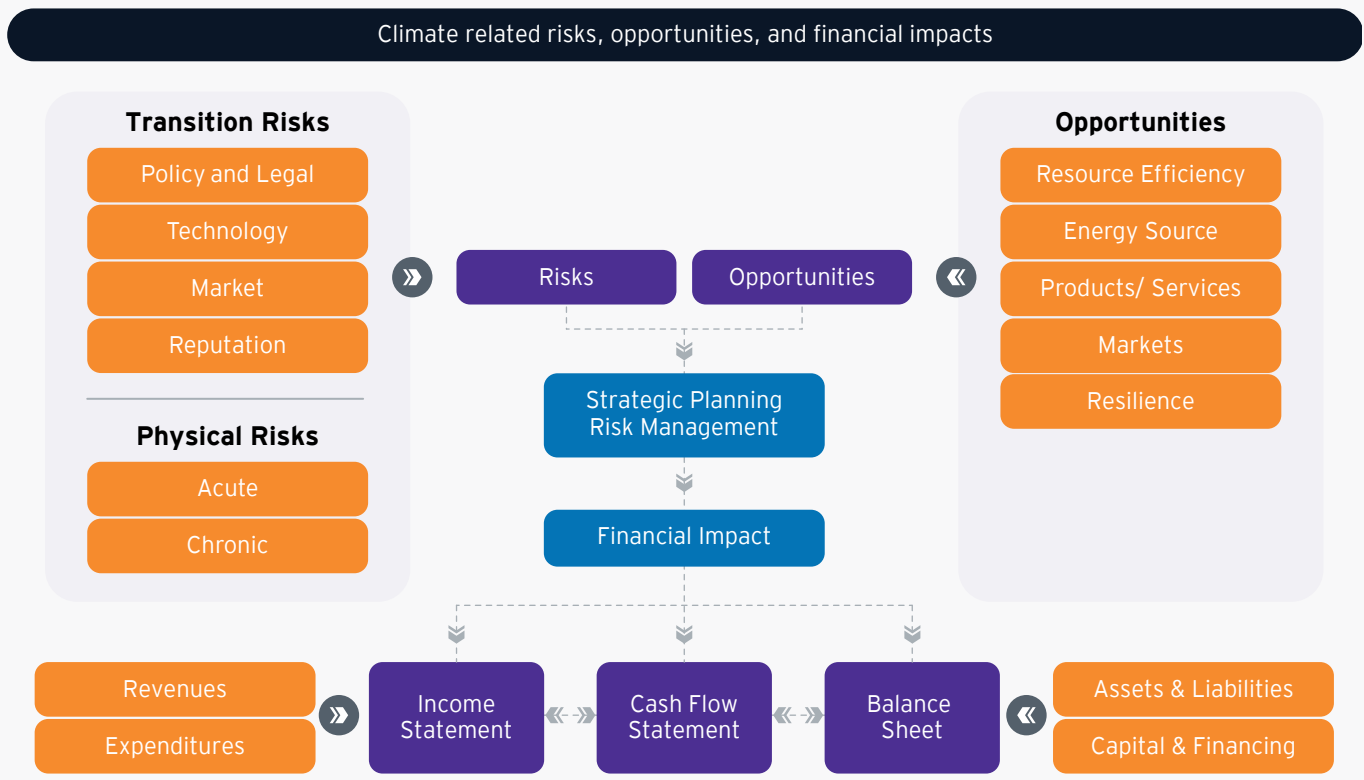
Source: TCFD

¹³ https://www.ey.com/en_be/covid-19/how-to-safeguard-your-business-with-covid-19-risk-management-tactics

¹⁴ <https://www.fsb-tcf.org/recommendations/>

¹⁵ https://www.ey.com/en_gl/assurance/how-will-esg-performance-shape-your-future

Further, TCFD has given recommendations against each core elements and encourages organizations to disclose the financial impact related to climate related risk and opportunities. The risk management defined by TCFD enables organizations to disclose the process for identifying, assessing and managing climate related risk. One of the most important aspect of this description is to disclose the relative significance of climate related risk in relation to other risks.¹⁶



Source: TCFD



¹⁶ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

3 Evaluate and rank risks based on impact and likelihood

After diagnosis, the next step to be followed is to evaluate and rank risks based on impact and likelihood. Risks that are most likely to occur and have high impact need to be ranked first. The next ranking is given to those risks that have high impact and are less likely to occur followed by low-impact risks that will certainly happen. The low ranking is for those risks which will probably never happen. Evaluating and ranking risks would help organizations stay focussed.¹⁷

In case of climate change, scenario analysis can be used to evaluate strategic implications related to climate risks. The scenario analysis helps organizations to understand future uncertainty under different circumstances. It will also enable organizations to explore different outcomes of how various climate related risks and opportunities might impact business over time. Scenario analysis, therefore, can help organizations to test the resiliency of their portfolio and understand the impact of climate change in terms of both favourable and unfavourable.

For businesses, scenario analysis is a new phenomenon for strategy formulation. Businesses have started using scenario analysis in their portfolio to understand the risks associated with various GHG reduction scenarios. In non-financial companies, leading oil and gas companies have started using scenario analysis to assess the financial impact of climate change under different scenarios.

Financial institutions have also started conducting scenario analysis to test the resiliency of their portfolios. Organizations can include scenario analysis as part of their strategic planning in following ways:

1. By identifying and defining a different scenario so that organizations can understand the impact of potential risks.
2. By evaluating the resiliency of their strategic plans to different scenarios.¹⁸
3. By identifying strategic options to build resiliency towards different scenarios of climate related risks and opportunities through making some adjustments in financial and strategic portfolio.
4. By documenting and disclosing the information related to probable climate risks and opportunities. Organizations can also include strategic planning to build resiliency towards climate related risks.

Organizations may choose to start with qualitative scenario narratives to understand and explore the impact of potential range of climate related risks. The analysis can also be performed with quantitative data sets to illustrate potential outcomes. While conducting scenario analysis, greater sophistication and severity may be required in the use of quantitative data sets and qualitative analysis.

4 Risk mitigation and deciding the right course of action

Mitigation measures are generally risk specific. Possible mitigation measures could be:

- ▶ Reduce the likelihood
- ▶ Reduce the impact
- ▶ Develop a recovery plan
- ▶ Prepare for long-term consequences

These are the possible mitigation measures; organizations should decide the right course of action depending upon identified risks and the operating environment. When organizations face the crisis, they tend to look outside the organization for support. In a crisis like COVID-19, everyone is sailing the same boat. This pandemic has taught in myriad ways that “a well-trodden path” cannot ensure business continuity.¹⁹

¹⁷ https://assets.ey.com/content/dam/ey-sites/ey-com/en_us/topics/government-and-public-sector/ey-enterprise-risk-management-in-the-covid-19-world.pdf

5 Plan, monitor and review

In volatile times, it is extremely difficult to predict the impact of our actions. This also means that risk and response also keep on changing with time. Therefore, organizations must have a structured process to monitor and review risks for the long term. Each risk will have a different impact on the internal and external environment and similarly, responses will also keep on evolving. As the external environment evolves, organizations also need to keep analyzing their risk management framework and make necessary changes when required.

To integrate ESG risks into a risk management framework, organizations have to develop internal metrics and KPIs to monitor and review ESG risks so that they can take appropriate action to mitigate them. Different frameworks such as Global Reporting Initiative (GRI), Integrated Reporting Council Framework (IIRC), Sustainability Accounting Standards Board (SASB), Carbon Disclosure Project (CDP) and ESG rating frameworks such as Dow Jones Sustainability index (DJSI), MSCI, FTSE4GoodIndex among others can act as reference points. These frameworks provide formal approaches to monitoring KPIs relevant to various ESG aspects. This would also enable organizations to review KPIs related to ESG aspects and disclose relevant information to investors and stakeholders. Organizations which have adopted these frameworks are able to integrate ESG risk into their risk management and build resiliency for their portfolio. While

evaluating nonfinancial disclosures, 83%²⁰ of investors surveyed by EY consider formal frameworks to assess long-term value.⁶

Integrating risk management in an organization's culture and across the value chain: Ensuring that the risk management process at the corporate level is not enough for business continuity. It must be embedded in day-to-day operations across different functions and the value-chain of the organization. One of the most effective changes that organizations can make in their risk management framework is to decentralize the risk management framework. This would empower employees and enhance skills, capabilities and mindsets that would contribute to organizations' long-term resiliency. The core team can ensure the risk culture in organization in the following ways:

- ▶ By communicating and discussing openly
- ▶ By monitoring regularly
- ▶ By improving continuously
- ▶ By including in KRAs of top management

Extending risk management to different functions and value-chain would also help in identifying suppliers and their impact on the organization. During COVID-19, organizations with a structured risk management framework were resilient and they have built the resiliency for long-term.



²⁰ https://www.ey.com/en_gl/assurance/how-will-esg-performance-shape-your-future

⁶ https://www.ey.com/en_be/strategy-transactions/how-to-lead-your-company-through-the-covid-19-crisis-and-its-aftermath

ESG integration for business resilience

5





An organization’s long-term value and resiliency is reflected when it has the ability to create value for both investors and other stakeholders, including the society at large, rather than just its historical financial performance

According to the survey conducted by EY, Institutional investors are ramping up their efforts in assessing their performance by using environmental, social and governance (ESG) factors. Most investors (98%)²¹ assess non-financial performance by conducting a structured and methodical evaluation. The survey also identifies a growing disconnect between the increased focus on

ESG performance and the availability of structured and standardized non-financial data from corporates. The percentage of respondents who say organizations are not adequately addressing ESG factors, has increased from 20% in 2018 to 34% in 2020 for environmental risk. The number has also increased from 21% to 41% and 16% to 42% in case of social and governance risk respectively.²²



COVID-19 has given the opportunity to reset and build an improved economic system that can work for both people and planet

As the global pandemic unrolled, it initially appeared that ESG factors might take a backseat when the global recession was taking the front seat. In contrast to the situation, major ESG funds surpassed classic indices like S&P 500²³ during the first few week of crisis and some ESG funds could soften the diminished value as compared to their non-ESG benchmarks. ensure long-term growth, ESG risks will also have to be managed to build resilience into the system. The pandemic has acted as an alarming call for businesses, highlighting the profound and direct impact on economic stability. The road ahead is indeed not easy and filled with challenges. Businesses are required to change the approach from business-as-usual to the risk-resilient business of tomorrow. There is a continuous shift in focus of numerous businesses and investors from profits to people. Many investors are evaluating their portfolios for the short-term and long-term. Businesses are also evaluating their decisions on sustainability.

- ▶ According to MSCI research, 95% of millennial investors are interested in sustainable investing and 88% of millennial investors are actively reviewing the ESG impact of their investment holdings²⁴



²¹ https://www.ey.com/en_gl/news/2020/07/esg-disclosures-take-center-stage-as-investors-raise-stakes-to-assess-company-performance

²² https://www.ey.com/en_gl/assurance/how-will-esg-performance-shape-your-future

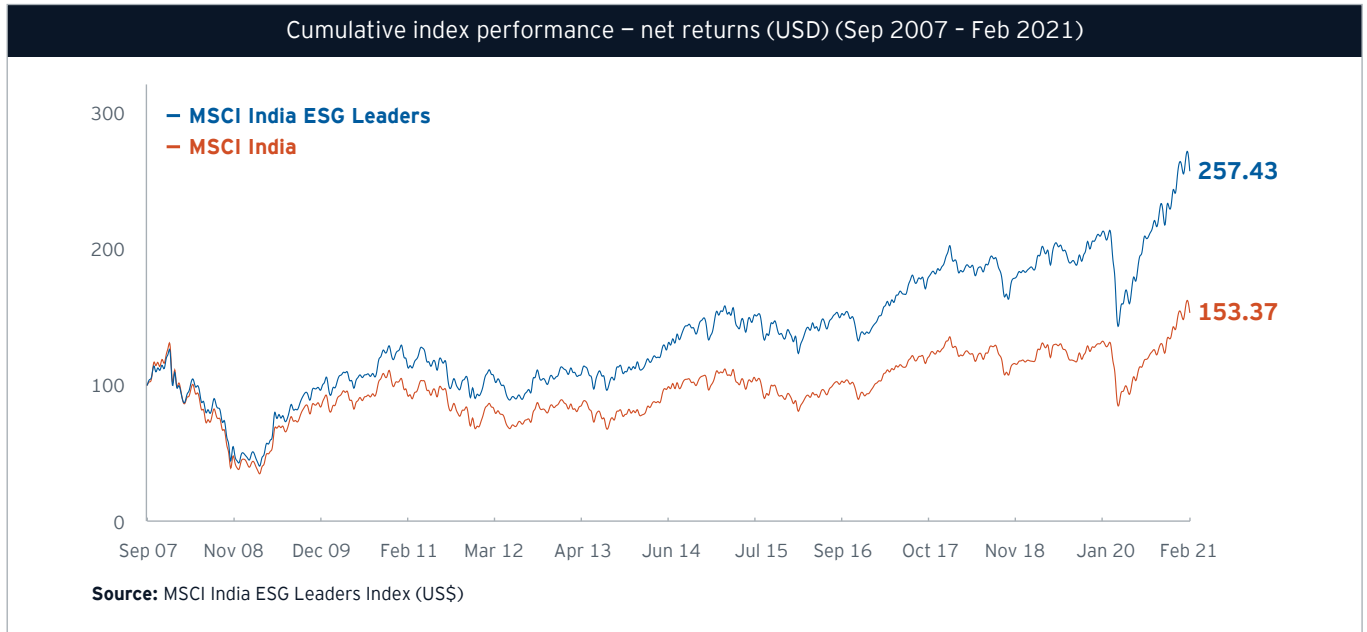
²³ https://www.ey.com/en_gl/financial-services-emeia/three-ways-esg-factors-can-make-portfolios-more-resilient-post-covid-19

²⁴ <https://www.pionline.com/esg/global-esg-data-driven-assets-hit-405-trillion>

- ▶ The value of global assets applying ESG data to drive investment decisions has almost doubled over four years, and more than tripled over eight years, to \$40.5 trillion in 2020;²⁵
- ▶ According to the research firm Morningstar, investors have invested globally in US\$45.6 billion into ESG funds

in the first quarter of the year 2020 and ESG fund asset value in India has increased to US\$1.3 billion²⁶ in 2020

- ▶ According to MSCI India ESG Leaders Index, organizations with higher ESG performance have performed better for past 10 years in terms of net returns (US\$)²⁷



ESG in numbers

\$45 t

Is the expected size of the ESG market AUM in 2020

90%

The percentage of ESG market accounted by Europe & North America

\$80 b

The worth of assets in ESG ETF that have doubled over the past year

Source: JP Morgan Equity Research, 2020

During COVID-19, various indicators such as good company governance, and high social standards have emerged as key indicators of resilience. Additionally, highly advanced digital infrastructure along with digital standards have emerged as a necessity to absorb the shock of a global pandemic. Therefore, it can be concluded that the COVID-19 situation has drawn parallels between ESG driven investments and long-term value creation.

²⁵ <https://www.pionline.com/esg/global-esg-data-driven-assets-hit-405-trillion>

²⁶ https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Global_ESG_Q4_2020_Flows.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=27223

²⁷ <https://www.msci.com/documents/10199/06d20a9e-bd6b-4ea8-a7a2-31cfb0444273>

Mitigate ESG risk through ESG integration into Enterprise Risk Management

ESG related risks are significant risks faced by businesses today. According to the WEF 2021, the top five risks by likelihood are (extreme weather, climate action failure, human environmental damage, infectious disease, biodiversity loss, and human-made natural disasters) and –the–top five risks by impact are (infectious disease, climate action failure, weapons of mass destruction biodiversity loss and natural resource crisis). ESG integration into ERM can help organizations mitigate and navigate ESG risks. By understanding the ESG landscape, the board should take the responsibility of integrating ESG risks into Enterprise risk management.

According to WBCSD COSO²⁸, Enterprise risk management framework consists of five components and 20 principles. This would enable organizations to apply ERM principles and practices to sustainability related risks.



Source: WBCSD, COSO

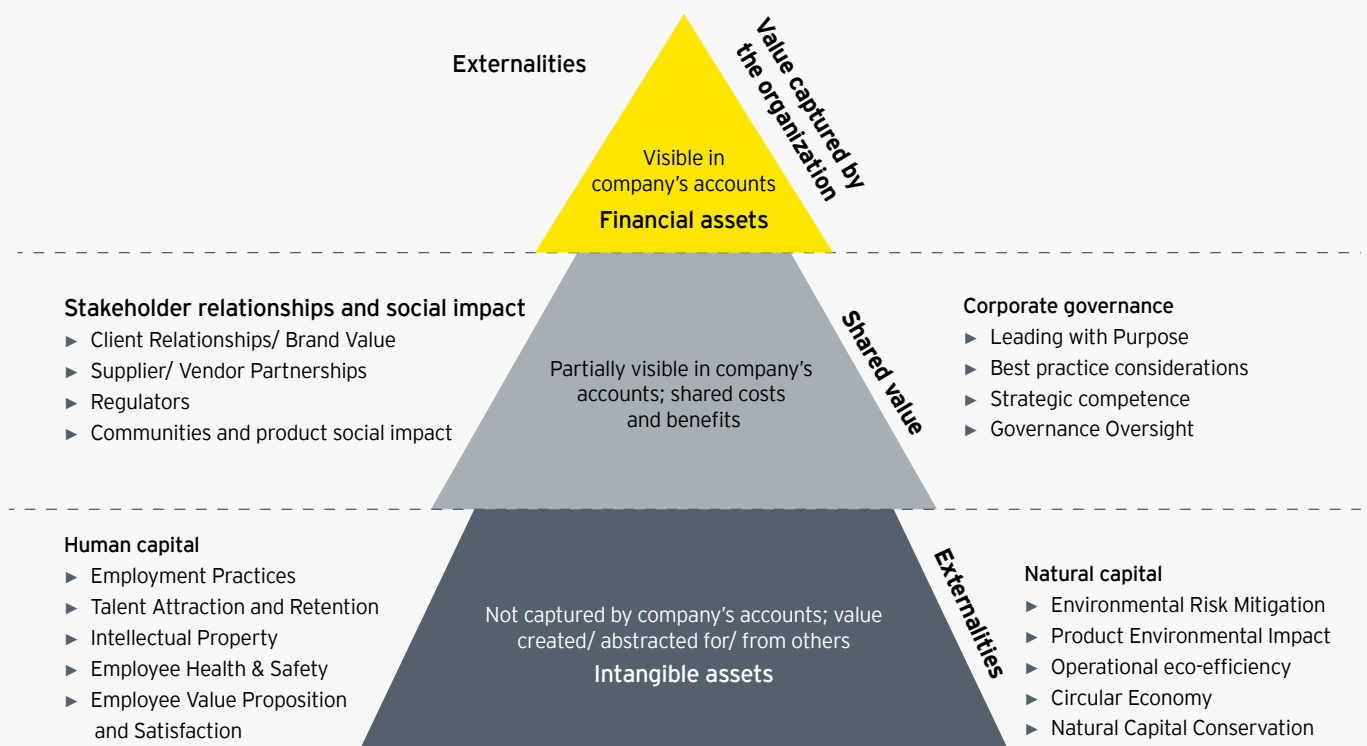
Enterprise Risk Management would improve the consistency and cohesiveness of sustainability-related risk management. This integration would also help in decision-making and resource allocation, minimise the financial impact and improve stakeholder confidence.

²⁸ <https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-Performance-Executive-Summary.pdf>

The changing shape of value

In a transformative world, business disruption has become one of the most common challenges for the government, society and organizations. In such a scenario, there has been an increasing demand of long-term value for multiple stakeholders. There has been a change of opinion for organizations from the protection of shareholder's value to delivering long-term value for all stakeholders. Boards are under immense pressure to understand the change of opinion and deliver long-term value. Further, the boards must reflect on the value of intangible assets such as human capital, culture, corporate governance, innovation and ESG initiatives.

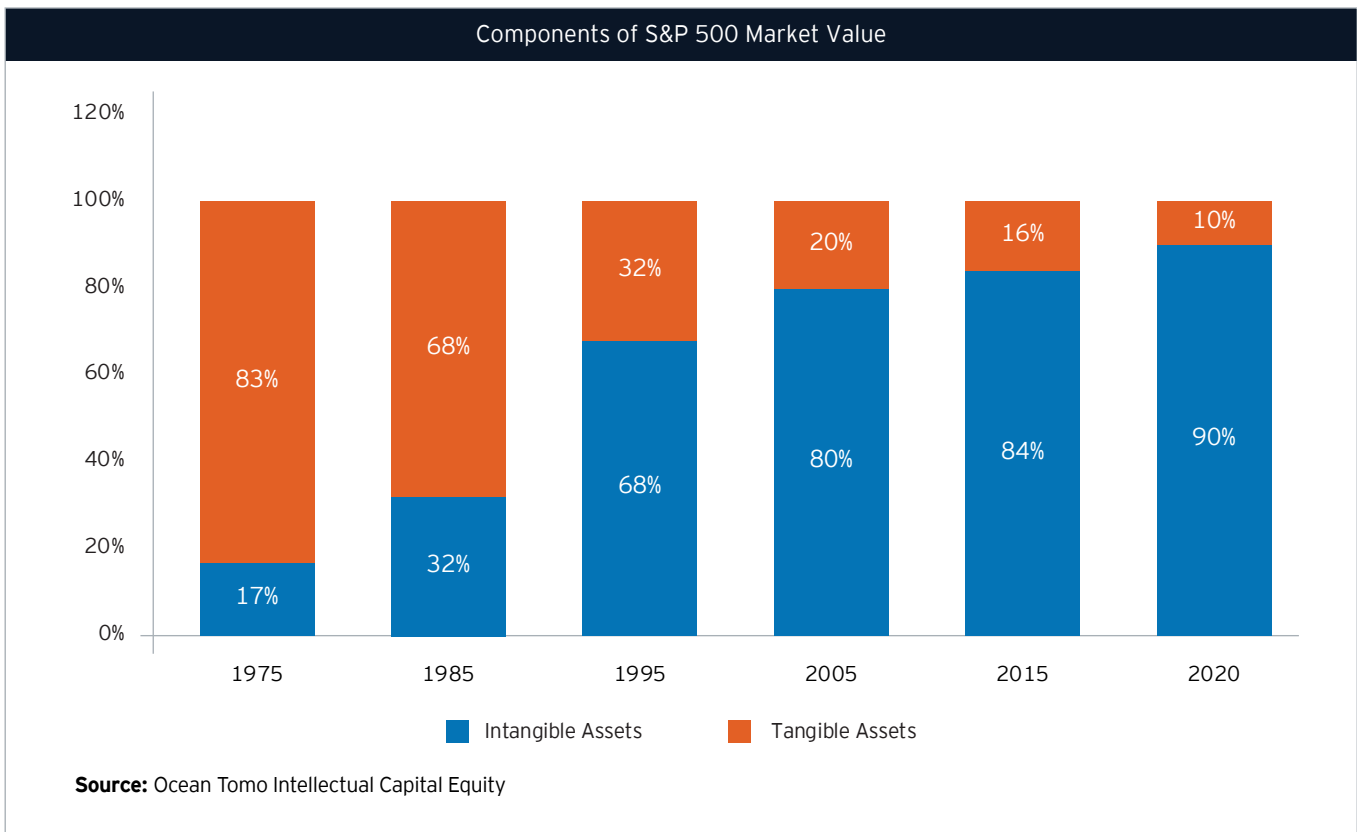
Intangible assets are gaining significance for long term organizational sustainability and competitiveness.



Source: COVID-19 enterprise resilience framework, EY research

According to the survey by EY, only 25% of the investors have confidence in the current financial reporting system to assess long-term value of an organization. Therefore, it is important for organizations to focus on non-financial reporting to bring transparency and foster confidence among investors.²⁹

²⁹ https://www.ey.com/en_in/climate-change-sustainability-services/how-esg-integration-in-the-financial-sector-can-help-build-resilient-systems-of-the-future

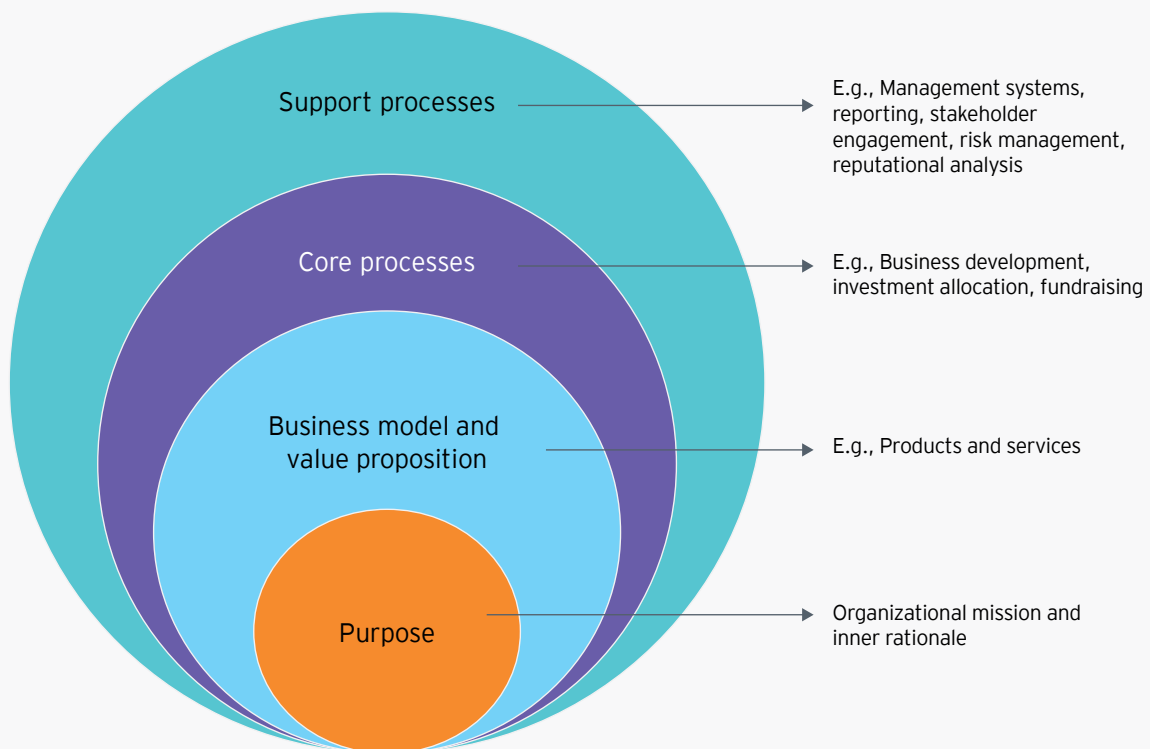


In addition to this, there has also been regulatory pressure which continues to intensify with time. The European Union is accelerating the enhancement of all financial market regulation as well as execution of the EU Taxonomy, Disclosure Regulation and Benchmark Regulation during the COVID-19 pandemic. The proposed EU recovery plan has also affected the EU economy due to the emphasis on long-term projects that meet specific climate and energy plan criteria. A significant portion 25% of the fund has been allocated to the EU climate action program, which is additional pressure on financial regulations.

Further, there has been a paradigm shift in the mindset of employees. People are looking for those organizations which have ESG factors embedded in their strategy. Organizations that are taking this approach are more competitive and have more capabilities in attracting and retaining talent. During the COVID-19 crisis, it has been clear that ESG factors have become more important than ever.

ESG advantage by integration into broader strategy

Possible levels of sustainability integration



Source: ESG strategic value, EY research

ESG integration into a broader strategy can improve performance and enhance the competitiveness of an organization. It includes reconsidering and redefining strategy and operational processes to improve and sustain profitability. The probable value of integration of ESG strategy includes the following.³⁰

- ▶ Long-term value by considering material ESG opportunities and risks
- ▶ Improved brand reputation among consumers, employees and investors
- ▶ Improved market differentiation through strategic position in sustainability
- ▶ Improved relationships with stakeholders

ESG strategy also includes considerations related to capital allocation, supply chain management, due diligence of suppliers, etc. Ultimately, it is up to the Board to view ESG strategy beyond compliance and integrate ESG strategy into purpose-driven strategy to drive competitiveness across multiple dimensions.

³⁰ https://www.ey.com/en_bh/covid-19/how-to-strengthen-business-resilience-during-disruptive-events

The path forward: creating and communicating long-term value

6



As ESG integration is evolving, ESG factors play a vital role in creating long-term value creation. The prioritization of stakeholder and long-term value creation is achieved when the entire organization is aligned with ESG agenda. Further, we have also observed that organization’s sustainability journey is a gradual and rewarding process. Considering the same, EY has developed a three-layer framework known as Sustainable Design to assist organizations in managing risk and opportunities arising from climate change. This framework enables organizations to integrate ESG factors into their strategy, operations and value chain of the organization. It also enables organizations to develop robust governance mechanism, and risk management. Through this framework, organizations can gain both tangible and intangible benefits such as brand positioning, long-term value, market differentiation and operational efficiency.

Sustainable by Design Framework



Source: EY research

1 Vision, Direction, Goals and Planning

This layer is the topmost layer and critical for the entire framework. This layer comprises of robust governance model along with risk management, and strategic direction along with goals and objectives and communication to embrace opportunities.

The first component of this layer is “Effective Governance Model” which incorporates the concerns for stakeholders and extends beyond compliance. The model can focus on integrating latest and robust standards on corporate governance. Ideally, the governance model with ESG integration works effectively when it is driven from top management. It also requires defining roles and responsibilities effectively and the use of various policies and system for implementation.

The second component of this layer is the integration of ESG risk into existing risk management frameworks. A

robust risk management can be accordance with global risk framework such as The Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) , Enterprise Risk Management (ERM)–Environment Social, Governance (ESG) framework, to ensure systematic identification and prioritisation of ESG risks associated with business operations.

The last component of this layer is comprehensive “ESG strategy” which enables product stewardship and ESG growth. The sustainability strategy has to be supported with measurable goals and targets. “Defining goals and targets” is the first step to convert invisible into visible. While defining goals, businesses can align their strategy and goals and objectives with UN SDGs and consider FOUR vital aspects:

Vital aspects of strategy development



Source: EY research

Lastly, it also emphasizes on adoption of ESG communication in alignment with brand goals and objectives. It guides organizations to be consistent in their communication to provide a holistic view of their brand. Effective and credible communication can help an organization to build trust and transparency among investor community.

2 Implementation

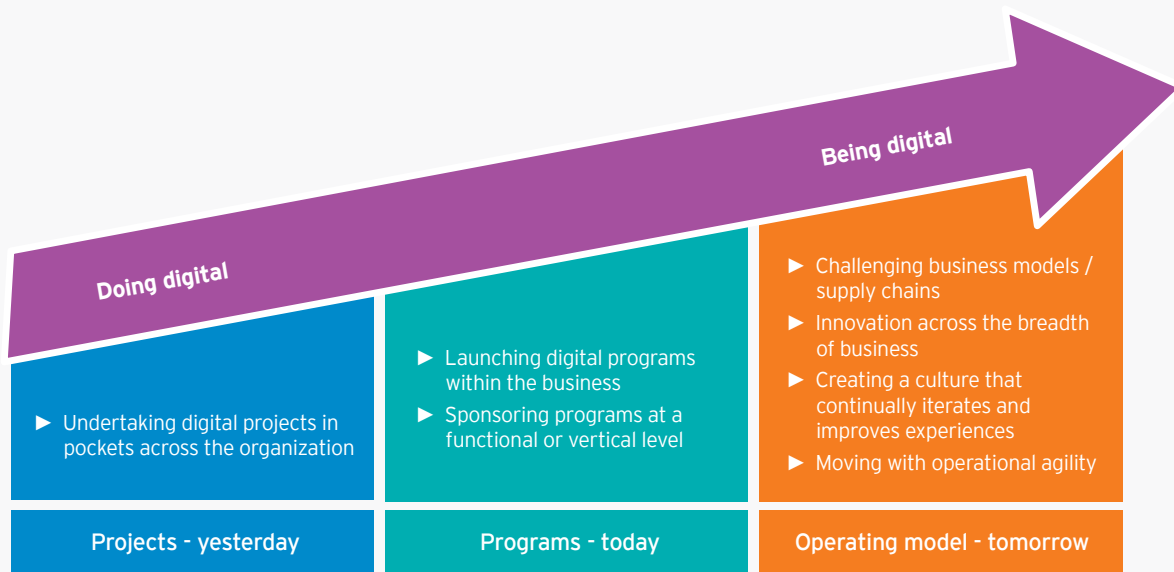
The second layer of this framework is implementation which consists of detailed implementation roadmap with list of activities aligned with ESG strategy. Organizations can create system and procedures to strengthen ESG performance of the entire value chain.

This layer mainly focuses on the operational boundary of an organization. And this may vary from one organization to another. With the operational boundary, organizations need to focus on achieving resource neutral or resource positive production. Organizations need to decide different areas of ESG based on the nature of their

business and goals and objectives.

In the current scenario and post COVID-19 world, the best-in-class Environment, Health and Safety (EHS) practices can go a long way to foster well-being, good health, occupational health & safety and in their overall ESG journey. The implementation can become effective by integrating MIS, real-time progress tracking and transparent reporting. It can be supported by various data platforms which can analyse sustainability parameters across value chain.

Moving from doing digital to being digital



Source: EY research

3 Measurement and Communication

This is the bottom layer of the framework which emphasises on effective monitoring of ESG performance and communicating the same to different stakeholders. The comprehensive ESG strategy and roadmap can be implemented effectively when there is an effective system to monitor and review the outcome and impact of the intervention. This can be done by developing internal metrics and KPIs. There are many global standards such as Global Reporting Initiative (GRI), and ESG rating such as Dow Jones Sustainability Index (DJSI), MSCI, FTSE4Index etc. can act as reference points to develop internal metrics for an organization.

With increasing pressure for ESG disclosure, organizations can adopt various reporting framework such as Global Reporting Initiative (GRI), Integrated Reporting Council Framework (IIRC) and Carbon Disclosure Project (CDP) to communicate their strategy and intervention in different ESG areas. To enhance the credibility, organizations can also support their disclosure with third party assurance of the ESG data.

The 'Sustainable by Design' framework is a comprehensive framework to integrate ESG into organizations' strategic approach. This can further be strengthened at each layer by a collaborative approach through different strategic partnerships.





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About ICC

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India.

ICC had made its humble contribution in the pre-independence era during 1925 - 1947 towards promotion of Indian businesses and Swadeshi movement. Post Independence, ICC had the honour of engaging closely on Economic development and Reforms with Govt. of India. ICC had the privilege of hosting Session with Indian Prime Ministers like Shri Lal Bahadur Shastri, Smt. Indira Gandhi, Shri Chandra Shekhar Azad, Shri Atal Bihari Vajpayee and several other leaders.

Recently, ICC was fortunate to host a Session with Shri Narendra Modi, Hon'ble Prime Minister of India on 11th June 2020.

Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr. B M Birla, Sir Ardeshir Dalal, Sir Badridas Goenka, Mr. S P Jain, Lala Karam Chand Thapar, Mr. Russi Mody, Mr. Ashok Jain, Mr. Sanjiv Goenka, have led the ICC as its President.

ICC works closely with various Ministries and State Governments on policy and industry issues. ICC has hosted Sessions with national and global leaders like Mr. David Cameron, Former PM of United Kingdom, Smt. Sheikh Hasina, Prime Minister of Bangladesh, Prime Minister of Bhutan, Deputy Prime Minister of Mauritius, Shri Pranab Mukherji, President of India, Industry and Commerce Ministers of Thailand, Industry Minister of Singapore, Chief Ministers of various States and prominent Indian Ministers including Shri Amit Shah, Shri Piyush Goyal, Smt. Nirmala Sitharaman, Shri Nitin Gadkari, Shri Rajnath Singh, Smt. Smriti Irani and several others.

ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada.

The Indian Chamber of Commerce headquartered in Kolkata, over the last few years has truly emerged as a national Chamber of repute, with full-fledged offices in New Delhi, Mumbai, Guwahati, Siliguri, Agartala, Ranchi, Bhubaneswar & Hyderabad functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance

ICC's North-East Initiative has gained a new momentum and dynamism over the last few years. ICC has a special focus upon India's trade & commerce relations with South & South-East Asian nations, in sync with India's 'Act East' Policy, and has played a key role in building synergies between India and her Asian neighbours through Trade & Business Delegation Exchanges, and large Investment Summits.

ICC also has a very strong focus upon Economic Research & Policy issues - it regularly undertakes Macro-economic Surveys/Studies, prepares State Investment Climate Reports and Sector Reports, provides necessary Policy Inputs & Budget Recommendations to Governments at State & Central levels.

ICC's forte is its ability to anticipate the needs of the future, respond to challenges, and prepare the stakeholders in the economy to benefit from these changes and opportunities.

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