



ESG integration in business: a key imperative

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The Indian business scenario is going through a phase of uncertainty, and the amplification of several natural and social disruptions are making businesses rethink their strategy. ESG, as a concept, is evolving to create long-term value for all stakeholders.

The COVID-19 pandemic was a strong trigger to reshape global economies and determine how businesses operate. By exposing the fragility of the current businesses and economic models, it has forced the world to hit the reset button and think. Future proofing by enhancing resilience is what businesses are looking at presently.

If we look at the top five global risks as depicted by World Economic Forum, they have shifted from economic to environmental and societal. In recent times, cyclones, earthquakes and other alarming natural calamities indicate that focusing on economic risks is not just enough. To future proof a business against uncertainty, ESG integration is equally important.

At the inaugural roundtable of the EY ESG Leadership Dialogues, the importance of ESG as an enabler of resilience came to the fore. While the theme was centered on ESG as a value creator, the discussion also focused on how Indian companies are gearing up to comply and lead with ESG and how private public partnerships will be instrumental.

Rajiv Memani, Chairman and Regional Managing

Partner, EY India, opened the roundtable explaining how ESG has transformed from a soft compliance issue to a key strategic discussion point across the board room. The main themes of ESG that are very persistent at all levels of the business include:

- ✓ The digital disruption: COVID-19 has further accelerated the digital disruption that enables agile workspaces, automation in several processes and has the potential to bring about a complete paradigm shift in the business we do today
- ✓ The geopolitical scenario and the complexity of business involving supply chain and intricate value chain is adding up for the need of ESG

Most CEOs of progressive companies are aspiring to take a market leadership stand towards ESG since it has a huge potential in attracting capital when integrated with business strategy. Investors are looking at non-financial parameters with equal focus as financial performance.

Regulators around the world are pushing the ESG agenda. In India, with the launch of BRSR, the regulatory aspect of ESG received further momentum. BRSR will become mandatory for the top 1000 companies in terms of market cap by 2022-23. BRSR aims to gauge a company's performance on key ESG parameters by asking companies to fill over 150 questions across 9 key principles.

From all perspectives involving customers, suppliers, employers, financial markets, regulators and the governments, ESG is becoming very critical for long-term sustainability of the business.

With growing stakeholder capitalism, the business ecosystem has become more complex over the years. Businesses have to ensure holistic value creation for stakeholders, and the means to determine value have evolved from non-financial reporting to integrated profit loss statements. Such form of reporting attempts

to correlate or monetize the positive and negative impact of business operations and products through a range of capitals (human, social, natural, intellectual). In fact, investors are increasingly seeing value of such reporting and that has been one reason for it gaining momentum globally. The International Integrated Reporting Council's (IIRC) integrated reporting framework provides the guidance for six capitals which can be reported – social, human, intellectual, natural, manufactured, and financial capitals. Such a combination of financial and non-financial reporting forms the basis for developing integrated profit loss accounts.

ESG in the heavy manufacturing sector

ESG is gaining momentum in hard to abate sectors as a strategy to combat the perils of climate change and emission reduction. As mentioned by **Mahendra Singhi - MD & CEO, Dalmia Cement (Bharat) Ltd**, the distinction between what is good for profitability and what is good for sustainability is diminishing, and businesses are slowly understanding that. For Dalmia Cement, the business philosophy has evolved to “clean and green is profitable and sustainable”.

In 2018, their company became one of the lowest carbon footprint cement companies globally as well as one of the most profitable cement companies in India. They harvest more water than they consume and have successfully achieved their 2020 goal of becoming five times water positive in 2018. Now they are taking an even more ambitious target of becoming 20 times water positive.

Technology is an enabler but what is more important is the mindset and the vision. Therefore, ESG can be a way to visualize the technology not only of today but of tomorrow and become carbon negative.

For **Michael Holland - CEO, Embassy Office Parks**, a prime focus of customer push is efficiency in environment space particularly around energy. Their business model is B2B and he feels sustainable procurement is becoming a non-negotiable part of the whole ESG agenda.

Innovation in the space of green procurement is happening at a rapid pace and it is becoming essential for organizations to align themselves with the best practices while innovating at the same time.

ESG as an enabler of net zero

To keep up with and anticipate market developments as influenced by extreme weather events, fluctuations in commodity prices, and technology disruptions, firms need to initiate a carbon-neutral transition and have a strong environmental, social, and governance (ESG) focus.

At the center of the energy transition is the oil and gas sector. These industries must thus be the torchbearers of change, leading by example with a comprehensive ESG framework for sustainability - a wholesome plan encompassing actionable short, medium and long-term targets to decarbonize energy.

In the discussion, **Sashi Mukundan - President, BP India and Senior Vice President, BP Group**, explained how they have shifted their core business strategy and have integrated ESG as an enabler for a low carbon economy.

As a mission to grow as an integrated energy company, BP is currently focusing on social and governance aspects apart from technological interventions. This ensures that BP develops a future ready resilient business model. Its recent focus includes awareness among employees, knowledge sharing and alliances, partnership at the policy level and creating a transparent ESG management system.

How to develop a proper ESG matrix in an organization

Given the vast expanse of the ESG arena, organizations often wonder where to start from and how to align the pieces together to draw a strategic picture. The answer to that lies in the question - what's most important to the business? After identifying what matters most, organizations look towards measuring their performance on key qualitative and quantitative aspects and benchmarking them against peers and leaders. It is also important to have a continuous dialogue with stakeholders and build a strong engagement and communication strategy that integrates ESG. This would also involve disclosing ESG performance through relevant reporting frameworks. Finally, the organizations

which have evolved to leadership stage have a clear ESG approach, vision and targets and work with industry peers to propagate greater uptake of ESG.

In this regard, **Dilip Gaur - Managing Director, Grasim Industries**, talked about the fashion industry which is the second most polluting industry in the world. To combat the ill-effects of emission and material waste, Grasim has built technology to recycle cotton. What has also happened is that green products are also giving a lot of opportunities for good business. Sustainability and business value have merged, as Grasim is further venturing into greener technology.

Circularity, where waste of one industry can be used as raw material for another industry, is a huge opportunity that can be further fueled by the principles of ESG. Another major ESG issue in the fashion industry is transparency and Grasim has applied Blockchain technology for end-to-end traceability since transparency has become an important part of ESG today.

Importance to the S and G factors of ESG in ensuring resilience of Indian businesses

The environment aspect of ESG can be easily quantified through metrics and KPIs and there is a lot happening in the environment space. The same cannot be said for social factors because many companies have not yet adopted uniform reporting on social issues. Only a few companies have a reporting system for presenting data on social issues to stakeholders.

A contributing factor here is the difficulty in establishing any social indicators. After all, social issues cover a wide range of topics: from consumer protection to product safety, labor law and safety at work, diversity, the fight against corruption and respect for human rights throughout the supply chain.

Currently, India is looking at a 5 trillion-dollar GDP and therefore it becomes even more important to evolve the idea of diversity and inclusion in business. A diverse workforce ensures enhanced input. Many companies have taken initiatives around women empowerment, but India may look beyond and start creating a better workplace for the specially abled.

As rightly pointed out by **Dipali Goenka - CEO & Jt. MD, Welspun India Ltd**, it is not just about diversity of women, it is also about the specially-abled. She indicates that apart from their healthy balance of 30% women in the workforce, they have inducted specially abled people including people with hearing and speaking disability in their spinning plants and are providing them with facilities and equal opportunities to completely embrace the idea of diversity and inclusion.

For proper functioning of any business, it is imperative that governance is a very critical starting point. Focusing on induction of independent directors, ensuring board diversity in terms of gender, capabilities, ensuring proper policies and risk management structure are some aspects Indian businesses can look at. Already, there are certain companies developing an ESG charter, forming ESG committees to strengthen the ESG governance and developing a comprehensive risk mitigation strategy.



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