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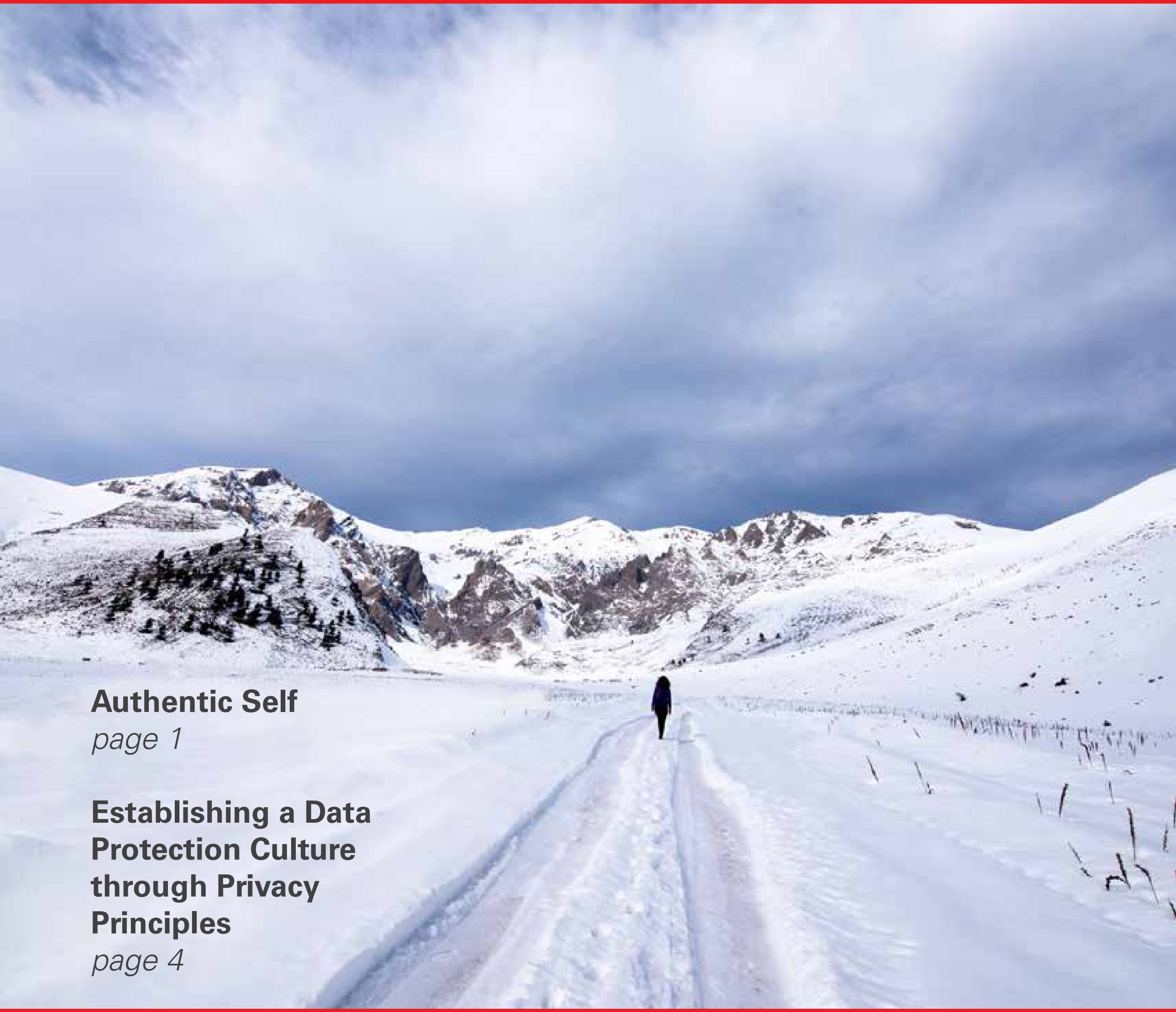

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Effective alignment of Environmental, Social and Governance (ESG) with sustainable growth execution

BY BHAVESH C. BHAGAT, CGEIT, CISM, MBA, BE, QTE, NACD BOARD FELLOW

Boards globally are increasingly recognizing the importance of addressing environmental, social and governance (ESG) concerns to ensure long-term success. A well-planned and agile strategy for ESG performance enables businesses to not only be sustainable and resilient, but also creates a global positive impact on brand value. By aligning and strengthening ESG strategy with growth, a business can have a unique source of competitive strength. Consumers, shareholders, stakeholders and investors are increasingly expecting a transparent format of ESG reporting. Growth in the current business landscape is facing continuous challenges of an ever-expanding risk universe, dynamically changing geo-political conditions, rapid pace of innovation and technology, and much more. These must not come at the cost of long-term ESG viability. The need of the hour is to leverage tools using emerging technologies to ensure that boards globally can effectively address these increased expectations from investors and stakeholders.

Business environmental changes come in many forms — from widespread drought to increased incidents of extreme weather, resource scarcity to expanding regulations, increased investor and consumer focus, expansion of clean technology, growing pressure from stakeholders and advocacy groups, and competitive positioning. This has moved sustainability issues to the top of many boardroom agendas. A piling amount of research conducted by numerous institutions and organizations worldwide has shown that investment strategies that consider ESG factors lead to better performance over the long term. Operating environments for businesses are composed of many complex variables in today's technology-dependent business processes. There is a need for a strategic framework for long-term value creation—one that is future-ready and explains how changes in an ecosystem can prompt a company to change course and identify relevant metrics that support the framework for long-term sustainability.

For directors, ESG concerns are composed of a multitude of factors, such as dealing with activists, adapting to emerging technologies, and the continuing churn of mergers and acquisitions, to name just a few. At the same time, risk of inaction on developing an effective ESG performance strategy is rising. Faced with these challenges, risks, and opportunities, boards worldwide have started to revisit their sustainability strategy.

Board responsibilities

A board can implement three main steps to help ensure that the company it oversees is best equipped to address ESG concerns.

Establish an agile and real-time ESG risk identification system

Sudden and high-impact ESG-related risks can be detrimental for a business, ranging from a company-caused environmental disaster to fraud risks and many more. Conventional methodologies to address ESG concerns lead to consequences such as missed market opportunities, decreased revenues and profit, and loss of stakeholder trust. An important step that boards can take here is to ensure that the senior management is tracking ESG performance in real time, implementing automation and artificial intelligence (AI) to turn ESG into a competitive advantage, and regularly reporting to the board on the status of ESG performance. A robust platform to foresee threats and opportunities can derive useful insights from that data.

Enable the right tone at the top

Senior management and the C-suite must have the right capabilities to take ESG performance to next level of efficiency. Companies from industry verticals with high ESG risks need transformational leaders who think strategically about the emerging risks, collaborate in real time with internal and external teams, and are intuitively adaptable to continuous change. In addition to strategic execution and communication skills, a results-oriented ESG performance calls for the untapped interdisciplinary and cross-functional competencies, which include intuitiveness for adapting to automation, technological

advances, and an understanding of emerging trends in ESG.

Unleash innovation and automation to accelerate ESG performance

AI, Big Data, and cloud-based computing —emerging technologies of yesterday—have now become mainstream arteries of business process governance. It's a proven fact that for 2018 and beyond, business success is directly proportional to the ability to accelerate, efficiently harness resources, experiment and innovate, and identify opportunities and growth risks in real time. The ability to accelerate performance in growth and align it with ESG is particularly achievable now, due to the availability of emerging and mainstream technological innovations. When approached with a competitive and innovative mind-set, agility in technology, operations, and business models directly can enable long-term viable ESG success.

Deriving business value and sustainability from ESG performance

Built on the founding pillars discussed above, extracting business value and realizing economic, environmental, and social-equity benefits will require commitment from across all parts of the organization. In order to implement a successful sustainability approach capable of having a profound and lasting impact on a business, sustainability must be assessed and implemented along three major dimensions: Future-ready strategy, the right amalgamation of business elements, and incorporating an organization-wide culture. By focusing on these three main aspects, companies will gain insights into core sustainability trends and their associated impact on opportunities and will be equipped to build a comprehensive and in-depth sustainability program.

Future-ready strategy

For incorporating sustainability and its performance measures into the top priorities of the C-suite and board, a well-defined future ready-strategy should have following vital characteristics:

- **Transparency**: A company's sustainability should be clearly defined and based on its existing state of affairs and vision for growth. It should involve key executives from each functional division, and the mission statement needs to be documented and communicated with the internal as well as the external teams.

- **Ambitious but realistic goals**: The goals or targets defined need to be exhaustive and should cover the entire operational spectrum—from economic to environmental and social.

- **Measurable goals**: A long-term sustainability program should be broken down into milestones that can be tracked intuitively and measured with real-time monitoring and dashboarding.

The right amalgamation of business elements

To implement an efficient and effective sustainability program, designing a business case, management, goal-setting, and action identification can pose significant challenges for the top management. These challenges can be overcome with an integrated approach that considers all business elements. As a brief overview, an integrated approach has the following elements:

- **Allocating duties and responsibilities:** Accountability for responsibilities and the extent of associated activities for each owner must be thoroughly identified, defined, and communicated, keeping in mind the goals of timely project execution and communication across all operational spectrums.

- **Ensuring all departments concerned are perfectly aligned:** All operational departments must be aligned around the overall business model and strategy around ESG. Additionally, the functions and correlations between and among them must be clearly defined.

- **Creating a thorough understanding of internal and external factors**: It is extremely vital to have meaningful insights on the impact of sustainability on the internal value-chain activities and external business partners. In order to achieve these insights, appropriate metrics need to be identified, quantified, reported, and integrated with the company's overall footprint.

- **Continuous monitoring of ESG performance in real time:** Once the costs and benefits of the sustainability program are quantified, a real-time tracking system should be developed to monitor the progress against goals, as well as to identify and put focus on potential new action areas.

Incorporating organization-wide culture

Sustainability is often perceived by business owners and leaders as a series of operational initiatives and as check-the-box kinds of activities. But without incorporating a strong culture of sustainability throughout the organization and the support of senior management, these initiatives will hit a wall and fail. For sustainable business growth, the following components of culture must be considered:

- **Considering the role of formal and informal systems and processes**: Formal systems, policies, structures, and processes must be taken into consideration along with their respective roles. Related reporting processes and reward systems must support sustainable behavior within the organization. Informal relationships

and internal networks can also be leveraged to assist the overall sustainability agenda.

- **Encouraging employees to build "ESG strategy-friendly" skills**: The characteristics, needs, values, and preferences of employees who have the desired skills and ability levels influence how sustainability is communicated and developed, and so having the right team and encouraging/stepping up the existing team to build and nurture these skills becomes an inevitable process.

- **Executing the tasks with agility**: The goals of the sustainability program have to be quantifiable, evident, and transparent to all. Employees across departments should be included in program development and should be educated on the program's overall benefit.

Conclusion

Enhanced performance on ESG at all levels of senior leadership—from the board and C-suite to the senior management—generate significant benefits that can inspire and generate investor confidence. These benefits include complex and tedious metrics, but they are highly valuable factors that enhance brand value and increase attractiveness as an employer. They also include immediate financial benefits such as lower insurance payments, lower operational costs, and avoidance of fines. Most importantly for investors and directors, excellent ESG performance renders a competitive edge over the long term, enabling the company to not only survive, but to thrive by attaining sustainable business growth with agility and confidence. ■

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