



*Capt. Tapas Majumdar

“

Sustainability Reporting is gaining importance across a wide spectrum of stakeholders, going beyond investors and regulators.”

Maximizing through Sustainability Reporting

Sustainability Reporting is gaining importance across a wide spectrum of stakeholders, going beyond investors and regulators. The demand for Sustainability Reporting by companies is growing and are increasingly becoming a major criterion for decision making with key stakeholders. This is impacting Business more than ever, in terms of risks and opportunities.

There is a definitive shift; if the CEO of BlackRock, Larry Fink, annual letter to CEOs is anything to go by. Larry acknowledges that the events of 2020 and the need for companies to transition to a net-zero economy and that throughout 2020, investors invested 96% more in sustainable assets, over 2019. The stellar rise in the number of ESG funds in India and globally, is another strong indicator of the definitive shift of investments and regulations towards 'Sustainable Businesses'.

This rise has come along with its carrot and sticks, involving almost all kinds of business, old and new. In the month of May 2020, Elon Musk of Tesla announced that Tesla has suspended vehicle purchases using Bitcoin due to climate change concerns. Elon Musk said in a tweet **"We are concerned about rapidly increasing use of fossil fuels for Bitcoin mining and transactions, especially coal, which has the worst emissions of any fuel"**. Both Bitcoin and Tesla market shares were negatively impacted post this tweet. Companies are evaluated on an ongoing basis on their committed ESG performance, often inviting punitive actions for violations or turbid performance.

If your sustainability strategy continues to look to meet requirements of various regulators and investors besides other

stakeholders, you are likely to be chasing a mirage. The entire game on the sustainability reporting gets myopic when it limits to mere compliance. New frameworks will always come, earlier frameworks will always get reviewed. Lack of standardization will result in each investor or PE fund to have their specific assessments methodology; hence I say you're chasing a mirage. To be on top of this, make the sustainability report work for your business. Companies who have successfully integrated sustainability practices into their work culture and Business processes and have been able to identify, define, measure, benefit from and communicate to all the concerned stakeholders, have the advantage. When your sustainability report dovetails into measurable tangible business results on environment, social, and governance risks and opportunities, your business will be in a position to lead the sustainability agenda with all your stakeholders.

Avoiding the reporting trap

Reporting frameworks are evolving and are getting increasingly specific to sectors and industries, making them much more detailed, simplified, and structured. It is also, however, pushing the Sustainability agenda more towards being 'reporting' focused. Coupled with the fact that multiple stakeholders conversant with or would prefer a particular type of framework, organizations tend to report on multiple frameworks simultaneously to meet the reporting requirement of the stakeholders. This works just fine if the purpose of sustainability reporting for the organization is limited to reporting. But then again, the organization is not in control of its own sustainability agenda.

When the sustainability agenda is driven more by the company's own goals and objectives and is focused internally to its culture and processes, which the credibility builds. The company may select the framework that best suits its purpose. It could either be the entire framework or a hybrid framework; what is important is to be consistent. What is even more important than the framework itself, are the principles that guide the organization in reporting on the framework. These principles must be satisfied. This is very important as it brings in the qualitative angle into the reporting and aligns with business goals. This, done well, will deliver value the business seeks.

The Reluctant Disclosure

One of the core purposes of the sustainability reporting is to have clear and well-defined assessment of risks and opportunities related to Environment, Social and Governance (ESG). Full disclosures are important, it builds the confidence of the stakeholders. Often companies hesitate to disclose material aspects of the business risks and opportunities. This can be counterproductive, as 'lesser' disclosures may be interpreted differently. It is best not to be in a situation where key disclosure

requirements, especially relating to the four pillars of a Sustainability Report, namely, 'materiality', 'stakeholder mapping', 'Practitioner's Scorecard' and the 'Stakeholder Communication'; must be complete and adequate.

Every business operates in a risk prone environment. The organization may choose to pursue a few risks to start with and eventually keep adding on more initiatives, but a thorough material disclosure will increase stakeholder confidence. This does not imply that the organization is ignoring the risk, in fact it is the contrary.

Integrate, Reward and Recognize

To control your sustainability agenda, you have to internalise the sustainability practices. Organizations tend to make large scale initiatives to internalise their sustainability initiatives. This is good; however, the success lies in the adoption of sustainability practices and initiatives by the employee. Greater the degree of adoption greater will be the impact and the consistency. Sustainability is a matter of habit; it needs to be reinforced for it to be adopted. It is a matter of lifestyle hence needs to be discussed and promoted consciously to the extent that the adoption is at this subconscious level.

Let me share an example. Every employee executes certain processes, if the company is able to make small changes into the process, it will eventually get repeated time and again and eventually set into the unconscious behavior of the employee. So, if the company makes a small change in the employment form to include 'male', 'female', and 'transgender'. More the form is used greater is the reinforcement of the three genders rather than the usual two. Your organization has just been able to integrate a very important social aspect of the culture of the organization.

Sustainability Report is not a Static Document, it is Dynamic

Organizations looking to comply to the requirement of the framework, may have KPIs defined and shall even show the year-on-year progress, but rarely have targets published against each KPIs. Such companies design and use their Sustainability Reports as their strategy implementation tool, which is the key.

Target here has greater significance than only measuring progress against. Firstly, it is the start point for integrating the Sustainability agenda into the company's DNA. Process are the arteries and veins of the company; it must be used to maximize impact. Inclusion of the targets into performance appraisal system of the company ensures that it receives the specific focus of employees across all levels.

Secondly, Sustainability Report is not a static document, it is dynamic. A well written report will consist of Key Performance Indicators (KPIs) that have judicious mix of lead & lag measures.

The Practitioners Scorecard will allow it to measure against the targets set but go beyond. It enables the company to measure and the impact on the environment. The impact on both, the business and environment must be tracked and reported.

Conclusion

To be in control of your Sustainability agenda, is the best way to maximize from it and buffer the frequent changes happening in this domain. Sustainability is no longer a nice to do activity. The developing threat of non-actionable Sustainability Reporting is real and growing. Sustainability Reporting must align to business and environment goals and ensure a transparent and verifiable method for stakeholders to validate. The marketability

of such document then becomes incidental and not core, paving the way for business continuity and greater acceptance as an environmentally friendly company.

***Capt. Tapas Majumdar** is Director of The Sustainability Practitioners- a young practitioner firm that specializes in Sustainability Reporting and related services. He is a qualified Sustainability Professional, a qualified Independent Director. He adds 25 years of industry leadership experience in companies like Future Group, Leighton Asia, KLM, AFL etc. He is a published author and is a visiting faculty with institutions like NMIMS. ■

Institute of Directors, India



BRINGING A SILENT REVOLUTION THROUGH BOARDROOM

Membership



Conferences



Training

Masterclass for Directors
leading to 'Certified Corporate Director'

Board Research & Advisory



Golden Peacock Awards



MSME Division



Organization for Non-Executive Independent Directors



Publications



S H A R E • L E A R N • N E T W O R K

www.iodglobal.com

INSTITUTE OF DIRECTORS

M-56 A, Greater Kailash, Part - II (Market), New Delhi - 110048, India
Board Nos.: +91- 11- 41636294, 41636717, 41008704
Fax: +91- 11- 41008705 • Email: info@iodglobal.com

follow us on



@iodglobal