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Sustainable Development and Business – An Introduction to the What and the How

Shankar Venkateswaran

Shankar Venkateswaran is an IIMC alumnus of the 17th Batch (1980-82) and a recipient of Distinguished Alumnus Award in 2020 for his outstanding contributions in the arena of Social Development and Corporate Responsibility. He has over 33 years of experience in the corporate and social development sectors. The initial 12 years of his career were in management consulting, working with A F Ferguson & Co. (now Deloitte). He then moved to the development sector, where he spent 15 years in various positions at not-for-profit organisations including Action Aid. In 2012, he joined PwC as Director, where he advised several companies on sustainability strategy and reporting. In 2017, he retired as chief of Tata Sustainability Group. He is one of the founding members of ECube Investment Advisors, an ESG (environment, social and governance) platform launched in January 2019. He is an amateur stage actor, an enthusiastic weekend tennis player and occasionally dabbles in writing.

Putting sustainability in perspective

Till a few decades ago, CEOs believed that the factors that determine business success were business strategy, market share, product innovation, and financial and human resources, to name a few. The potential for environmental and social factors to impact business success was not on the radar. These factors were neither discussed in business schools nor reflected in organisational structures.

The idea of sustainable development became more widespread post the 1992 UN Conference on Environment and Development. Many believe that its adaptation to a business context was first done by John Elkington's postulation of a "Triple Bottom-line", often referred to as TBL or the 3Ps – People, Planet, Profits. Elkington's proposition, simply translated, meant that going forward, business success would be as much about managing traditional business factors mentioned above as it would be about managing environmental and social (E&S) issues. These issues include pollution, human rights, safety, and climate change, among others. This idea is now referred to as "sustainability" in business parlance.

This article highlight the inexorable sustainability trends that businesses are encountering and will encounter, which will no longer make "business-as-usual" an option. It also exhorts managers to understand and embrace this reality of sustainability and act on it. Whether this action will be incremental or transformative would depend upon them. And their companies.

Sustainability issues determining business success

Globally, several sustainability factors will drive the sustainability agenda, five of which are discussed here.

1) Informalisation of labour and Human Rights

Outsourced business models have given rise to a mushrooming of long and global supply chains chasing low labour costs. This has resulted in suppliers setting up "sweat-shops" that hire workers without formal contracts. Human rights violations relating to wages, conditions of work, use of child/forced labour, and so on abound as do accidents such as the fire in Rana Plaza in Bangladesh in 2013 (BBC 2013). More recently, the plight of migrant workers in India post the COVID 19 lockdowns in March 2020 (The Indian Express 2020) highlight the vulnerability of workers, many of whom work in supply chains.

The impacts on business success are self-evident. Reports about these sweatshops invited a backlash from several stakeholders: customers, civil society and human rights activists and in a few cases, the workers themselves, while regulations tightened. The plight of migrants brought home the fact that businesses with long supply chains were extremely vulnerable to disruptions.

2) Inequality

Credit Suisse's annual wealth reports (CreditSuise 2021) and Oxfam's annual inequality reports (Berkhout, Galasso, Lawson, Morales, Taneja, and Pimentel 2021) speak to not just the extent of inequality but also its growth. COVID has tragically pushed many people back into poverty, and Oxfam's research suggests that the rich have simply become richer and at a faster rate. Inequality, of course, takes different forms, and economic inequality is often a manifestation of social conditions. A more universal one is gender, where women and the LGBTQ community do not have equal opportunities. In many "white" dominated countries, the "blacks" and the "coloured" get discriminated and the Black Lives Matter movement is a response to this.[1] In India, there is identity-based discrimination, and Dalits, Adivasis and Muslim minorities are often the victims.

Businesses have long been aware that any form of social unrest can never be good for business. The shutting down of a company's bauxite mines in Odisha and its copper smelter in Tamil Nadu, agitation over the land acquisition for an automotive plant in West Bengal and the shutting down of soft drink facility in Kerala are extreme examples of the risks. Businesses may not be the sole cause of inequality, but as a beneficiary of the economic system, they are certainly targets.

[1] To know more about the Black Lives Matter movement, please see https://blacklivesmatter.com/.

3) Climate Change

The science is clear – human beings are responsible for emitting greenhouse gases, and a 1.5ºC in mean earth temperatures rise by the turn of this century over pre-industrial times will have irreversible negative consequences for life on planet earth. The urgent need to "mitigate" or reduce greenhouse gas emissions to "net-zero" by 2050 and the key role of businesses is clear. At the same time, businesses also recognise the need to ready themselves for the short-term consequences of climate change such as flooding of coastal assets due to sea-level rise, production and supply chain disruptions due to water shortages, worker productivity losses due to heat conditions, and so on. Therefore, business-as-usual is not an option.

4) Pollution

The dangers of pollution, despite being well understood, have been growing over the years. Air pollution caused by emissions from industrial processes, automobile exhausts, construction and, in northern India, from burning of agricultural waste has meant that 14 out of the 20 most polluted cities in the world are from India. Over 60% of India's rivers are polluted and their waters are not fit for drinking. Solid waste from industrial processes has always been a cause for concern but with increasing consumerism, the solid waste that is of most concern is plastics used in packaging, many of which are finding themselves in oceans and in the digestive systems of ruminants. Like Climate Change, what makes the issue of Pollution, especially air pollution, of universal concern is that it knows no socio-economic boundaries.

5) Resource scarcity

A fifth factor that businesses have begun to understand is the growing scarcity of natural resources, both renewable ones like water but also non-renewable ones like minerals and ores. Ehrlich-Holdren's IPAT equation of the early 1970s elegantly suggested that in a business-as-usual scenario, human impacts on nature are directly related to population, affluence, and technology (Holdren 1993).

By July 29, 2021, humanity used ecological resources and services that the Earth can regenerate in a full year, indicating that we need almost one-and-a-half earths to support our consumption needs. The American Chemicals Society publishes lists of endangered elements and estimates that we will soon run out of 44 of the 118 elements in the periodic table by the turn of the century (ACS Green Chemistry Institute 2021). These include rare earths, precious metals, and life-giving elements like phosphorus.

It is obvious that prospecting newer sources of raw material at the cost of biodiversity and the rights of indigenous people cannot be the answer. It has to lie in low-carbon, energy-efficient technologies and humanity quickly learning to reduce consumption.

Stakeholders driving the sustainability agenda

In 2019, the influential Business Roundtable consisting of the CEOs of the major US corporations released a Statement on the Purpose of a Corporation (Business Roundtable 2021), where they stated that they "share a fundamental commitment to all of our stakeholders", thus reversing the Milton Friedman dictum that investor is king! The change is only a reflection of the growing influence of all stakeholders as can be seen below from their sustainability actions:

- Investors see sustainability as both significant risk and an opportunity. They are asking companies to report their performance on sustainability and have begun to use sustainability performance to invest in – or divest from – companies. They are closely involved with all major global disclosure frameworks such as the Global Reporting Initiative (GRI), Integrated Reporting (IR), Sustainability Accounting Standards Board (SASB), the Task Force on Climate Related Financial Disclosures (TCFD) and CDP (formerly, the Carbon Disclosure project) to name five.
- Retail customers have long been in the forefront through their buying preferences, pushing companies to conduct themselves responsibly. It is, therefore, no surprise that B2C (business to customer) companies were quick to adopt and mainstream the sustainability agenda and extending it to their supply chains.
- Regulations ensure a level playing field to all businesses, independent of their size, sector, etc. They are driven both by local pressures and compulsions (as discussed above) and global covenants, and there is every indication that these will only get tighter. Indian regulations too are getting tighter, especially in the environment space, as has been non-financial disclosure mandates for listed companies by the stock exchange regulator.
- The other stakeholders, too, have got more active and influential. Communities, supported by a strong civil society, active media and political movements, have begun to assert themselves. Employees, especially millennials, prefer to join and stay with companies that care, and this is beginning to be seen more and more in India too.

A Manager's Action Agenda for a Sustainable Future

So how are businesses responding to these trends and stakeholder expectations? What should the managers do to be prepared for a future where impacts of sustainability issues on business, and vice versa, are only likely to increase, impacting long-term business success? Here are some thoughts, based on the current and emerging global good practices.

Proactively engage with stakeholders and understand their expectations

Clearly, it is very important for companies to proactively engage with stakeholders and understand their expectations, both current and emerging. While it may be argued that departments do engage with their stakeholders, these interactions need to move from the transactional to also include relevant sustainability issues. AccountAbility Standard Board's AA1000 SES is a globally accepted stakeholder engagement standard that companies could use (AccountAbility 2015).

Study and predict trends in regulation and disclosures

Mention was made earlier of how sustainability-related regulations and disclosures are getting tighter and comprehensive across the world. Following these carefully and being able to predict their pace (the direction is quite clear) is important for companies to ready themselves for the future. Companies need to make serious investments in research and gain insights across countries and jurisdictions of relevance. Membership of Indian and global business associations – both sectoral and cross-sectoral – that track these trends is a good way to keep abreast and ahead of the changes.

Identify material sustainability issues and KPIs and set ambitious targets

The most important first step in a company's sustainability journey is to identify its "material" issues. In essence, there is a limited set of key sustainability issues that potentially have the greatest impact on its success. Therefore, a company needs to embed these issues into its core business strategy, regularly track them, invest in them, and disclose its performance on the issues to all its stakeholders. A good practice is to refresh these material issues every 3-5 years through continuous stakeholder engagement and keeping an eye on regulatory changes. In addition, companies must periodically track all issues so that non-material issues do not unexpectedly become material.

Identifying Key Performance Indicators (KPIs) for each material issue and setting ambitious targets is at the heart of a company's commitment to sustainability. Some examples of the kind of KPIs companies use for each of the 5 factors mentioned above include:

1. Informalisation of workers and Human Rights: Proportion of suppliers covered by codes and standards; Existence of grievance redressal mechanism; Number of grievances received and proportion resolved; Fines paid due to violations.
2. Inequality: Gender and identity break-ups amongst different levels and categories of employees including contract/casual labour and in supply chains; Wage parity across gender and identity groups.
3. Climate Change Mitigation: GHG emissions – absolute and per unit of production; Percentage of Renewables in the energy mix; Energy Productivity in terms of energy per unit of production. A KPI (and target) that is becoming very widespread is achieving net-zero GHG emissions by a specific year.

4. Pollution: Non-GHG emissions – absolute and per unit of production; Solid Waste to landfill (zero); Zero Liquid Discharge (also zero or ZLD); plastics usage – absolute and per unit of product.
5. Resource usage: Fresh Water consumption – absolute and per unit of production; Percentage of recycled material in a product.

Invest in R&D and sustainability enhancing technologies

Inevitably, the achievement of ambitious targets and tighter regulations, especially in the environment space, comes with increased investments in R&D and clean technologies. This requires businesses to work closely with equipment suppliers to ensure that they are current and making necessary investments. As an example, steel and cement companies are focusing on hydrogen and carbon capture, while automobile and utility companies are keeping an eye on storage technologies.

Being sustainable also brings R&D and product development functions to the centre stage and is an essential component of a circular economy. This is especially the case when much of the negative environmental impacts are after the products are sold (automobiles, air conditioners, washing machines, detergents for instance), the way they are packaged (finding substitutes for plastic packaging is a very significant emerging business opportunity), and how easily the material can be recovered at the end of life. The last has started gaining much traction when it was realised that many products are not designed for easy disassembly, thus making material recovery uneconomical.

Address resource scarcity

How are businesses reconciling increasing consumer demand, which is key to growth and profitability, with growing resource scarcity? Several interesting options are being exercised which attempts to solve this.

The first way is by what is referred to as the "shared economy". Uber and Ola fulfil the need for comfortable, private transportation without having to own a vehicle. WeWork does the same for office space and Airbnb for short-term stays without creating additional office space or hotel rooms. In other words, this is about business models that enable consumption by better utilisation of existing assets. An extension of this is by converting a product into a service. Thus, Philips does not sell bulbs but lumens to Schiphol airport and can use whatever technology it wants and reuse its equipment as long as it provides the lumens. Leasing/renting services are examples where the user gets the equipment only when needed.

The second way is by extending the life of existing assets, an integral part of the Indian culture. Reconditioning of metal components and parts such as engine blocks, auto spare parts, plastic hangers, etc. are examples of this extension of life. Combining IOTs/sensors that can predict failures in components so that these can be replaced before the failure occurs thereby reducing downtimes and inventories ensures functionality without producing more.

The third is by recycling, again a part of Indian culture. There are opportunities to recycle waste from households, construction, food, agriculture, consumer durables, electronic products, garments and plastics. A range of so-called "waste" streams are increasingly being recycled and upcycled such as garments (Patagonia is a pioneer), converting agricultural waste into energy and usable products, fly ash for bricks as well as substituting limestone in cement. Companies are being built with products made of 100% recycled material (Johnson 2018).

A fourth is the use of alternative materials that can reduce the use of non-renewable natural resources. For example, captive plantations of fast-growing species for paper production and as a source of coke in steelmaking. The use of limestone calcinated clays instead of limestone results in a lower carbon footprint.

Address Human Rights

More and more businesses are beginning to recognise that human rights issues manifest themselves not only in supply chains (where child and forced labour, informalisation and the consequent violations of wages, conditions of work, and safety abound) but also in their own plants and workplaces through contract and causal labour that they employ. Their responses have taken various forms.

For one, many are putting in place stand-alone Human Rights policies that provide the basis to ensure that human rights are "respected" throughout the company, which is one of the key pillars of the UN Guiding Principles on Business and Human Rights (United Nations Human Rights 2011). Also, given the cross-cutting nature of Human Rights, businesses have begun to ensure that these principles are reflected in all policies, covering topics such as sustainability, procurement, human resources etc.

A second action is undertaking what is called a Human Rights Due Diligence (HRDD). HRDD involves evaluating a company's alignment with the UN Guiding Principles on Business and Human Rights across its operations and value chain and identifying the gaps so that corrective action can be taken.

Recognising the benefits of better trained, compensated and treated workers in the supply chain, their own poor oversight of work conditions beyond Tier 1 suppliers, businesses have begun to integrate sustainability into supply chains. Building on a sustainable supply chain policy, which many leading companies already have a place, companies have begun to act on these policies by:

1. Setting standards/codes that their suppliers are expected to adhere to. These may be their own internal standards or one of several global supplier standards which may be issue-based (such as SA8000 which covers conditions of work) or sector-specific (such as Rainforest Alliance, TrustTea, Fairtrade, etc.) many of whom are members of the ISEAL Alliance. [2]
2. Supporting their suppliers to align themselves with these standards by building capacities, providing technical support and facilitating funding where investments are required.

[2] To know more about the ISEAL Alliance, please see www.isealalliance.org.

3. Conducting periodic audits of their suppliers, usually through third-party auditors. Many of the global standards referred to above come with audit processes and trained third-party auditors.

While most businesses begin with a select set of suppliers, usually Tier 1, some have begun to look beyond where much of the Human Rights challenges lie.

Respond to Inequality

The economic benefits of reduced inequality – better-educated workforce, increased customer base to name two – have made businesses more aware of addressing this difficult challenge. The response typically takes two forms. The first is to have affirmative action initiatives that positively discriminate in favour of excluded groups – women of course but increasingly in India, some ethnic groups and the LGBTQ community – but these are few and far between. The second is to through their CSR initiatives, focusing on excluded communities.

Disclosures

Voluntary reporting frameworks such as GRI, IR, TCFD, and CDP have been around for a while. Additionally, mandatory sustainability reporting is growing (SEBI, India's stock market regulator just announced that the top 1000 listed companies would have to report against the Business Responsibility and Sustainability report from FY 2022-23). While the lack of a single, unified disclosure framework does put a burden on companies, more and more companies are recognising the need to disclose performance using these frameworks.

Institutionalise sustainability thinking

The last decade has seen the increasing professionalisation of sustainability. More academic institutions are focusing on this, and companies are appointing Chief Sustainability Officers (CSOs). The role of the CSO has also evolved from managing disclosures to greater involvement in strategy as well as engaging all functions not only the traditional ones but also R&D, marketing, and finance.

In terms of governance, too, the change has been rapid. Companies have begun to set up management committees to oversee this function. Large conglomerates have a senior person leading this at the group level also. Boards have begun to notice their company's sustainability performance, some even appointing board committees for this purpose. Publicly disclosed corporate policies covering various sustainability issues, signed off by senior management and the board, are fast becoming the norm.

Conclusion

Companies have also begun to respond to calls for action from various global organisations to commit to sustainability goals like using renewable energy, aligning with science-based targets for emissions, using electric vehicles, and raising energy efficiency. Traditional industry associations have set up functions specialised in sustainability and new bodies focusing on the subject. As a result, we are witnessing a significant increase in the involvement of companies.

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