


# Nangia Andersen LLP

ESG - Driving  
**value** for your  
organisation

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Business performance that was formerly linked to profits and returns, is now taking cognizance of its potential environmental and social impact. The Coronavirus pandemic has amplified the transition to a more purposeful and inclusive stakeholder capitalism. Collectively, with the growing crisis of climate change, social inequality, resource depletion, it has brought about an unprecedented shift and re-adjusted focus on the foundational core elements- People, Planet and Profits.

### ESG- A tool to assess companies' future financial performance

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Enhanced ESG credibility, helps companies attract customers, tap new markets and expand into existing ones, as strong community relations improve access to resources and grants strategic freedom. Ethical and fair practices ease regulatory pressure and helps corporates stay on the right side of the government. In fact, ESG focus helps derive subsidies and government support.

Further, sustainable use of resources, through lower energy consumption and reduced water intake, helps lower operating costs significantly. A strong ESG proposition and social integrity, inculcates a sense of purpose amidst the workforce and increases overall productivity, which helps retain and attract best talent. Irrefutably, ESG leads to value creation and is being used as a means to assess the future performance of corporates.



### Stakeholders driving the change

As the world is embracing the tenet of sustainability and conservation, to that end, investors and customers are sounding a call to action and corporates are enthusiastically responding. For investors, allocating capital to quality-driven companies ensures solid returns on account of robust financial performance and lower risk. ESG metrics have taken a centre stage especially for new-age investors. According to a recent survey (Morgan Stanley), 84% of millennials cite investing with a focus on ESG impact as a central goal. It matters because, members of this generation (with ages between 24 and 39 in 2020), have entered their prime earning years and comprise a large demographic. Additionally, they are poised to inherit considerable wealth. It has been found that such stockholders invest in alignment with personal values. Therefore, the corporates that are ESG centric will be able to attract and retain millennial investors.



## Stakeholders driving the change *(Contd..)*

Further, purchasing decisions are increasingly being made, keeping in mind ESG issues. Socially conscious consumers are willing to vote with their wallets and pay more for sustainable products. Resultantly, worldwide, companies are embracing relevant ESG factors relevant to investors, customers and workforce, like controlling carbon emissions, responsible raw material sourcing and packaging, labour welfare, gender equality, data privacy, and much more.



### ESG and leadership

As ESG has gone from being an operational preference to business prerequisite, the demand for ESG leadership talent has intensified. What's more, performance of these leaders is getting linked to ESG! Their primary responsibilities include formulation of entity-wide ESG policy, integration across the organisation, execution throughout each business vertical, communication with the sceptical observers and convincing them of the companies' contribution to ESG goals, etc.

Worldwide many companies have also linked executive compensation to ESG performance. For instance, Apple introduced a modifier to executives' bonus payouts, adjusting them by up to 10% based on performance with respect to Apple Values, i.e. accessibility, education, environment, privacy and supplier responsibility. Similarly, Melbourne-based Rio Tinto has connected 15% of executives' annual bonuses to ESG.



## ESG Reporting and Rating



To reap the benefits from ESG, a corporate structure must be able to communicate material, decision-useful information to all stakeholder groups. The growing trend of sustainability reporting trend has resulted in the standardisation of frameworks into a globally accepted frameworks. India's Business Responsibility and Sustainability Report (BRSR) incorporates several performance indicators of the international frameworks, in an attempt to bring it on par with global ESG reporting trends.



Institutional investors, asset managers, financial institutions and other stakeholders are relying on ESG reports and ratings to assess and measure ESG performance of a company as compared to peers, over time. This growing awareness and interest in ESG issues among the investor and analyst communities is driving companies to obtain ratings, from accredited agencies to attain competitive advantage. Worldwide, many well-known third party ESG rating providers have emerged and India is steadily moving in this direction.



The ESG rating framework shall rate an entity on each ESG Pillar on three areas- Preparedness, Disclosure and Performance. Preparedness indicators would measure effectiveness of a firm's policy, programmes and structures, Disclosure indicators would measure effectiveness of a firm's standard and reporting process and Performance indicators would capture firm's controversies/incidents and it's response. The credit rating agency, CRISIL, recently launched the ESG scores of 225 Indian Companies, wherein Finance and IT Firms stood on top. The ESG scores were based on information available in public domain, including from third-party providers.



ESG is playing a material role in the decisions of governments, regulators, investors, lenders and corporates. ESG has become an inextricable part of businesses, it is high time corporates determine where they are in sustainability lifecycle. It is imperative to take a pro-active rather than reactive approach and embed sustainability in the strategy, to achieve competitive advantage.





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