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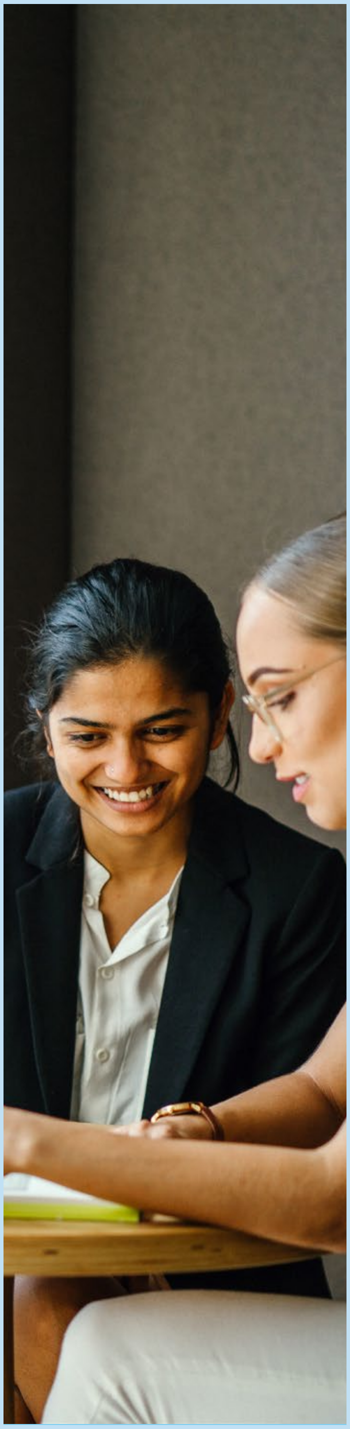

BEYOND THE "E" IN ESG

Abstract

Sustainability, today, in corporate parlance, is more of less synonymous with "ESG". ESG is the acronym for Environmental, Social, and (Corporate) Governance, the three broad categories, or areas, of interest for what is termed "socially responsible investors." These investors go beyond the potential profits to select their investments, ensuring they align to their values and concerns.

The sustainability conversation to date has been heavily environment focused—carbon conversations, carbon taxation, better energy sources and climate change. However, social and governance aspects are equally significant pieces of the ESG puzzle and that is what we are diving into in this paper. Organizations today, go beyond the "E" in ESG, focusing on the other two pillars, with a view into what it means to leverage S & G aspects in the corporate world.

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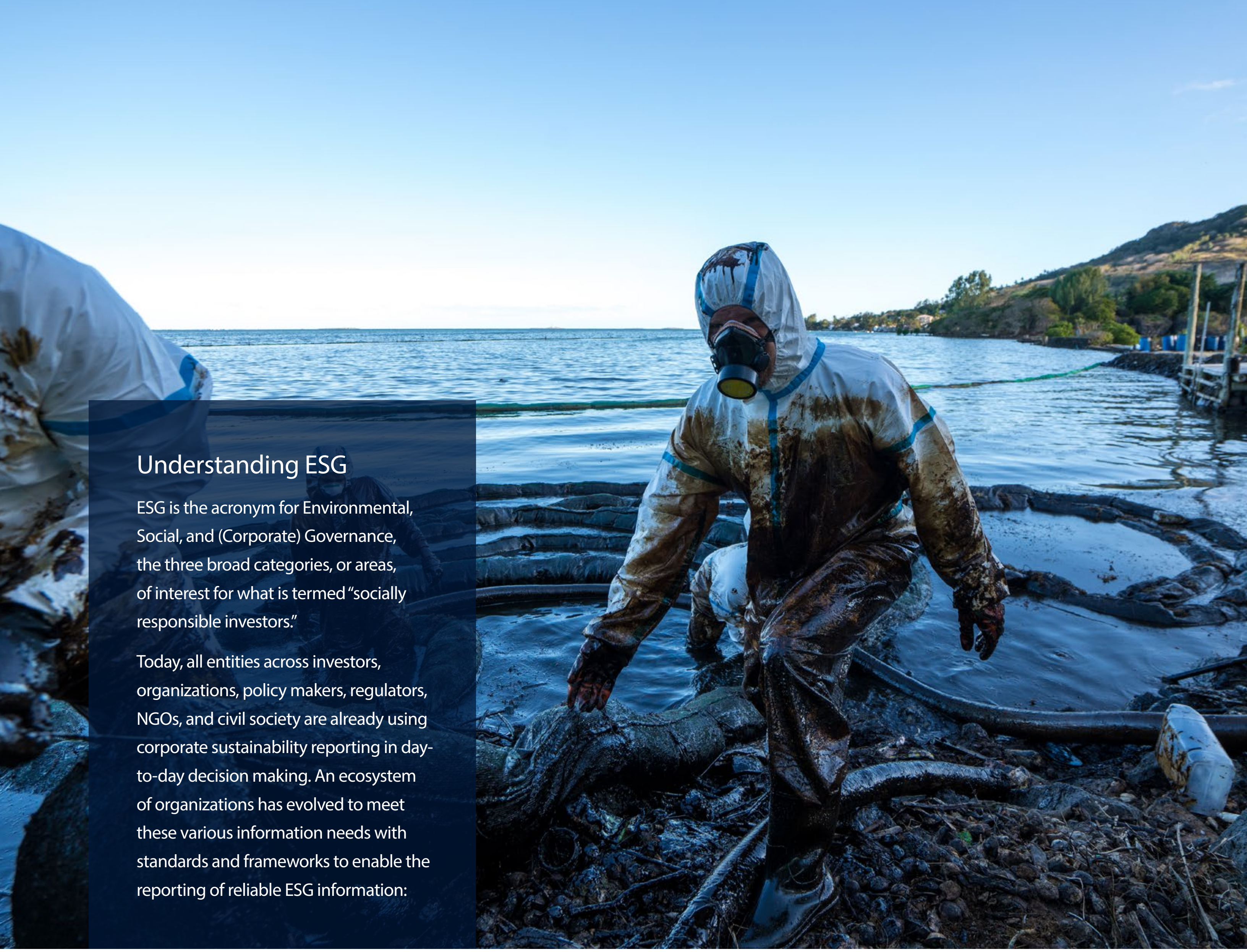

Understanding ESG

ESG is the acronym for Environmental, Social, and (Corporate) Governance, the three broad categories, or areas, of interest for what is termed "socially responsible investors."

Today, all entities across investors, organizations, policy makers, regulators, NGOs, and civil society are already using corporate sustainability reporting in day-to-day decision making. An ecosystem of organizations has evolved to meet these various information needs with standards and frameworks to enable the reporting of reliable ESG information:

Environmental criteria consider how a company performs as an agent of nature.

Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.

Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

ESG influenced investing has gained a lot of power recently driven by a younger, millennial-mindset, and the ever-present need for good PR, but like with every investment opportunity, profit plays a big role in decision making. Many businesses have realized that ESG criteria have a practical purpose beyond being just about ethical decision making. It isn't without its naysayers, though, and even the U.S Department of Labor has posed issues, by requiring trustees of retirement plans to implement a bottom-line only strategy without ESG concerns.

But there is proven underlying gain in adhering to ESG elements as it's possible to signal out risk factors. For instance, BP's 2010 oil spill and Volkswagen's emissions scandal both were significantly tied to ESG matters, and both rocked the enterprises' image, stock prices, incoming investments and of course caused significant losses. So, from that perspective, aligning to ESG standards, and publishing ESG reports, has its gains for enterprises.

Is the "S" in ESG coming to the fore?

As I have mentioned, a lot of emphasis has been placed to date on the E in ESG, and not without reason. But in this paper, I want to focus on the other two, equally important, aspects of sustainability.

While there are various definitions on Social Responsibility and what Social Sustainability is about, the simplistic way to understand it is an evaluation of how a company is really treating its people and the ecosystems in which it operates. The S is gaining a lot of focus among investors and corporates alike because the world is no longer a "profit at any cost" sort of place, at least in terms of how companies want to be perceived. With this comes social responsibility, the need for fair practices, better workplace management, consumer protection, diversity, and inclusion.

ESG surveys mentions that only 15% believe social focus is important[1]. But actions speak louder. In a social media led world, corporates spend a lot of time and money on managing brand image.

It can be a win-win to always consider the "S" of ESG—building a better society, while steering clear from potential scandals and risks. From clothing manufacturers getting questioned on working conditions, to the entertainment world needing to consider diversity and inclusion to meet consumer desires, all organizations are coming to terms with new expectations. But how is all of this measured? An organization could show a 75% or even 100% improvement in diversity and inclusion, but it doesn't necessarily mean there is a real change in their goals or culture. Sometimes historical numbers have been so low, that even a 100% improvement means a single digit addition of D&I workforce. While it isn't as bad as "green washing" which is commonly done, the way in which social sustainability compliance is addressed, needs to be analyzed to go beyond image and branding and understand the genuine working conditions and culture.

[1] NNIP

Why "G" is gaining momentum

Governance is wide-reaching. It is, similar to the S in ESG, historically overlooked but now gaining momentum as a key consideration for organizations because it touches many aspects of responsibilities, decision making, stakeholder management, oversight of top executives, compensation, and more.

The NNIP survey mentions a higher impact from G, with at least 40% of respondents considering that governance has the potential to drive returns, or at least inform of risks. The important element with governance is that it percolates across the entire organization, and to a great extent defines what needs to be done towards social sustainability and what strategies are significant even in the environmental aspects of ESG. In that sense, G should be a very critical aspect of focus for organizations.

Governance can also be referred to as the economic dimension, or economic sustainability compliance element. This includes the supply chain aspects of suppliers and awareness of risk exposure. In the BP and VW examples we discussed, the decisions that led to their eventual "disasters" did happen with approvals and decisions made at a corporate governance level—but clearly, they probably needed data that was more invested in ESG and risk exposure than what they had at the time. Governance should be analyzing ethics, digital privacy, and code of conduct, and that really defines the future of organizations. This is the element of ESG that enables changes from inside out.

Tech powering innovation

With Sustainability playing a pivotal role in board room conversations and overall organization branding, there is a lot of focus on accelerating the processes for sustainability compliance. In this regard, using technology as an enabler for sustainability is a great initiative.

Here at Infosys, we're partnering with Microsoft to help drive this massive sustainability focus. Microsoft have recently launched a Sustainability Cloud and multiple of their product stack components can play a very pivotal role in enabling sustainability tracking, insights and compliance management.

The Dynamics 365 and Power Platform stack can be used to enable model driven apps for sustainability data collection, tracking and management. The stack of Azure IoT can be leveraged and is effectively used in many companies for Smart Buildings management, cutting across elements of predictive maintenance, water and waste management, energy conservation in buildings and facilities, and more.

The strong stack of reporting and dashboard capabilities in Microsoft PowerBI and insights can help track and view progress on sustainability, infused with AI and ML for recommendations on aspects to focus on to achieve the targets.

The offerings in the Microsoft Business applications stack enable sustainability management for corporates to be automated, structured and intuitive for users and teams.

Making holistic sustainability a reality

With everything said and done, the environmental focus is still the driving force in sustainability conversations, but S and G are a growing conversation. Enabling inclusion and effective decision making need to go together with a focus on emissions. People are an area of focus cutting across sustainability elements of social and governance, and this evidently needs to be tied to relevance for the planet, for holistic sustainability compliance.

With over 90% of Gen Y respondents voting to make investments only in companies that align with their values and demonstrate social responsibility and governance for sustainability[2], the concept of using ESG based investment decisions is neither alien nor exaggerated.

The critics of this concept—the harshest being Milton Friedman—have gone as far as to call the evaluation of Social Responsibility and associated investments as "non- essential expenses" that erode corporate and shareholder profits. I believe, the bigger question here, is not about how companies are evaluated or how investors perceive them, but truly about if these corporates have genuinely good intentions when it comes to sustainability and ethics. Final decisions might always carry a commercial point of view, but the key to long term sustainability is a true change in initiatives, corporate culture, and investments, and not just ticking the boxes on ESG.

The Top Sustainable Company of 2021 is Best Buy[3]

Their response to COVID was exceptional. They boosted workers' pay, established a solid minimum wage, and high-level execs even took a pay cut to put those savings towards compensating furloughed workers.

They are also the only company in the Top 10 to have a Female CEO.

[2] Morgan Stanley Bank
[3] Calvert Research & Management

Discover more

We've developed a series of opinion pieces on sustainability based on the pillars of ESG across some of the different industries our clients operate in.

Take a look at the papers below to discover the main sustainability challenges and trends in your industry today and how Infosys can help you get the best of both worlds, profits and ethics, with an ESG approach.

Fashion »

Financial Services »

Food »

About the author

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Rithika Messiahdas is a Principal Consultant with Infosys. She has over 14 years of experience in the Microsoft Dynamics space, having worked on CX implementations, pre-sales, and development and strategy for new industry vertical solutions, consulting, and digital experience innovation. Her areas of interest span across thought leadership and building of new solutions enabling modernization to the existing enterprise ecosystem with focus on Next Generation technologies & Sustainability areas across AI, Automation, Analytics, MR, IOT and related enrichments.