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ESG: Big Companies Should Handhold vendors

Not long ago, companies in developed nations outsourced risky, environmentally hazardous jobs to smaller businesses in developing and underdeveloped countries. Thankfully, with the advent of technology and increased traceability of supply chains, organisations are compelled to take ownership of their contribution to Environmental, Social, and Governance (ESG) indicators.

Nagaraj Krishnan, Managing Director

Further, the COVID-19 pandemic, growing anxiety about the adverse impact of global warming, and skewed wealth distribution, among other factors, have only increased the interest of stakeholders in ESG. According to experts from Bain & Co, ESG considerations are expected to influence 90% of India-bound investments over the next five years. This marks a significant jump from five years ago when this criteria was applicable for only 40% of investments.

India, which is leading the pack at G20 this year, has placed high bets on helping its industries go green and increase their focus on ESG practices. While the government has mandated several new regulations and provided incentives, the Securities and Exchange Board of India has announced the rolling out of its Business Responsibility and Sustainability Reporting (BRSR) guidelines to all listed companies in a phased manner. The current trend for Indian commerce is BRSR Core, ReasoWnable Assurances, and Value Chain Inclusion.

The Reserve Bank of India's initiatives on climate risk and sustainable finance and newer indices by rating agencies to measure ESG are among the other steps taken to up India's ESG game. Mutual funds, too, have been throwing their hats into the ring. According to data compiled by Morningstar India, 12 ESG funds have clocked assets under management of Rs 10,427 crore in March this year.

To strengthen this further, on July 12, 2023, SEBI recently decided to introduce a Framework for assurances and ESG disclosures for the value chain. Through this notification, SEBI presented the identification of new KPIs for assurance, such as job creation in small towns, the openness of business, gross wages paid to women, etc. SEBI went one step further and announced a process of verification through assurances and reporting, and this explicitly indicates the future of India in the ESG space. It also indicates how serious the government is and proactive in ensuring that the corporates, who are the backbone of the Indian economy, are working in accordance with the global standards, norms, and trends and confirming adequate ESG impact.

Benefits

The three indicators – Environmental, Social, and Governance – are slated to be the crucial pillars for any business to be sustainable in the long run. ESG-centric organisations carry the potential to build resilient, viable, and impactful businesses. ESG integration can also bring in operational efficiency, tap unexplored opportunities, and better manage risk, all of which help increase stakeholder value.

The 'E' aids companies in pinpointing areas for energy efficiency improvements and renewable energy integration. This results in substantial savings and environmental performance, leading to potential benefits like lower interest rates and green financing.

The 'S' and 'G' encompass human rights, fair labour practices, health, safety, diversity, work-life balance, community engagement, and philanthropy. Globally, a diverse and inclusive workforce has proven to contribute to the better performance of companies.

Need to address bottlenecks

While implementing ESG could be easier for companies whose DNA is in their research and development, smaller companies and MSMEs – where the larger workforce is concentrated– will need some handholding.

According to Deloitte India's ESG preparedness survey, only 27% of the businesses that took part in the study are well-prepared to meet ESG requirements, while only 15% of their suppliers are ESG-ready. Most of the participants said that the implementation was one of the major concerns.

One of the ways to address this is that larger ESG-centric companies could pitch in and lend a helping hand to their vendors in the supply chain. The government, which has been rolling out a slew of measures to help companies become ESG compliant, could help MSMEs work in clusters so that they could collectively find ways and resources to implement the guidelines.

For a developing country like India, becoming ESG compliant is a gradual process. And large corporations need to take the lead. Turns out that they are up for it. According to a CareEdge Research report published this year, the top 1,000 listed entities over the past three fiscal years have reported a 160% increase in their ESG disclosure. For example, Godrej is focused on making 100% reusable, recyclable packaging material by the financial year 2025. P&G has introduced plastic bottles made of 10% ocean plastic and 90% post-consumer recycled plastic.

These developments, along with the proactive approach and amendments being presented by the government, herald a perspective that understands that ESG is no longer an optional addendum to business practices but an essential pillar for long-term success and positive societal impact.