

Sustainable Happiness

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Lecture - 38

ESG for Value Creation

Hello viewers, welcome back to this NPTEL course on sustainable happiness. Now, in the last class we were discussing about ESD, ESD's role in social transformation etcetera. Now, we will discuss about the UNESCO's initiative in addressing the climate change activities. So, UNESCO's initiative to address the climate change it has taken certain initiatives for example, climate change education should be how it should be focused on it should be a topic and it has to be embedded in ESD and it has to be embedded in the curriculum and education. So, ESD climate change education should be a thematic focus of ESD. which can help the people understand and address the impacts of climate crisis, that is unsustainable consumption, that means unsustainable you know unsustainable practices, unsustainable you know urban planning, unsustainable urban planning and all kinds of the you know impact of all these unsustainable practices on our livelihood on our city life.

So, how and to address how to address the impact of climate crisis by empowering all the citizens with the knowledge skills and values and attitude needed to act as the agent of change. So, climate change education should be a focus of this ESD. ESD in the curriculum, ESD in the practice, ESD in the pedagogy everywhere it should be embedded in the ESD framework. So, that through awareness through spreading the awareness disseminating the information people can better understand the what the climate crisis is and what the climate change impacts that we are experiencing in this way and what should have been the right kind of behavior and activities.

In this way we can empower the stakeholders with right kind of knowledge, skills, values and positive attitudes. So, that they can bring change in their behavior, change in their dedicated activities and they can act as an agent of change. So, that is the ESG program as the UNESCO works the education ESG program and education works to make education more central and visible part in the international response to climate change. So, that is a so many committees, so many conferences, internal conferences. international bodies are working on climate change starting from Paris Accord to all these

green partnership kind of programs.

So, in this ESG program climate change education is most important as it has taken up a vital position central position. So, ESD program that the education in UNESCO education that is it is a very central and visible part of the international response to climate change. What the people are doing all across the globe towards to deal with the climate change impact. How they are not just through plantation green planting the trees etcetera, but what are the other activities they are involving they are engaged into. reduce the carbon footprint to nurture the environment and to you know to adopt sustainable practices in both in business, manufacturing, services and it would activities everywhere.

So, nowadays policy guidance and technical supports are also there, policy guidance, policy frameworks are also being developed, technical supports tools are also being developed. So, to coordinate all these action and efforts in the field of climate change education. Now, UNESCO has engaged itself that is with many member countries that engaged in the greening education partnership that is an initiative special initiative of UNESCO from time to time from 2022 to 23, 24 onward in different So, how to that is greening education partnership and during the tenure of UN secretary general summit on transforming education. So, transforming its education itself is a topic is a content core content central focal point in the in the transforming in the UNESCO activities and in climate change activities. So, greening education partnership it is an initiative launched in 2020.

by UNESCO secretary general summit that is summit was on the transforming education. So, the partnership actually coordinated by the UNESCO secretariat and that is driving to global movement, global movement to get every learner climate ready tools that is to spread this awareness all across the globe and to be embedded to and every learner to be taught this kind of thing and every learner should be should be made, should be prepared as the climate ready person. So, this partnership actually focuses on four key areas that is climate global partnership COP 28, 28 that is it is also it has also happened in 24 also, every year 22, since 22, 23 and 24 this going ongoing program. It primarily focuses on four key areas that is greening the school, how can we? So, now, we are advocating for the green school and what are the parameters, what are the indicators, how to prepare it, greening the school, greening the curricula, greening the teacher training program and education and the greening the whole system and greening the education system, systems capacity in the communities, greening communities, greening education system that is the holistic adopting by adopting applying the whole school approach. So, starting from the green school to green curricula to green teacher training to green to green pedagogy to green community.

So, it is a whole school approach. So, ESD for 2030 also it has also there developed certain tool toolbox that is where different kinds of tools, different kinds of materials, to help out the member states and Regional and Global stakeholders to develop the ESD activities so it's like a not just only the theoretical guideline but also it also provides the tools tools in terms of learning content materials um techniques, strategies, stories, case studies all these things to help out the different states now you UNESCO also launched thrash thrash hack thrash hack kind of campaign that is to spread the awareness for small changes that everyone can make every day by showing the case study stories pictures how to reduce the waste in our lives how to in our life and how to deal with the communities the different kinds of communities and how everyone can bring certain changes positive change to the this this planet in their day-to-day activities so is a online platform that is trash hack similarly UNESCO COP 27/28 initiative that is the climate change programs uh that is and green partnership the UNESCO COP 27/28 initiatives on Greening education partnership actually encourage the countries to and the key stakeholders to focus on all these four actions that is Greening School Greening curriculum Greening teacher Education and Training the education teacher training and education system capacities teacher training and education systems capacity Greening communities Etc so this is and more and many slowly and slly more many many more countries are also joining so till date more than 300 organizations Express their interest in joining and the partnership and more and more member countries are also being added to this joining this thing so uh the primary focus is value creation through ESG so ESG is and ESG here comes the another concept that is ESG now environment society and governance these services and strategies how how we can in this transformation process how can we add value how can we create value how can we add value to our society to our environment through ESG formula that is ESG platform so ESG actually stands for environment Society social and governance so now this ESG framework is has been has been mandatory for all the corporate houses business houses that means like the finance audit like their HR audit like their sales audit whatever audits Now, ESG audit is also a mandatory component in business houses. So, ESG stands for environmental social governance. and set for the set of the standards to standards used to major the organizations environmental and social impact. So, governance that means, governance that is what are the rules and regulation policy frameworks there the business houses they follow with regard to their HR resources, HR development etcetera.

Governance that with regard to deal with their HR resources society what the what the business houses corporates they are having the impact on the society or what they are serving what they are towards the social development and what is their contribution towards the environment their impact on the environment and their contribution towards the environment. So, every company every corporate house they have to give this report audit report with regards to their activities with regard to their impact and contribution

towards environment society and what are the rules and regulation they follow as a as the corporate governance as the as the rule of as the role of corporate governance. So, therefore, this ESG term actually very much what was very much popularized in 21st century often it comes up in the same conversation in line of corporate social responsibility CSR activity corporate social initial stage the initial in the beginning the corporate social responsibility was not mandatory it was optional. But after some time with all this kind social chaos disruption etcetera now the government made it mandatory that every core business house must contribute 2 percent of their profit in corporate social responsibility that means, towards the social development community development etcetera as the CSR fund as the CSR strategy that is corporate social responsibility. Now, the ESG is beyond that CSR, CSR is 2 percent and so ESG framework ESG is much more much more and much more beyond that CSR activity.

So, however, sustainability and CSR functions more as the philosophies of end goals that ESG is more tangible. It has to be visible, it has to have visible impact and tangible benefit for the society. So, it encompasses the data, the matrix needed to inform the decision making processes of the companies. Now, ESG has all sorts of audit, it has a matrix it has the monitoring and evaluation system, it has a data analytic system. So, it ESG is more structured, it is more structured.

Now, we will discuss about why ESG is important and what are the mechanisms of ESG in different contexts. So, the impact of the company can have it on the surrounding ecosystem has become has become very vividly clear. Earlier it was very much ambiguous they are just contributing they were just contributing 2 percent of you know CSR activity etcetera and showing that we are doing so and so. But now ESG has make has made it more explicit clear. that clear about what the houses, what the business houses, corporates they are doing and what is their impact on the environment in terms of clear audit report, in terms of mechanism, in terms of score, in terms of framework everything.

Now, ESG issues such as climate change, human rights, executive compensation, all these are compensation human HR compensation, HR development training, then packages, their leave rules, all their rights and benefits they are getting, the all these things comes under governance. Then human rights, all these things comes under governance. Climate change, climate change that is related to primarily related to the environmental issues and the human rights, responsibilities, all the HR activities it comes under their society. So, embedding the sustainability in the business is top of the mind for all the executive and investors and in today's world. So, because it is become more eco conscious business, eco friendly business, pro people business, pro HR business.

So, now, there are three dimensions of ESG as we know environment, society and governance and under the environmental domain. as you know. So, environmental issues like climate change, greenhouse gas emission, deforestation, biodiversity, carbon emission, waste management, pollution, resource depletion all these factors come under the environmental. So, nowadays the few that all of you know that for starting any new business anything So, you we need to have need to get the environmental clearance because we have to follow that protocol and the every business house every corporate they have to make it explicit they have to commit themselves towards this guidelines of environmental rules and regulation that is to get rid of this carbon emission and negative impact. Now, social impact, social factor says that it refers to the impact the organization has on the people, on the culture, on the community and in total it can say the social impact of diversity, inclusiveness, human rights.

That means, whatever they are doing, they are performing, they are achieving, they are manufacturing, whatever its impact is on the people. Not just on the direct people, their employees, but on the community people, on the society, And in totality what are its social impact and its impact on the diversity, it impacts on inclusivity, it impacts on human rights and supply chain activities all kinds of operations. So, what are the impact of social impact on this all these factors. Then governance primarily refers to the organization is directed to look at the corporate governance factor. How the corporate houses is being ruled by is governing what are the factors in which way they are governing the things the governing the resources.

So, the corporate governance factors like executive compensation that your employee compensation pay packets salary medical insurances health PAF health insurances health benefits all kinds of things. Success and planning of what will happen in future, success and planning that means, from the what is the success and planning of the organization that presently who is the manager, what will be the future, his career growth, his need as well as the organization's future that is the success and planning of the organization regarding that. their man power. Then board management practices, how do they conduct their board meetings, their supply chain activities, their quality assurance things, all the business activities or national activities, how do they how do these how do they govern it, how do they manage it, practice it all the rules and regulations they follow. So, and the shareholders rights investors shareholders rights.

So, here ESG disclosure as becoming increasingly valuable for all the for even for the investors, because before investing some money every investor is like to know their annual report, their audit report, their ESG report, their compliance with the government tax compliance is all kinds of thing all the investor would definitely like to see before investing in that company. Hence, ESG is a must for the company. business houses. So,

ESG also reduces the risk and drives value creation, because when there is the debate and discussion etcetera, ESG shows their preparedness to deal with the risk, to deal with the loss, to deal with the deal with any kind of emergencies, deal with the risk crisis etcetera. So, they have clearly planned it designed it.

So, ESG automatically it as because it is more structured and plan. So, it reduces the risk and drives more value creation there is the risk factors is there, but degree of intensity of the risk lowers. So, it reduces the risk factor and drives more towards the value creation, how it is contributing towards the society, how it is contributing towards the environment, how it is contributing towards enhance the human resource. or the talent talent human resource talent etcetera talent talent development programs etcetera. So, because as because it is very much explicit and they are following the frame work.

So, they are well prepared and they well plan for this thing. So, automatically it reduces the degree the probability of risk. So, ESG and corporate performance are also linked corporate performance and ESG are linked. So, ESG drives investment return. So, if the companies, if their ESG reports are very clear, very satisfactory, very ESG score is very high, definitely more and more investor would like to invest in that.

So, ESG drives the investment return. If with your enhanced ESG score, you will welcome, you will invite more and more investments. So, ESG has also become an enabler of access to capital. So, if you have the good ESG record, audit report and score, then definitely you can welcome, you can have the access to, you can get some benefits, some liberty, some accessibility towards certain kinds of capital. So, now the ESG you can see it has become a key driver for not just investment and I said, but for the brand image also.

So, similarly ESD also drives the performance, the investors are embedding it into the investment decision making process. ESD has been embedded in the investment decision making process. Similarly, the revenue growth is very good, profitable growth is better and profitable growth that advances as ESD priorities. The more profit you make your house is making the more and more profit, you are also again investing in ESD activities. So, ESG has been your priority and ESG has been there in your vision mission goal of the company.

So, value of the ESG is considered as the in the capital market in the investment market in the capital market also the value of ESG has been considered seriously as the major factor. So, ESG implies the different kinds of things to different people many people can differentiate in different ways and for the different assets different asset classes. However, its principles and philosophy tend to be same among tend to be shared among

the investor. So, because may for example, in ESG some try to some investor may or would like to invest more in environment, some would like to more invest in society. So, society some would should ensure that whether the governance is it complies with the government rules or not, it complies with the international standard or not.

So, these interpretation may vary, but ultimately the ESG compliance should be there. So, today ESG has become very important and key criterion for identifying the investment opportunity and deeply analyzing the potential risk and returns. The more that means, it also is a factor for identifying and inviting the investors at the same time. to deeply analyze because ESG data is data is being analyzed through analytics, it is being monitored, it is being the it is being analyzed through audit report, it is being you know put in the framework to monitor to regulate and to again redefine and reinvent and to revise the policy frameworks. So, ESG also need to be aligned with organizations values, value propositions and long term sustainability.

If the organization look makes the vision, mission statement towards the sustainability, then definitely ESG is a mandatory component, is a basic component. So, ESG needs to be aligned with, it should take a key place, major place, central place in the organizations values, value proposition, vision, mission and sustainability goals, sustainability goals. So, here we can say that the main points to foster the culture where the investment can be analyzed from the point of view of the potential to create sustainable value over time for all stakeholders. Now, again here ESG is not just for the showcasing or complying with the rules and regulation, but ESG report. it shows it exhibits your potentiality your potentiality to create a sustainable value in the society among all the stakeholders.

You are not doing it only for government complying with the government rules, but it not only showing that environmental things etcetera or you are not just showing it for the community, but for every stakeholder both direct and indirect stakeholder. It has the potential to create that sustainable value standard that impact over time among all the stakeholders. So, now, how can the ESG impact economic performance and valuation? Now, it has now the social transformation things we have discussed now ESG's impact on the economic performance and value creation. So, increased revenue and how ESG enhances increased revenue, increased revenue also improves the innovations or innovations of development of new products services and aligned with the consumer trends, consumer needs, current market trends etcetera. Access to new customers through your increased revenue you can also approach new customers.

and market that have a premium value to transparent sustainable products and practices. Then you can have a access to greater diversity of resources through stronger relations with government, communities, customers and suppliers etcetera. Your corporate

governance system that manages this ESD can have a can manages can take into interest take into account the interest of the stakeholders and deliver the long term value to the stakeholders. It is not for time bound business or short term business, but you are looking for the permanent or long term value creation for your shareholder, for your customers, for your consumers, for your suppliers. So, your corporate governance system is long lasting, durable, enduring kind of and sustainable kind of, because you are planning not just planning for the profit for the present or growth for the present.

or 5 years or recent 5 years, but also in long run. So, you are looking for the long term value and its impact on the and its impact your relationship with your shareholders, with your investors, with your customers, with your suppliers everybody. Similarly, cost reduction. So, ESG also reduces the energy efficiency when you go for the energy efficiency clean energy.

So, it reduces the cost. Innovation in the products and services and processes also like quality, assurance, packaging, safety all these things also can also be very innovative and in this way it also reduces the cost reduction in the waste management cost, less attrition rate of the collaborators and reduce reduction of the legal cost from more stringent regulation because you are following the guidelines, rules, regulation, you are practicing the ethical standards, legal standard frame, you are doing the business in the legal framework and ethical standards. So, definitely there is a legal cost also reduces. Resilience also you are more adoptable to any disaster, any change in the market behavior, any random change or unpredictable change in the market behavior. So, your system is very resilient. So, your adaptability to change in the market behavior is very clear consistent and the resilience to bring to any dramatic change in the source of energy raw materials or property.

Suppose, the property rate downs get downs all energy cost increases raw material becomes expensive in that context in that situation also you have become the resilient, because You have the clear picture of all your of all your audit reports and you are robust framework, robust framework to deal with these things. So, you are you know in this process ESG framework through ESG framework you become more resilient, more adoptable, more resilient for the this market fluctuations or the unpredictable market situations. Similarly, increased labor productivity, now how to reduce the cost at the same time increasing the labor productivity. Strong correlation between employee motivation and organizational purpose and as we strengthen as you invest more on the society, on the people, on the governance etcetera. So, definitely in labor your increased labor product or labor will be more committed, more sincere, more effortful, more committed, more motivated and significantly contribute towards their work.

So, productivity increases. So, greater ease of attracting the more drivers, knowledgeable and committed employees and less turnover. So, people would like to love to join your company, because you have you are following the guidelines, your branded, your brand image and the reputation have increased. So, automatic people would love to join you. So, you can also attract the diverse knowledgeable person and committed employees. You himself also can train your in house human resources, you can attract the talent, you the talent by enhancing the quality of quality and the by providing all kinds of facilities and the programs facilities, benefits, incentives to your people.

So, less you can turn over will be there. So, better investment opportunity with a higher revenue and lower cost and better risk management can also be possible. And again ESG within the industry also have the premium valuations and access to capital like you know now these in share market in the stock market share market every company they have the shares. So, as per depending on your depending on your brand image brand value ESG report ESG ESG declaration in ESG report. is the audit report etcetera. So, your share value also increases your share in the share market.

So, it also gives you the high have the premium valuation and access to higher capital in the share market. So, capital allocation aligned with the long term returns and the value creation also possible. Now, positioning and reputation that your company is positioning in the market in the global market and the reputation that is brand positioning your image that is also it also increases. Increase room for maneuvering with the regulators and strategic positioning with the government, communities, customers and suppliers. If you have the good reputation, if you have established your brand image then you can get an access to negotiate with the government, negotiate with certain communities, negotiate with your suppliers and customers regarding some changes to bring some reform or changes.

So, you have the increasing access to that. Now, strong reputational basis also that is derived from your strong value, your positive work working relationship with your all stakeholders and your that means, pro people kind of attitude, your social that means, your ESG that means, social active corporate CSR activities and your human and how you are contributing to donating your rather your donation for the to the people, to the community in the time of crisis like during pandemic, during any kind of natural disasters. Many many big houses they donate, they contribute significantly for the welfare of the people that also enhances the brand image. So, that in this way you can develop your corporate house can develop strong reputation and that also enhances the image brand image. Now, positioning with the large suppliers or the customers also if you position yourself with the large supplier big customers reputed customers and who demand the good ESG practices also within their binding and connect.

contracting process. So, you can collaborate with you can like in business investment and business collaboration and then you can say collaboration merger acquisition collaboration process also you can get the privilege of because when suppose you want to collaborate and merge with large suppliers or collaborate with the big another big business house then you have the privilege of getting the benefit because now because as because you are following the ESG practices as because your ESG audit report is very good and your ESG score is very good. So, ESG can give you an access to collaborate not just to position you positioning yourself as a good reputed organization, but also can give access to negotiate with different stakeholders as well as to collaborate with the big business houses also. So, how ESG matrix are disclosed? Now ESG matrix in their annual report. So, ESG reporting ESG initiative.

So, different there are different frameworks are there. So, potential ESG risk factors companies long term values etcetera these are these are being counted in the ESG framework. Now rating rating or the ESG score it also comprises the ESG score. then ESG performance providing the greater visibility in the operations. So, ESG matrix includes all these things in their annual report that is the your ESG initiatives, ESG risk factor that you are how you are covering companies long term value, ESG score, ESG audit score, then ESG performance all these things are very important factor in the ESG matrix. Now, what are the ESG regulations? So, far as the regulations are coming, there are different parameters, frameworks are there like corporate, some corporate sustainability reporting directive, this different organization, different statutory bodies, different criteria are there.

One such thing for example, corporate sustainability reporting directive, some companies they follow this CSRD guidelines. So, European Union legislation that they require the companies to follow these kind of things. Similarly, every country they follow certain kind of you know certain kind of declarations, some certain kind of matrix, certain kind of indicators and the parameters. So, sustainable finance disclosure regulation, SFDR also it is also a framework which aims to do the same by standardizing the reporting of ESG matrix. Like we get our accounts tax things get checked by reported you know reporting.

licensed chartered accountants. Similarly, all these companies they follow certain guidelines that is corporate guidelines, certain bodies guidelines, standard guidelines and explain that and explain their ESG declarations and comply with their framework. So, various frameworks have also been created to aid the companies. to the more to create and to encourage more and more companies to declare their disclose their ESG report. So, for the DSG disclosure also more and more initiatives are being taken from the

government level also. So, the now carbon disclose project is a CDP is also enables a company and a different you know different franchises some companies they are also working on the working on this you know facilitating helping out the company to make their ESG report and you know like the tax consultants.

Similarly, ESG consultants are also there enabling the companies to provide the environmental information to their stakeholders and consisting of. covering all the risk benefits and rules regulations all these kinds of things then. So, global reporting initiative GRI also it is provide a global framework to for the disclosure for the full range of ESG issues. ESG is more than just metrics. Now, ESG has become so important vital and indispensable that you know it has become a one of the you know component where vital component of your brand image.

So, ESG is more than just metrics you are not just preparing a submitting the report as a part of the report. requirement, but it is beyond that matrix it is because it is primarily it is a it is at the core of ESG at the core of all the activities that you do towards the sustainable future ok. So, successful companies are implementing the ESG strategies that increase the financial, societal and environmental impact as well as to ensure the long term competitiveness. So, because that is it is a way, it is a platform, it is a pathway towards sustainability, towards long term competitiveness, towards leveraging your competitive brand image, towards strengthening your business, towards expanding your business or towards establishing your business as a global hub in the global hub. So, McKinsey brings a unique approach to ESG focused on the value creation, how much value it creates for the company for the you know by in terms of benchmarking, in terms of strategy development, in terms of initiating design, program execution, investor and external communication, reporting etcetera all these things McKinsey try to bring a unique approach.

So, now this it includes ESG dimension such as sustainability, net zero culture and talent, diversity, equity, inclusion, economic development, public health, education and future work all these are the many factors among this ESG framework. So, now so ESG framework primarily there are see because primarily here primarily ESG is not just to integrate environment society. governance factors, but to create the value this framework should create value. So, value creation is now the top of the driver of sustainability is not just for complying with the requirement, but through ESG how can you create value you can position yourself you can have an ease over others in the competitive market how different how unique you are. So, that is also now private companies are also using it as the value creation in the private equity framework.

Now, ESG now there it definitely it follows systematic steps. Now ESG framework

actually consists of all these 8 steps. You can see all these things are there like how ESG can follow this framework steps in the framework and can develop the their develop their report and audit report. So, this is all about ESG and ESG and sustainability social transformation and create value creation in the society. Now, I am just closing it here and in the next class we will continue with another topic. Thank you very much.