

ESG- Using Data and Systems for Profits and Growth.

Mohanish Verma

Despite withdrawal symptoms by global corporates like Blackrock and the policy shift by United States in the recent past, ESG principles are here to stay in the long run. They need to be nurtured and developed in an objective manner. Environmental, Social and Governance (ESG), has gathered immense momentum in the past decade mostly in the developed economies of the world. Instigated by the initial push by the United Nations at the beginning of this century, the holistic approach of growth and sustainable development does have a very fundamental logic to pursue the parameters which guide the spirit of ESG.

The fundamental concepts relating to ESG have been deep rooted in global societies and related initially to labor welfare and environmental concerns. The formal launch of this concept took off in 2004 with the publication of the UN document "Who cares, Wins".

Large investors have become extremely conscious and sensitive on ESG Reports, which provide a quick non -financial snap shot on the multiple facets of the enterprise, in some sense giving a 360-degree perspective of the financial, social and regulatory culture within the organization. Whether it relates to emission of carbon gases, poor grievance handling of employees or violations and disputes relating to government regulations- all indicate the overall health and future risks as well as sustainability of the project.

Present Status of ESG Reports

Most large global corporates do publish their ESG Reports online with free access for public view. Reputed Auditors are engaged in finalizing and certifying these reports. Even a cursory view of these reports hints at the potential to enhance their objectivity and more focused observations. Whether it is Starbucks, British Petroleum, Blackrock or large Indian Corporates like Reliance, TCS or Adani Group, superior reporting for profit generation is possible. More aspects must evolve.

The reasons are easy to appreciate. The parameters are general in nature and not addressing specific sectors or issues. Data collection is not systematic or issue

based. Further comparisons of performance are difficult to make due to quality of data. For example the data on recycling of water and its usage in the steel industry over past several years can indicate whether there are mechanisms being developed for such monitoring and reducing water bills. If it can be done, it has potential for enhancing profits.

A strong mechanism for monitoring and reducing grievances in place will enhance the morale of the work force in the medium and long run as well as reduce attrition and also costs for engaging new employees, litigation, encouraging efficiency etc. A direct benefit for boosting profits and ensuring sustainability.

In the present form, several ESG Reports even for the reputed organizations face handicaps relating to (1) Camouflaged indicators for monitoring (2) Unverified data (3) Non availability of acceptable standards (4) Inadequate information on progress over past years (5) Absence of details and analysis of fresh mechanisms to tackle specific issues including those relating to environment, regulatory compliance or employees and personnel management.

Studies have indicated a positive relation between addressing the ESG parameters more aggressively resulting in better overall outcomes including profits. There is strong logic to such findings too.

Norms and Components of ESG

The broad areas of concern in ESG as per UN, were identified as:

Environmental (E): Nature, Water, Fracking, Circular economy, Methane.

Social (S): Modern slavery and labor issues, Diversity, equity and inclusion, Transition, Decent work, Covid 19.

Governance (G): Fair taxation, Responsible political engagement, Cyber security, Executive pay, corporate purpose, anti – corruption, Whistle blowing, Director nominations.

There has been much greater emphasis on the environmental aspects relating to carbon emission, pollution and ecological aspects whereas less emphasis has been given to the S and G aspects. The interlinking of all the three verticals may always not be possible or desirable and each area even on stand alone basis can be analyzed and used for enhancing outcomes.

The challenge is to develop parameters for assessing specific indicators which are critical in each industry and sector and in the long run help in establishing standards for sustainability as well as growth and profitability.

USA, Japan, South Korea, Singapore, Australia and most developed economies are actively evolving norms for large corporates both in private and public sectors for ESG reporting. In India also the SEBI is the regulator and has issued guidelines for compulsory compliance by the top corporates, starting 2026.

Objectivity with Identification and monitoring of parameters- Enhancing profits.

The ESG parameters actually have huge potential for increasing profitability, enhancing turnovers and ensuring sustained performances. The process will require the critical parameters to be identified in each sector/industry followed up with review and establishment of fresh systems. Specific progress can include:

- a. **Sector wise and Industry wise parameters**
- b. **Setting acceptable standards**
- c. **Introducing mechanisms, systems, supporting technology and logistics.**
- d. **Generating and monitoring of data.**
- e. **More Objective Data supported and Comparable ESG Audit Reporting.**

The advantages of such norms will be in the form of (a) providing quantitative measure of sustainability (b) better overall business evaluation (c) better audits and measurable goals and achievements over time. (d) ESG is more quantifiable and helps in attracting investment with greater confidence. (e) inculcates better work ethics in organizations (f) encourages cost savings and better waste management, with potential for higher profitability and sustainability. (g) specific things, including carbon emissions, deforestation, waste management and water usage, fair labor practices, lobbying are specifically considered and documented.

Role of Stakeholders and Regulators:

The spirit of ESG is based on fundamental principles aimed at welfare of all economies and citizens across the world, and is here to stay. A more strategic and in depth understanding of relevant parameters in each organization can contribute more meaningfully by enhancing processes and regular monitoring. Managements and all stakeholders have to seize this opportunity. Identifying a

leaking tap or mishandling of waste generated in the unit have profit potential embedded in them.

Statutory Auditors and empaneled experts of various sectors can also help in developing standard parameters for different sectors and also keep the mechanism dynamic over time. The Chemical Industry will need different sets than the Steel Sector or the Services Sector. There will be regional and global factors which will be need to be considered.

India- Moving on Course

Emerging as the 4th largest economy in the world, India has to maintain the momentum for forging ahead and attract investment with professionalism and transparency. SEBI is the regulatory authority for providing directions relating to ESG. The first steps for ensuring compulsory ESG Reports for large Corporates have been initiated. Most large private and public Sector entities with turnovers over 500 crores have already started publishing ESG Reports in the public domain. Statutory Auditors have churned out the initial reports for the large corporate entities. ESG monitoring and certification authorities have also been identified in some cities like Chennai, New Delhi, Gurgaon, Mumbai.

ESG has to cover a very large canvas with multiple sets of variables depending on the sectors, regions and dynamic technologies. Many challenges of organizing and monitoring are actually global challenges. Indian corporates must specifically appreciate that profit and growth potential exist through the development and identification of parameters, generating and monitoring of credible data and introduction of mechanisms for each industrial or production unit.

SEBI can consider identifying specialized panels for developing standards and parameters of specific Industries. The concepts of ESG are logical and simple but will provide profits and growth with sophisticated data management and dynamic monitoring of each sector.

(The author is an Ex- Principal Chief Commissioner of Income Tax, past Visiting Researcher, Georgetown University, Washington D.C , with multiple publications on taxation, public policy and economic issues. The views are personal)