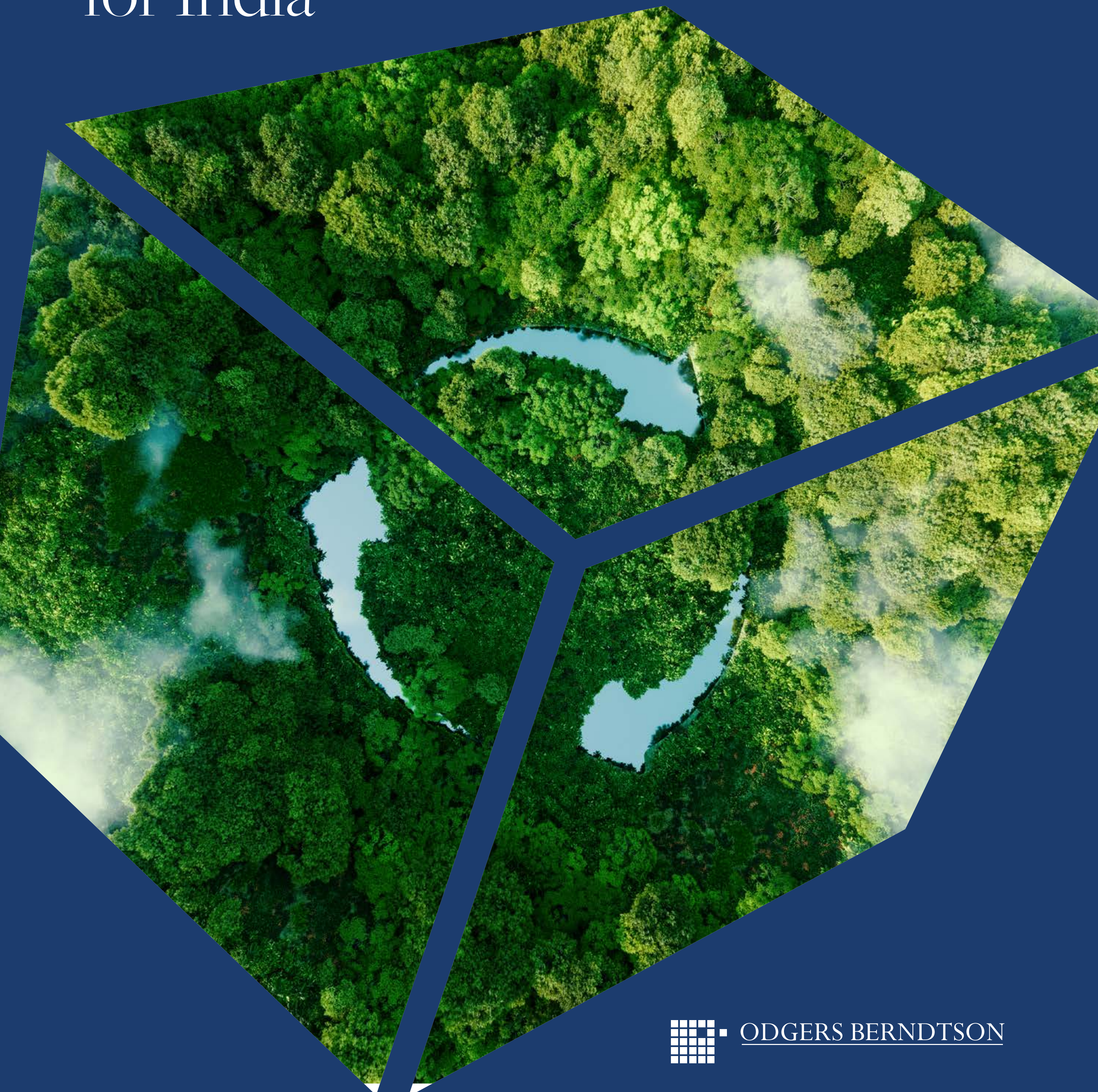
CEOs & Sustainability: Opportunities & Challenges for India



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Introduction

ESG, which stands for Environmental, Social, and Governance, is a framework that has gained significant importance in recent years. It refers to the consideration of environmental, social, and governance factors by companies and businesses, alongside their financial performance.

An integral aspect of ESG is addressing carbon emissions. Carbon emissions are categorized into three scopes as depicted below:

SCOPE 1

Covers the Green House Gas (GHG) emissions that a company makes directly — for example emissions made while running the company's boilers and vehicles.

SCOPE 2

The emissions made by the company indirectly – like when the electricity or energy the company buys for heating and cooling buildings, and is being produced on its behalf.

SCOPE 3

All the emissions associated, not with the company itself, but that the organisation is indirectly responsible for, up and down its value chain. This includes emissions from supply chain, transportation & product use.

Understanding and managing carbon emissions is key to mitigating climate change risks. Achieving net zero means balancing the amount of greenhouse gases emitted with an equivalent amount removed from the atmosphere. Carbon credits are measurable, verifiable emission reductions from certified climate action projects. These projects reduce, remove or avoid greenhouse gas (GHG) emissions. Carbon credits thus offer a mechanism that helps companies offset their emissions by investing in projects that reduce greenhouse gas emissions elsewhere.

The Government of India has supported business in driving sustainable practices through various policies & guidelines. The Companies Act of 2013, introduced mandatory CSR spending for companies meeting specific criteria, such as having a net worth of ₹ 500 crore or more, turnover of ₹ 1000 crore or more, or a net profit of ₹ 5 crore or more. Companies meeting these criteria are required to spend at least 2% of their average net profits of the preceding three financial years on CSR activities. This CSR mandate has encouraged companies to invest in social and environmental initiatives, such as education, healthcare, sanitation, and environmental sustainability.

> “Scope 3 is majorly about vendor ecosystem & is the tricky piece. It looks at how your vendors are conducting business and how you can influence them to comply. Here at Odgers Berndtson, we are committed to lowering our environmental impact and have created science-based carbon targets for reducing our emissions. We understand our role in driving sustainability and are proud of our track record in sustainability-oriented leadership roles.”

Mark Braithwaite, Managing Director APAC, Odgers Berndtson

Another important framework is the Business Responsibility and Sustainability Reporting (BRSR) guidelines. These guidelines provide a structured approach for companies to disclose information on various sustainability parameters. The BRSR guidelines cover a wide range of areas such as environmental management, social development, human rights, employee welfare, customer protection, and corporate governance.

To ensure greater compliance, the Securities and Exchange Board of India (SEBI) has scheduled to mandate the BRSR Core guidelines for top listed companies in India. Starting from the financial year 2024-25, the top 250 listed entities will be required to adhere to the “reasonable assurance” norm. This requirement will gradually extend to the top 500 listed entities in 2025-26 and eventually to the top 1,000 listed companies by 2026-27.

In order to comply with the SEBI reporting guidelines, companies will have to collate data & report on their carbon emissions, water usage, deforestation, employee welfare, diversity and pay parity among others from their various stakeholders in different geographic ranges.

With this context, Odgers Berndtson got CEOs across industries to come together to discuss how they are attempting to incorporate Sustainability into their governance framework. This report aims to capture the key insights that came out through the roundtable dialogue Under the below broad themes.

ESG: Opportunity V/S Cost

Opportunity

To comply with ESG norms and regulatory framework, companies need to invest in upgrading systems and processes, which requires investment in terms of capital, time and human resources. While these upfront costs may pose some challenges, the investment into sustainability not only aligns with business goals but in the long term also brings about cost efficiency.

A report, produced by the Infosys Knowledge Institute states a 10 percentage point increase in ESG spending would grow profits by 1 percentage point. The report insights came from a survey of 2500 business executives across industries, and across the UK, US, France, Germany, The Nordics, Australia, New Zealand, China and India.[1]

> “If India were to place its entire bet on the right combination of solar, wind and battery power, we can have super abundant power in a period of 15 to 20 years at our offices and our homes at an affordable price.”

Shailesh Haribhakti, Chairman of the Board, L&T Mutual Fund Trustee Ltd and Independent Director on multiple boards.

The leaders as part of the discussion agreed that India's progress on solar energy has been path breaking in many ways. India has one of the lowest Purchase Power Agreements (PPAs) in the world. There is an abundance of solar & wind power that is produced. The only challenge is that the infrastructure to connect it to the energy grid of the country still has to be developed. Once the necessary infrastructure is put in place to capture this excess power, India will be abundant in its power supply.

The National Green Hydrogen Mission was approved & released by the Government of India in January 2022. This will help fast-track India in becoming a leader in the green hydrogen sector. The National Green Hydrogen Mission R&D Roadmap was also recently released on World Hydrogen and Fuel Cell Day (8th October). This roadmap aims to foster a robust research & development ecosystem to enable the commercialization of Green Hydrogen and contribute to the sustainability objectives that will be driven by India Inc.

[1] Infosys ESG Radar Report 2023
https://www.infosys.com/about/esg-radar-report/esg-radar-infographic-2023.pdf

CEOs across industries agreed that how quickly we can adopt new age technologies including AI to inculcate sustainability across business processes, including supply chain, will be key to India meetings its global sustainability target of Net Zero emission by 2070.

Cost

The cost of ESG (Environmental, Social, and Governance) varies depending on the scale and complexity of the process upgrades required, the industry and geographical location of the company. These investments may involve developing and implementing new sustainability strategies, conducting ESG audits, adopting renewable energy sources, enhancing supply chain transparency, and training employees on ESG practices.

However, investment to adhere to ESG guidelines involves time, capital & manpower. This is where smaller business struggle as they often do not have these factors in abundance. The silver lining is capital investments in renewable energy sources brings down operational costs that directly impact the end product or service and improve productivity over a longer time span.

> “At Michelin, we firmly believe that the people, profit, planet balance is what ensures our long-term viability and the sustainable growth of our strategic model. Above and beyond our own operations, we believe that finding a harmonious balance between social, economic and environmental issues is critical to safeguarding the planet's future. When it comes to sustainability, Michelin factory in Chennai is leads with example in terms of Green Energy ratio, Electricity consumption per unit of production, water management (0% liquid discharge, 100% water treatment on site, rain water harvesting etc), waste management (100% recycle outside), replacement phytosanitary product, climate fresk with employees, etc.”

Florent Chaussade, Director, Michelin India Pvt Ltd

In case of hospitality sector for instance, in case the business does not take into consideration the natural habitat of the locations of the hotels, they could run the risk of being out of business as it would not be cost effective.

Failing to prioritize ESG compliance can lead to reputational damage, increased regulatory scrutiny, and potential legal liabilities, all of which can significantly impact a company's bottom line.

There is also the repercussions of brand reputation damage in case the company is not able to commit & achieve its ESG targets. But leaders from the industry agreed that the cost for not investing in ESG has more negative consequences.

Customers

Customers, especially the millennial & gen Z age groups, are naturally gravitating towards companies that are environmentally consciousness. Global investor community are actively seeking out businesses that are certified, and meet ESG best practices, as their preferred investment partners.

Investing in sustainability best practices not only fosters trust in the brand by the end consumer, but also helps open avenues in international markets, as a preferred partners / supplier. Earlier the criteria to win business was to be the most price competitive. But now times have changed. In case a business wants to supply products or services outside of APAC, then doing business sustainably is a key factor to qualify as a supplier. ESG compliance presents companies with the opportunity to not only meet the demands of socially conscious consumers but also enhance their reputation and attract a wider range of customers.

With stakeholders increasingly focused on sustainable practices, businesses that proactively adopt ESG compliance measures, position themselves to attract investors, enhance brand reputation, and build long-term resilience.

> “Ten years ago, being the cheapest vendor was the key qualification to supply outside of India. But today, to establish yourself as a global supplier, ESG compliance is paramount.”

Rahul Tikoo, CEO, Optime

Compliance

ESG compliance in India encompasses a broad range of areas, extending beyond merely addressing decarbonization. A comprehensive ESG framework entails establishing policies such as Anti-Bribery and Corruption (ABAC) and whistleblower policies to ensure transparency within organizations.

Achieving ESG compliance necessitates a thorough understanding of existing systems and benchmarking against regulatory standards.

Companies strive to obtain favorable scores which evaluate their performance in various areas. This evaluation helps identify areas of improvement and guides companies towards achieving higher levels of compliance.

Smaller companies often encounter challenges when it comes to adhering to ESG compliance. One key issue businesses face is the varying regulations across different geographical regions. These regulations can differ significantly across states & outside India in their requirements and parameters, making it difficult to navigate, especially for smaller businesses.

The CEOs shared from their experiences that the advantages of sustainability have to be looked at holistically & rather than from a short - term view of benefits the business can accrue in the next quarter or year itself.

> “Since we're a company of scale with a global footprint in over 70 countries, we can take on these goals, but I'm not sure if an India-centric smaller company can cope with these stringent goals. Coming from the power sector, they would need a very large team just to get the framework implemented.”

Amit Uplenchwar, Director, Kalpataru Projects International Ltd

The Business Case for Driving ESG

In recent years, the global investor community have been demanding greater transparency in Environmental, Social, and Governance (ESG) reporting from the companies they invest in. This growing emphasis on ESG factors is driven by the fact that the ESG elements have a significant impact on the overall valuation of a business.

ESG disclosures are important for investors for the following reasons:

- Climate-related considerations in asset valuation and finance allocation processes
- Determining the environmental & social impact of a company's business processes
- Assessing how climate change could affect a company's financial stability in the future.

By integrating ESG considerations into their investment strategy, private equity firms aim to identify companies with sustainable business models that are well-positioned for long-term success. Furthermore, these firms recognize that a more measured and standardized form of reporting on ESG practices can provide them with valuable insights into the risks and opportunities associated across their investment portfolio.

Consumers, especially Gen Z & Millennials, prefer to purchase goods & services from companies that have been produced using sustainable practices. Companies that take pride in their sustainability initiatives, are receiving encouragement from their customers, and are able to use it as a Selling Point, resulting in competitive advantage.

When customers are educated about their carbon footprint and made aware of a company's commitment to sustainable practices, they are more likely to develop a positive perception of the brand. Effective communication of ESG practices also plays a pivotal role in building trust and brand loyalty with customers.

Employees want to be associated with a company that takes its social and environmental responsibility seriously and that share their values. By adopting ESG practices, companies can attract and retain the best talent, fostering a positive work environment and enhancing overall brand reputation.

> "It is a matter of pride for employees that their organization is environmentally conscious. Customers also appreciate efforts taken by the business on sustainability. There is a huge pull from both the employee as well as the customer side."

Kavinder Singh, MD & CEO at Mahindra Holidays & Resorts India Ltd, Group Executive Board Member(Mahindra Group)

Leadership & ESG

With uncertainty continuing to increase risk and impact business environment, board sponsorship for moving towards a net zero target remains critical. However, the reality is that in industries where price competitiveness is paramount, boards often prioritize short-term financial gains over long-term environmental concerns.

A diverse board fosters positive environmental practices while also protecting the financial interests of the company. With environmental concerns becoming increasingly important, a diverse board can help incorporate different viewpoints and experiences, leading to better strategic planning and implementation of environmentally responsible practices.

"Companies that prioritize, demonstrate action, and provide quantifiable reasoning for the long-term benefits gained through sustainability, will lead their industry and profit financially. Boards are essential in this."

Usha Subramaniam, Country President - India, Grundfos

The Role of the CEO & Chief Sustainability Officer

Chief Sustainability Officers (CSO) champion sustainability initiatives and drive compliance. They play a pivotal role in setting benchmarks, tracking progress, and designing pathways to achieve sustainability goals within specified timelines.

CEOs are responsible for empowering their CSOs and driving ESG initiatives within their organizations. As the ultimate decision-makers, CEOs set the tone and intention of a company's sustainability efforts. It is the CEO who has the power to prioritize sustainability and incentivize its integration into the corporate strategy. CEOs who are willing to allocate resources and delegate authority to CSOs, thereby integrating sustainability goals with business objectives, are more likely to succeed in building successful business brands .

Both CSOs and CEOs play crucial roles in driving ESG compliance and sustainability. CSOs act as internal regulators, overseeing compliance and guiding the implementation of sustainability initiatives. CEOs, on the other hand, hold the power to prioritize sustainability, empower CSOs, and shape the overall sustainability strategy of the company. Together, their collaboration and shared commitment to ESG goals can lead to improved business performance, enhanced social responsibility, and strengthened corporate governance.

The leaders agreed that it is ultimately the CEO who is accountable to drive sustainability. Once sustainability becomes embedded in the culture of the organization, the CEO benefits via brand loyalty acquired by external & internal stakeholders, cost efficiency met through environmental factors and long-term value gained for the organization.

> “Sustainability lies at the heart of Lupin's identity and purpose. From our supply chain practices to research and development, we constantly strive to minimize our environmental footprint, reduce waste, and conserve resources. It is the very framework of our existence, inspiring innovation and leading us toward a future where healthcare meets both the needs of the present and the generations to come. We are not just in the business of medicine; we are in the business of a sustainable, healthier world.”

Sidharth Srinivasan, CEO, Lupin Digital Health

The Way Forward

It is important to consider both short-term and long-term implications when it comes to sustainability. However not all companies may have immediate access to significant financial resources for implementing new system upgrades and choosing long-term gains over short-term profitability.

As businesses continue to be impacted with the visible effects of climate change, disregarding the long-term consequences of irresponsible practices, & not taking ESG factors into consideration, would be extremely unwise. By emphasizing the positive financial outcomes of ESG initiatives, stakeholders for business will be more inclined to embrace sustainable practices.

> “Both the right measurement of and actions taken towards sustainability are of equal importance. At the beginning and for a period of time, it has to be the CEO who drives sustainability since like many other business changing initiatives, change has to be driven from the top and the organisations need to see leadership “walk the talk”, ensure alignment of KPI’s, etc.”

Narayan Sethuramon, Managing Director, Sanmar Matrix Metals Ltd.

CEOs across industries agreed that the time to ignore conducting sustainable operations has passed. There are enough technological advancements & science-based approaches to commit & move ahead on sustainability.

Currently, many companies are struggling to take up sustainability targets fit for the business & mapping it to back ROI, making it difficult to measure progress and impact. Reporting is just presenting the end results. Leaders need to focus on adopting sustainable practices across the value chain of the business.

Policy makers need to take note of standardization of reporting mechanisms across industries & states to make it the journey for each business, irrespective of size, smooth.

Communicating efforts taken by the business in conducting responsible operations has proven beneficial in building brand loyalty & acquiring new customer base. The way forward for ESG involves increasing the emphasis on advocacy, especially from CEOs & Boards.

> “For a developing country like India, the emphasis should be on affordability, compliance, and a holistic approach. Affordability is the main issue. A holistic approach is required because overall consumption patterns of water & energy are not easy to manage. So we need to question if there is any specific consumption that we can bring down. We cannot be adopting practices from parts of the world which have different consumption patterns to India & more evolved processes.”

Ranganath N.Krishna, Director, Cognizant Foundation & Independent Director on multiple boards

The way forward for ESG in India requires tailored solutions that take into account the unique characteristics of each company, product, and service. It necessitates a customized approach to address India's specific needs and challenges. Affordability plays a key role in driving compliance with ESG standards. Parameters that are working for developed markets may not be directly applicable in India.

Given that the current cost of energy in India is relatively high, investing in renewable energy sources that can be integrated easily can not only support in sustainable development but also provide abundant and affordable energy in the long run. Alternate sources of energy such as Biomass need to be explored further. Additionally, aligning bureaucratic processes to facilitate the transfer of carbon credits and educating companies on their value as a legitimate revenue stream can incentivize ESG compliance and contribute to India's sustainability goals.

By consistently advocating for ESG principles, leaders can drive positive change and inspire other businesses to follow suit, ultimately gain by attracting the best talent and fostering a more sustainable future.

> "India is a price sensitive market. In my experience, if customers are educated on the value gained by long-term investment in sustainability, then everyone stands to benefit as customers are willing to pay more & are loyal to environmentally conscious businesses."

Dr. Prasad Medury, Managing Director, Odgers Berndtson India.

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About Odgers Berndtson

Odgers Berndtson has a responsibility to lead in reducing climate risks by supporting our clients in identifying the leaders of today, and tomorrow, who can deliver business goals without costing the earth.

We advise our clients on their sustainability journey no matter where the starting point. Creating a credible and compelling sustainability policy aligned with the overall business strategy that can be embedded throughout the organisation is the most effective way to enhance stakeholder value, increase employee engagement and reduce climate risk. We support clients in finding sustainability and environment specialists within sectors ranging from financial regulation to the built environment, consumer manufacturing and chemical and process industries. However, we do not believe sustainability is solely the domain of specialists but instead exists as a shared purpose amongst all stakeholders. This is why we are committed to asking every client and candidate we meet, in all sectors and functions around the globe, about climate change. We believe this curiosity goes hand in hand with our commitment to identifying inclusive and diverse leaders.

Odgers Berndtson's strength lies in the partnerships we develop to address that need. We form strong relationships with the most talented people, with those seeking them and between our own teams globally to bring both sides together. It is because of our deep, non-transactional and lasting partnerships, that our clients can acquire, develop, and retain their strongest leaders. With offices in 32 countries, and through global collaboration between them, our consultants combine their industry and functional expertise with cultural and geographic knowledge to ensure our clients have a strong and diverse selection of candidates to choose from.