Planet, People, Profit

OUTLOOK BUSINESS

www.outlookbusiness.com

THINK BEYOND. STAY AHEAD.

ESG The Green Ethic

As ESG reporting shifts gear from voluntary to mandatory, organisations are upping their game, in step with a growing preference for brands wedded to the environmental cause

KNOWLEDGE PARTNER

PRIMUS PARTNERS®

Solutions for Tomorrow

THE NEW NORMAL

ESG is no longer a niche concern but a core element of business strategy and investment decision-making

The environmental, social and governance (ESG) framework has evolved over decades from being a niche concern about ethical investing and corporate social responsibility (CSR) to a mainstream mission, shaping businesses and investment flows. The evolution has broadly traversed three phases.

Evolving Over Time

The 1960s and 1970s were marked by socially-responsible investing that focused on human rights, environmental protection and traditional financial metrics. Alongside, the concept of CSR gained ground as companies recognised their societal and environmental impact and focused on employee rights, community engagement and environmental stewardship.

The 2004 UN report *Who Cares Wins* brought together ESG factors under a single umbrella, establishing a standardised understanding and measurement of ESG implementation.

As institutional investors recognised the financial implications of ESG factors, they integrated its principles into investment decisions. The late 1990s and early 2000s saw the launch of indexes enabling investors to track and benchmark corporate ESG performance and establishing it as a mainstream business priority.

Cut to the present, ESG is a core element of business strategy and investment decision-making, driving innovation, risk management and long-term value creation.

This practitioner's guide to ESG as a corporate strategy explores the business case for ESG, provides practical frameworks and methodologies for implementation and offers strategies for integrating it into an organisation.

Why ESG Matters

The traditional shareholder-centric focus of businesses is being challenged by a growing demand for transparency and accountability on ESG issues from a range of stakeholders.

Impact investing is surging with investors using ESG data to assess risks and opportunities and helping companies improve their ESG performance. Investors are focusing on risk mitigation and seeking opportunities that yield substantial environmental, social and financial dividends.

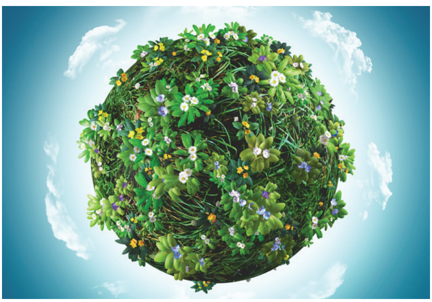
Consumers increasingly prefer brands committed to sustainability, ethical sourcing and social responsibility, seeking sustainable packaging options like refillable

Driving Sustainable Mobility

Driven by a strategy that revolves around sustainable mobility, Tata Motors has emerged as an electric vehicle (EV) pioneer in the Indian market, launching popular electric models and investing in EV infrastructure.

Tata Motors' manufacturing process is focused on minimising energy and water consumption, cutting waste and using renewable energy. Alongside, it is working with ethical sourcing practices and suppliers to improve the sustainability of its supply chain.

The company is involved in various community development initiatives, focusing on education, healthcare and skill development.



packs, signalling that brand loyalty is intertwined with a company's ESG performance.

Governments are framing stringent environmental regulations to ensure greater transparency on social and governance issues. ESG reporting is becoming mandatory in many jurisdictions and companies are under increasing scrutiny to ensure greater ESG transparency and accountability.

For instance, the Securities and Exchange Board of India (SEBI) has introduced Business Responsibility and Sustainability Reporting (BRSR) for listed entities, requiring them to disclose their performance on various ESG parameters. Also, besides offering tax and financial incentives, governments are issuing green bonds to finance green projects, creating opportunities for investors.

Increasingly, qualified professionals prefer to work for organisations that have a clear purpose and are making a positive impact on both environment and social front.

Strong ESG performance helps companies mitigate environmental liabilities and regulatory fines, protecting shareholder value. It also creates opportunities for growth and innovation—investing in renewable energy lowers costs, sustainable products meet consumer demand and strong governance enhances efficiency while reducing fraud and corruption. OB

FROM THE GROUND UP

Understanding the pillars of ESG is essential for organisations looking to develop a comprehensive sustainability strategy

Each pillar of the ESG framework—environmental, social and governance—plays a vital role in shaping responsible business practices and fostering long-term value.

Parts Make the Whole

Companies are working to cut greenhouse gas emissions through various energy efficiency measures, renewable energy adoption and carbon offsetting while optimising resources and building climate resilience.

Promoting a diverse workforce and inclusive culture fosters innovation and enhances employee satisfaction. Equally, supporting local communities strengthens a company's reputation and relationships, while prioritising employee health and safety and encouraging professional development boosts productivity.

Strong decision-making is ensured through ethical practices, board accountability and transparency. Upholding high ethical standards builds stakeholder trust, while a diverse, effective board enhances oversight.

Transparent communication on business fosters engagement and credibility.

It is important to recognise that the three pillars of ESG are interdependent. An integrated approach ensures that ESG strategies are cohesive, maximising their impact and effectiveness.

Integrated thinking begins with an initial orientation and a holistic approach to governance, which should keep all stakeholders informed about an organisation's performance. Strong commitment to ESG pillars can mitigate risks and unlock new opportunities for growth and innovation.

A Step-by-Step Approach

Sound ESG strategies are founded on a deep understanding of an organisation's impact on ESG factors.

This starts with an assessment. Assessing impacts involves weighing both benefits and risks. For example, a lack of employee development may increase turnover and weaken skills, while a strong programme enhances productivity and morale.

Involving all stakeholders ensures that the ESG strategy focuses on real concerns and fosters trust and support for the company's initiatives.

Next, goals should be ambitious yet achievable and align with the company's overall mission and values. Setting specific, measurable, achievable, relevant and time-bound goals ensures accountability. These targets help organisations track progress and evaluate their ESG efforts over time.

A long-term vision guides overall strategy and aspirations. For example, a company might aim to become a leader in sustainability within its industry by 2030, influencing its product development, supply chain and operational practices.

Further, integrating ESG considerations by embedding them into various departments and processes ensures that they become a fundamental and integral aspect of the business.

Companies can embed ESG criteria into research and development (R&D), ensuring new products consider environmental and social impacts, such as biodegradable packaging or sustainable sourcing.

Assessing suppliers for ESG risks and opportunities and collaborating with them to establish ethical sourcing standards can also enhance overall ESG performance.

Companies should clearly communicate their sustainability initiatives and progress to stakeholders through annual sustainability reports, social media campaigns and participation in industry forums to foster trust and demonstrate accountability.

Eventually, companies should adopt recognised standards to ensure their ESG data is comparable and reliable, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD) and the BRSR.

Leadership and Culture

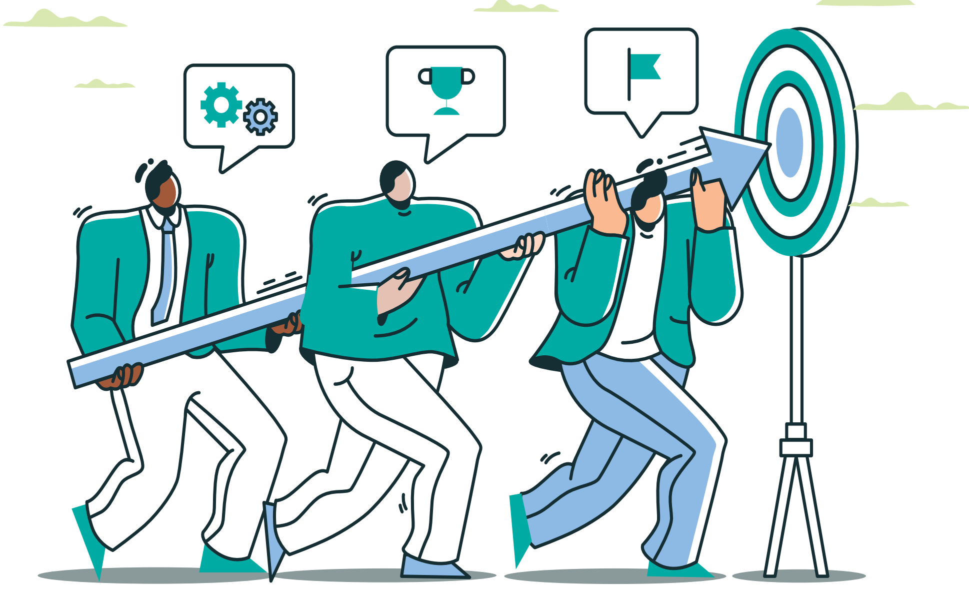
Finally, leaders must champion sustainability and ethical practices, fostering a corporate culture that prioritises ESG considerations.

Executives should demonstrate their commitment to ESG by integrating it into the company's vision and strategic objectives. This commitment should be communicated throughout the organisation, emphasising that ESG is a shared responsibility.

Engaging employees in ESG through training and involvement fosters a sustainability culture, boosting morale and a sense of purpose. OB

MOVING WITH CAUTION

The ESG space is beset with challenges such as data transparency, greenwashing and debates around cost. Nonetheless, there are valuable lessons



Neglecting ESG can lead to a loss of market share to competitors who embrace eco-friendly practices or are viewed as more socially responsible. Overall, companies with robust ESG practices displayed a lower cost of capital, lower volatility and fewer instances of bribery, corruption and fraud. However, challenges remain.

Spectre of Greenwashing

Globally, the trend of greenwashing has sparked increasing concern among regulators and consumers alike. A notable example is the Volkswagen emissions scandal, which brought to light how companies could mislead consumers by falsely claiming environmental benefits.

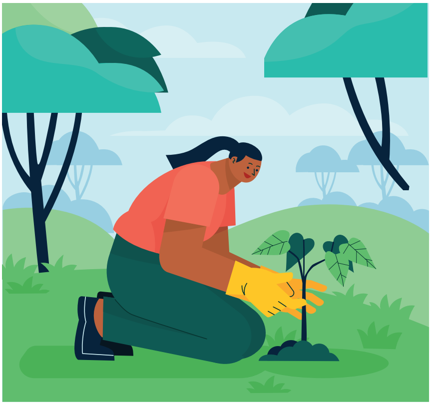
SEBI is implementing the BRSR framework, which mandates ESG disclosures for the top 1,000 listed companies in India, thereby positioning Indian companies to succeed in a global market that values sustainability.

More recently, the Central Consumer Protection Authority (CCPA) published guidelines titled Guidelines for Prevention and Regulation of Greenwashing or Misleading Environmental Claims, 2024 to prevent greenwashing and ensure the integrity of advertisements related to sustainability.

Data Challenges

While various organisations and frameworks offer guidelines for ESG reporting, the absence of a universally accepted standard makes it challenging for investors and stakeholders to accurately compare data.

Along these lines, Nasdaq's Sustainable Lens, a new AI-powered SaaS platform, aims to help companies and investors navigate



and utilise ESG data from thousands of companies. In India, IBM has added AI-powered emissions planning and forecasting capabilities to its ESG data collection, analysis and reporting platform—IBM Envizi. Investing in

automation, AI for data gaps and third-party audits enhances ESG data quality.

Cost Versus Returns Debate

According to studies, consumers are willing to pay a premium of up to 27.6% more for "sustainable" products over others. ESG initiatives help companies create long-term value with consumers and stakeholders, which, over time, yields other benefits such as stakeholder loyalty, economic efficiencies, and opportunities for innovation.

Younger customers, in particular, are more inclined towards sustainable and socially responsible businesses. Also, ESG-compliant companies have less risk of regulatory penalties, thus lowering compliance costs in the long run. Moreover, a company's sustainability efforts promote employee satisfaction and retention: 35% of UK office workers in a survey said they were willing to quit their jobs because of their employers' weak climate action.

Between 2013 and 2020, companies that consistently scored high on ESG factors saw 2.6 times greater shareholder returns and enjoyed 4.7 times higher operating margins than average scorers. Also, recent evidence links higher ESG scores to a 10% lower cost of capital.

Measuring Success

ESG metrics offer a holistic view of sustainability, ethics and risk. Companies assess ESG through risks from poor performance and opportunities from proactive initiatives. Over 95% of S&P 500 firms publish sustainability reports. In India, SEBI mandates the top 1,000 listed companies to submit BRSR, voluntarily in the financial year 2022 and mandatorily from financial year 2023.

Companies with strong ESG performance exhibit higher returns, firm value and profitability and outperform in the mid- and long-term. They also recover faster from financial downturns, reduce operational risks and maintain strong risk-adjusted performance.

Further, sustainability-focused investment indices outperform traditional markets, as shown by the Financial Times Stock Exchange (FTSE) Opportunities All Share Index, which outperformed the FTSE Global All Cap Index by 4.9% annually between 2015 and 2020. Alongside this, ESG commitment strengthens investor confidence and capital access.

A recent SAP Sustainability Survey found that 77% of Indian businesses reported sustainability strategies contributing to financial growth, while 39% plan to increase investment in sustainability within the next three years. Firms emphasising ESG saw revenue grow by 9.7% versus 4.5% for others, while ESG-focused businesses reported an average 9.1% profit increase, with the US leading at 11%.

More Than Money

There are several financial benefits to integrating ESG with business strategy. The first is reduced carbon emissions. Companies reducing emissions and adopting energy-efficient technologies are less vulnerable to regulations.

Diversity, equity and inclusion (DEI) initiatives enhance sustainability and success. Supplier diversity reduces carbon footprints, while employee resource groups boost job satisfaction and retention. Microsoft's ESG scores reflect its DEI efforts—by 2020, women comprised 28.6% of its global workforce, and racial and ethnic minorities made up 41.3% of its US workforce.

Moreover, disclosing ESG performance builds trust with customers and employees and enhances a company's reputation while supporting equitable societies and fair labour practices.

ESG also makes workplaces appealing to employees who value social responsibility, as demonstrated by a multinational food-products corporation, which prioritised employees and used ESG data to assess workplace conditions, employee satisfaction and health programmes. Similarly, Nestlé's Water Resources Reviews led to a nearly 50% reduction in water use between 2010 and 2020.

Companies can use AI-driven analytics to boost efficiencies across the ESG value chain, including performance tracking, data collection, key performance indicator monitoring and real-time ESG insights. Elsewhere, companies must engage employees, consumers and investors in their ESG work to foster innovation and internal accountability.

Companies must also track ESG progress through structured internal reviews, external reporting tools and third-party audits. Participating in initiatives like the UN Global Compact provides access to best practices and strengthens ESG credibility. OB

THE CASE FOR ESG

Over decades, ESG has evolved into a framework that firms need to integrate into their operations to meet consumer expectations

The era of voluntary ESG reporting is ending as governments tighten disclosure rules. For instance, companies with securities listed in the European Union are being closely watched for their approach to double materiality analysis and climate reporting.

What 2025 Holds

The International Sustainability Standards Board (ISSB) has introduced International Financial Reporting Standards (IFRS) S1 and S2 standards to unify sustainability reporting. These standards enhance transparency and comparability across industries. Over 25 jurisdictions have adopted ISSB standards to ensure consistency in reporting.

Further, companies must report both their environmental impact and how climate change affects operations. This dual approach, incorporating financial and non-financial risks, is becoming standard practice. Multinational technology company Siemens uses double materiality assessments to identify sustainability impacts and improve strategies

addressing environmental and social costs.

Next, the "S" in ESG is gaining prominence as companies strengthen DEI initiatives, fair labour practices, ethical sourcing and workers' rights.

AI and blockchain are also transforming ESG reporting. AI enhances data accuracy, streamlines collection and automates report generation by analysing internal databases. Generative AI translates findings into digestible narratives for regulators and stakeholders. Blockchain ensures data integrity and supply chain transparency through decentralised ledgers.

ESG is key to achieving the Sustainable Development Goals (SDGs). Environmental preservation, social well-being and governance responsibilities within ESG frameworks help businesses measure and implement activities aligned with the SDGs.

Companies are also prioritising climate action by reducing emissions, using renewable energy and promoting circular economy models. Investments in renewable energy and energy efficiency are driving impact reduction efforts.

Key Tenet of Corporate Strategy

ESG has become central to corporate strategy. Tata Motors' commitment to sustainable mobility exemplifies how ESG fosters innovation and market leadership. However, greenwashing and data transparency remain concerns. Companies must use frameworks like the GRI, SASB and TCFD for genuine and comparable reporting.

As regulations evolve, prioritising ESG strengthens resilience, financial performance and stakeholder trust. ESG is not just a strategic imperative but a pathway to a sustainable future. OB

The Sustainability Promise