

**Course Name: Business Fundamentals for Entrepreneurs – Part 1 – Internal Operations**

**Professor Name: Professor Devdip Purkayastha**

**Department Name: Management & Entrepreneurship**

**Institute Name: Indian Institute of Technology Bombay**

**Week – 04**

**Lecture – 09**

Week 4 Module 9 Part 1

Namaskar. This is Professor Devdip Purkayastha from the Indian Institute of Technology, Bombay. Welcome to my course, Business Fundamental for Entrepreneurs, Part 1, Internal Operations. This is the last module in this course. It's called Environment, Social, and Governance, or ESG. But before I get into the module, let me quickly recap the discussions we have had so far.

So, in the first week, I started by sharing what is a business and then what's a company and different kinds of company. Then I started getting inside the company and I talked about how do companies set their big picture vision, mission, purpose, values and goals. And then how do companies create their strategy or their action plans and a culture that all the employees in the company lives day to day. Then, I went deeper into the company and started on the functional aspects.

How do companies innovate? How do companies create new products? And then we talked about how do companies mass manufacture millions of pieces, billions of pieces, crores of items of the new product that they have designed? And how do they do that with the right quality? And this week, I talked about how do companies account for their finances? What is accounting? And what is financial management? In the last module, I talked about how companies are led by leaders, so leadership. And how do companies and leaders manage their human resources, which means their employees? Today, we're going to talk about a very important aspect called ESG or environment, social, and governance. So as usual, this module also has six topics and there are two reflection points where you can stop and think about what you have learnt and apply it and take notes in your own journal. So six topics, two reflection points and one assignment. Let's start with what is ESG? So before I get into the technical definition of ESG and the details of ESG, the easy way of thinking about ESG is it's the conscience of the business, the Vivek in Hindi or the Atma, the soul of a business.

What does that mean? Let's just step back a bit. Think about the environment today. Even as I speak, outside is extremely hot and uncomfortable. There's global warming. There's pollution.

Rivers are drying up. Glaciers are melting. The planet is struggling. Think about society. The countries and the economies are growing, but there is social disparity.

There are people who are very rich, but there are many, many people who are not so rich, who are underprivileged, marginalized. There's a social reality. And think about newspaper reports that you have read about companies which have been caught doing wrong things. And that leads us to the topic of ESG and why I call it the conscience of business. So, what is ESG? ESG is basically a collection of data about a business or a company which shows whether the business is just focusing on profits, making money at any cost, or is the business or the company also working about the improvement of environment, protecting the environment, not polluting not contributing to global warming.

It also measures where the company or the business is caring for people, society, social development, and not exploiting people or society. It also measures whether a company or a business is well governed. So it's compliant with the laws of the country or the laws of the world. And it's not cheating, or there's no fraud, etc. So those are the three aspects.

And I'll talk later on as we go along. How is it beneficial for the company, and how do stakeholders in a business look at it? It's beneficial for the company because as we'll see later, it makes sure that the company can sustain over the long term. It's not just making money and then losing out somewhere five years, ten years down the line, but it can sustain because it's broad based. And increasingly, stakeholders of the business, which is customers, employees, the social networks around the business, the government, they look at a company and say, is this company working responsibly? So, let's go a bit deeper into ESG. Let's start with where ESG started.

So, most of you, when you think about a business or a company, will probably think about profit. And in my last class or the previous class, I also talked about the finance of the company, and I talked about how companies need to look at capital, returns on capital, generate profits, sales, but if a company looks only at money, only at profit, sooner or later the company runs into problems. Think about it. Let's say a company is making a lot of money, but it is polluting the environment. It is releasing toxic gases into the environment.

It is releasing toxic chemicals into the river. It is drawing up all the groundwater as it creates beverages. It is releasing air and smoke and heat so that the weather warms up. It's releasing carbon into the atmosphere. Clearly such a company or a business is not desirable.

So, you need a company which is making profits but also caring about the planet. What about the people? None of you will probably want to work for a company which is exploiting its employees. So the owners are getting richer and richer and richer but the employees are not taken care of so they are struggling and have a poor quality of life. Or if there is a factory which is making a lot of money for the people around but if you just go outside in the villages around, the company is not doing anything and the villages are suffering.

Or the customers. The customer is making products which are not good for the customers. Maybe the customers don't know it. So you don't want a company which is making profits but not caring about the planet or the people. And this is called the triple bottom line of business. In my accounting and finance class I talked about only the profit aspect.

Today, I'm saying don't look only at the profit line but look at the triple bottom line. It's called PPP. Look at profits but also the people and the planet. So about a few years back, 2015, the United Nations created a framework for the planet and the people. So, let's look at that framework.

So, the United Nations, about a few years back, 2015 or so, published what is called 17 Sustainable Development Goals. Sustainable Development Goals called SDGs and there are 17 of them that you can see. And said for the world to prosper, the planet to survive, for the people to live happily, companies and, countries and businesses have to look at 17 aspects. And if you look at the screen, what is the first? No poverty. You cannot have a world where there are few rich people and many poor people.

And companies cannot operate in a way where the owners or a few people are making money but the employees and the large number of people are not making money. So no poverty, no hunger, zero hunger, a lot of hungry people. And if you go down the list, good health and well-being. Number four is quality education. Those of you who are listening to this video have access to a laptop or a phone and an internet or are going to college or have finished your education.

But remember there are millions of young students or young people who don't have access to quality education and who need to provide education to all the young people. Gender equality, where there's no discrimination between men and women. So you see that there is a link between all these SDGs, which work towards the improvement of the people. Let's look at the planet. Look at number 14, life below water and life on land.

And number 13, climate action. We talked about global warming. All of us are suffering right now, even as I am recording, from heat and pollution. Under water, the fish, the marine life are struggling. On land, flora and fauna, which means flowers and plants and animals are becoming extinct.

And you need to protect them. And then if you look at 16, peace, justice and strong institutions, it's about governance. You don't want a company which is so big and so irresponsible to the society and the planet. It's profitable but not so well regarded. So these are the United Nations SDGs. Now think about the linkage between ESG and United Nations.

Environment links straight to number 13, 14, 15. Social development links straight to the top line, 1, 2, 3, 4, 5. 6, clean water and sanitation, access to toilet and pure water. So important for life. Links to social and environment both.

So, these are the United Nations SDGs. So let's look at the environmental factors under ESG which a company should look at and which a company should be measured for. So I have

listed some of them there, and these are listed by the World Economic Forum in its report and. I suggest you go to the report, the link is there and you have a look at the report yourself. So what are the factors? Renewable fuels, instead of fossil fuels which creates a lot of pollution, try to move businesses and companies towards renewable.

Solar, wind. So there's less pollution, and it's renewed. Reduce greenhouse gas emissions. So the factory and the plant or the car or the truck or the ship or the plane, reduce the carbon emission. Energy efficiency. Do not have excessive air conditioning or inefficient machinery which eats up electricity.

And then climate change climate and water management. And then recycling versus all the time making new and new because it eats up scarce resources. For every paper bag that you make, trees are being cut. For every cloth that is in excess, it needs cotton and cotton needs water. And then the other thing, recycling, packaging, reducing usage.

These all contribute to improvement of the environment and emergency preparedness if there's a leakage, if a plant has blown up, if there's an accident. So these are the factors listed by the World Economic Forum on which businesses need to be measured and whether they're being friendly to the planet. Let's move on to the next pillar.

So social factors. Health and safety. All of you who work or join a company would like to make sure that in the company when you are working, you need to be safe and you need to have a healthy environment, especially for women. And the company needs to provide that. Working conditions. There has to be comfortable working conditions, not cramped, where it's not ergonomic.

Bad air, not enough light. And then the employee benefits. As I said earlier, it cannot be a business or it cannot be a sustainable business where a few of the people are making a lot of money but most of the employees are not getting adequate benefits. That will not be sustainable in the long run. Human rights, human dignity, discrimination. Discrimination on the basis of gender age caste, or community doesn't lead to a good social footprint.

An impact on local communities. If a company has a plant in a certain area, it should take care of the villages the societies, or the people around the factory or the plant. So this is the social measures as defined by the World Economic Forum and there can be many more detailed measures or additional measures. Let's look at governance. So what's governance? It's a way that the company management is running the company, is governing the company.

So, first of all, it has to be ethical. It should not be cheating. There should not be scams or frauds that the company is doing. Both diversity and governance mean that the governing board, which usually governs the company, should be diverse. It should not be all from the same family or all brothers and all sisters or husband and wife.

It should not be only that. There has to be diversity, preferably across gender and caste and specialization, technical abilities, managerial abilities. It should be diverse. Stakeholder

engagement. It should talk to all the stakeholders and who are the stakeholders of a company? The customers.

The government itself. Society. Investors. Banks. And the company should be transparent to all of them. It cannot work in an opaque or a siloed manner. People and stakeholders should know how the company is working. They should publish reports, declare results, talk about the good things but also challenges.

Shareholder rights. A lot of companies have lots of shareholders who have invested in that company. What should not happen is a few big shareholders run the company in such a way that the smaller shareholders are deprived. So the shareholder rights of every shareholder should be protected. And then pay for performance.

If you perform well, you should be paid well. Not because you are a relative of the big boss or if you are a certain caste or a certain community. So these are factors of governance which leads to a sustainable company and a sustainable business as called out by the World Economic Forum. So those are the ESG measures. I now encourage you to reflect on what you have heard. Think about what you have heard and write down in your journal what you have learned about the United Nations sustainable development goals.

Choose any two or three which you in your personal life are most impacted by. You know poverty, hunger, water, air, education, gender discrimination. And write down from your own development point of view what can be done what can businesses do to improve on those SDG goals.

So, reflect on what you have heard and note. Thank you.