

## Focus Magazine, 31 August, 2020



Building a responsible business is imperative to long-term success. In today's increasingly disparate world, organisations must contribute to the holistic development of the communities they operate in. Beyond financial parameters, it is environmental, social and governance (ESG) factors that contribute to a company's sustainability in the long run.

I have witnessed first-hand the remarkable differences an ESG focus can bring to an organisation. For instance, at the National Stock Exchange (NSE), through energy-saving initiatives, we cut down the carbon footprint of our office by 9,000 tons – a decisive measure to be environmentally focused. In a bid to intensify our adoption of renewable energy, we set up a 6.25 MW wind power plant that generates around 12.9 million units of electricity. Through our Corporate Social Responsibility (CSR) arm, we created a positive impact in the areas of primary education, geriatric care, sanitation and safe drinking water in rural India.

It is with the same belief that we are advocating ESG as a core competency for India Inc.

Strengthening the ESG imperative

As a signatory to the Sustainable Stock Exchanges initiative of the United Nations and as an active member of the WFE Sustainability Working Group, we press to improve corporate sustainability and responsible investing. In June 2020, we launched Nifty100 ESG Index, a benchmark for asset managers and a reference index for passive funds, in the form of Exchange Traded Funds (ETFs), index funds and structured products.

Furthermore, we took our efforts forward by creating a unique ESG evaluation framework. Although ESG reporting has been around in fragmented formats, much of it is left to the discretion of companies. We created a model framework to analyse the ESG reporting of 50 listed Indian companies across 12 sectors. The chosen organisations are among the top 100 companies in their respective sectors, by market capitalisation.

In the evaluation of their disclosure practices and performance against national and international benchmarks, our objective was fourfold:

Helping India Inc. have a broader perspective on the significance of ESG

Fostering an open dialogue on ESG disclosures

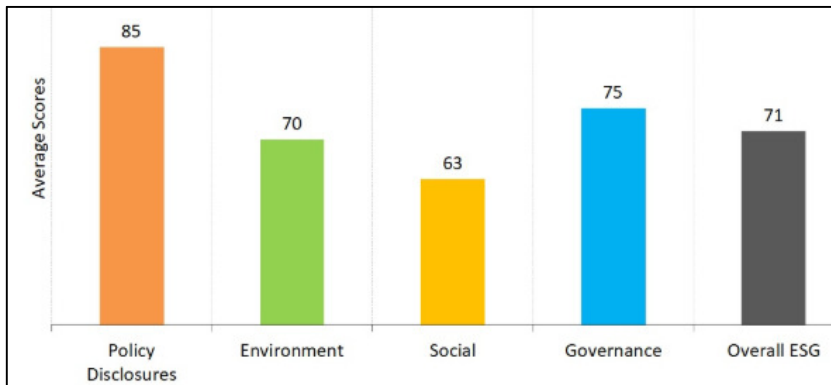
Catalysing action around ESG practices

Setting benchmarks for companies to nurture responsible investing.

Given that companies which fail to adapt their business models to the evolving landscape will face increasing public, legal and regulatory pressures, our endeavour is to offer a guiding light on enhancing stakeholder value through transparent ESG practices. Ultimately, this was an effort to motivate companies and boards not to treat ESG as a necessary compliance exercise, but make genuine contributions for the greater good.

## ESG Analysis for 50 Listed Companies: A transformation catalyst

In July 2020, we released a comprehensive report on the ESG Analysis of 50 Listed companies in India in partnership with Stakeholders Empowerment Services. The findings of the study were interesting on various counts:



Average scores of sample companies in evaluation parameters

**Policy disclosures:** Companies fared best on policy disclosure, owing to the mandatory requirements of regulators like Securities and Exchange Board of India (SEBI). While most players had framed and enforced policies on employees, stakeholders, environment and CSR, very few had disclosed public advocacy policies.

**Environment:** Notably, several organisations have gone above and beyond mandatory norms in their environmental efforts. It is heartening to note that all organisations have plans in place to amplify renewable energy usage, while a majority have also rolled out rainwater harvesting initiatives.

In addition, 34 companies have extended their environmental policies to their entire group, joint ventures, suppliers, contractors and others. This certainly paves the way for a robust ecosystem of environmentally sustainable businesses.

**Social:** Of the 12 industry groups studied, three reported an average of over 10% permanent women employees, indicating the urgent need for India Inc. to bridge the gender gap. The highest fatalities were observed in the metal and construction industries, reinforcing the significance of safety measures for the workforce.

**Governance:** All companies complied with SEBI regulations and disclosed the number and terms of independent directors, women directors, executive directors and other board members.

We saw a good degree of transparency in committee composition and remuneration of boards of directors. Reassuringly, all the audit committees and nomination and remuneration committees comprised more than the stipulated number of independent directors, laying the foundation for higher autonomy at the board level. Further, with an increasing need to protect enterprise data from cyber threats, 37 companies have been actively monitoring cybersecurity risks through a risk management committee.

However, less than half of the companies disclosed specific information regarding their training programmes on ethics, anti-bribery and anti-corruption policies. Very few organisations revealed their policies on handling whistle-blower complaints.

**Future-proofing businesses with sustainability**

Incorporating ESG factors in investment decisions and organisational disclosures has reached an inflection point. In the years to come, as ESG becomes mainstream, India Inc. should leverage the opportunity to future-proof business practices with long-term sustainability at the core. Every progressive action will unlock significant benefits. For investors, it provides incredible opportunities to reorient their capital for sustainable outcomes. For companies, it propels action on redesigning their growth models and honing their competitive edge.

All in all, ESG stewardship will help India Inc. find a balance between profits and purpose.

<https://focus.world-exchanges.org/articles/india-future-esg>