

# Operationalising ESG



## Board Leadership Center

A growing focus, rather urgency, in considering Environmental, Social and Governance (ESG) factors is leading to a paradigm shift in the way individuals, businesses and economies function. The importance of ESG has been known for long, though the last few months have perhaps shifted the focus very rapidly. This shift in stakeholder expectations and priorities is making it imperative for organisations to include and embed ESG practices within every aspect of their business.

In previous editions, the ESG Council at KPMG in India Board Leadership Center (BLC) have provided perspectives on the board’s role in shaping a company’s ESG agenda, and Business Responsibility and Sustainability Reporting (BRSR) as a new dimension of ESG reporting. This edition highlights the different elements that an organisation must consider in its journey to operationalise ESG.

ESG implementation is most impactful when it is interwoven in a business’ objectives, actions, and anchored at the senior management level. Leadership must provide guidance that sets the strategic direction for the organisation. This is integral in helping employees embrace the transition and consequently, translating ESG goals into tangible results. Robust governance systems, availability of the right skills, data accessibility for effective decision-making, transparent and relevant disclosures, and efficient processes and systems will drive results, leading to effective ESG performance.

There are three key levers for operationalising ESG: strategic, internal and external. These serve the respective purposes of defining the company’s vision and purpose, translating them into performance, and facilitating constructive communication with stakeholders. All this is built upon the foundation of a robust ESG strategy overseen by a forward-looking board.

## Operationalising ESG: A three-pronged approach

### Board oversight

Ensuring the board has the right skillset and experience to oversee ESG strategy and reviewing its implementation

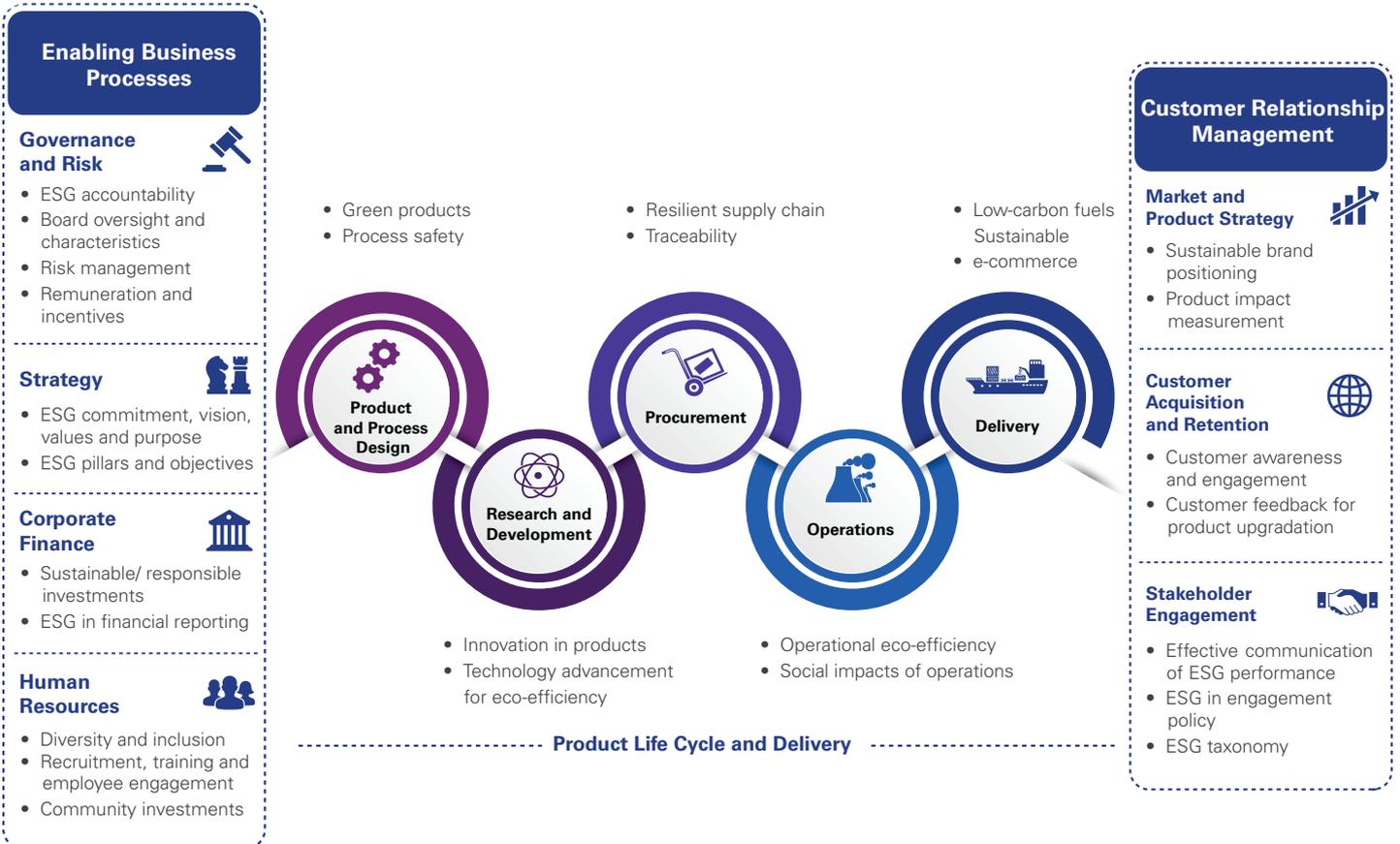
| <b>Strategic</b> <br><b>Vision, Objective, Risk</b>  | <b>Internal</b> <br><b>Establishing controls, Key Performance Indicator (KPI), Skills and Competence</b>  | <b>External</b> <br><b>Stakeholder consultation, Collaboration and Communication</b>   |
|---|--|---|
| <ul style="list-style-type: none"> <li>Defining the importance of ESG, formulating an ESG vision and objectives, and fostering an appropriate culture</li> <li>Assessing ESG impact, risks, and opportunities of strategic significance</li> <li>Allocating resources aligned with strategic priorities for driving long-term business value</li> </ul> | <ul style="list-style-type: none"> <li>Integration of ESG topics into the business strategy and investment</li> <li>Refining and establishing controls, such as compliance monitoring, measurement and reporting, training, reviews and impact assessments</li> <li>Implementing effective ESG governance, reporting and internal consultation</li> <li>Linking ESG metrics to executive performance evaluation</li> </ul> | <ul style="list-style-type: none"> <li>Consult with stakeholders to help create an ESG agenda that is aligned to issues that are material to them and collect feedback periodically to improve it.</li> <li>Collaborating with suppliers, customers and other relevant stakeholders for an inclusive and comprehensive approach towards sustainable value creation</li> <li>Communicating the organisation’s performance to key stakeholders</li> </ul> |

Each organisation must evaluate its industry landscape, operations, risks and opportunities, and business priorities, to formulate a detailed approach for operationalising ESG.

Effective ESG implementation requires integration across all the departments of an organisation, thereby covering

every aspect of product lifecycle and delivery. It also calls for organisations to bring in the perspectives of customers and other stakeholders by seeking feedback, showcasing positive product impact and effectively communicating performance to cement its leadership position.

## ESG Integration across functions for value creation



# Seven key success factors to operationalising ESG

## Setting the tone at the top

Setting the tone at the top will foster a culture that promotes long-term value creation throughout the enterprise. ESG is now widely considered a part of the board's fiduciary duty, and many stakeholders believe that the board and management should be held responsible for overall performance.

The board must set the vision, for it to cascade through various levels of the organisation. This, in turn, will help address ESG-related risks and leverage opportunities. Senior management, meanwhile, must provide the requisite guidance to design the ESG strategy and integrate it in a way that strengthens existing business initiatives and addresses gaps related to the organisation's priorities. Incorporating ESG criteria in executive compensation can drive greater accountability and enhanced performance. Additionally, the leadership can be supported by a cross-functional team that coordinates ESG activities across departments and ensures they are in line with strategic objectives.

## Embedding a sense of purpose

As the ESG culture continues to grow, being a purpose-driven organisation can help capitalise on investment opportunities, drive ESG transformation, attract and retain the best talent, enhance customer satisfaction and unlock competitive value. To maximise efficacy, the board and senior management must work together to devise a corporate purpose that takes internal and external factors into consideration. This must be embedded within organisational goals, action on which can be driven through tools like policies, and accountability ensured through transparent disclosures. Through consistent communication and capacity building, the organisation's purpose should be communicated to every person and every function.

## Understanding the common language

Collaboration is key to effecting change that is lasting, tangible and impactful. For organisations embarking on the ESG integration journey, this means consulting, communicating and working with various stakeholders, particularly value chain partners. However, potential gaps can arise in their understanding of an organisation's ESG objectives. Creating a common language is key to ensuring that all relevant stakeholders share a similar understanding of the terms relating to ESG, which will make for seamless collaboration.

Management must communicate its strategic framework for attaining ESG targets, specifying monitoring mechanisms, resource needs and stakeholder involvement. The organisation should choose vendors, suppliers and other business partners that are aligned with this agenda and leverage their respective strengths

to maximise positive impact. However, integrating ESG into the entire supply chain is a complex process. Commonly faced challenges include a lack of awareness, difficulty in collecting cohesive and granular data, and investments for implementation of various ESG initiatives.

## Implementing action plans

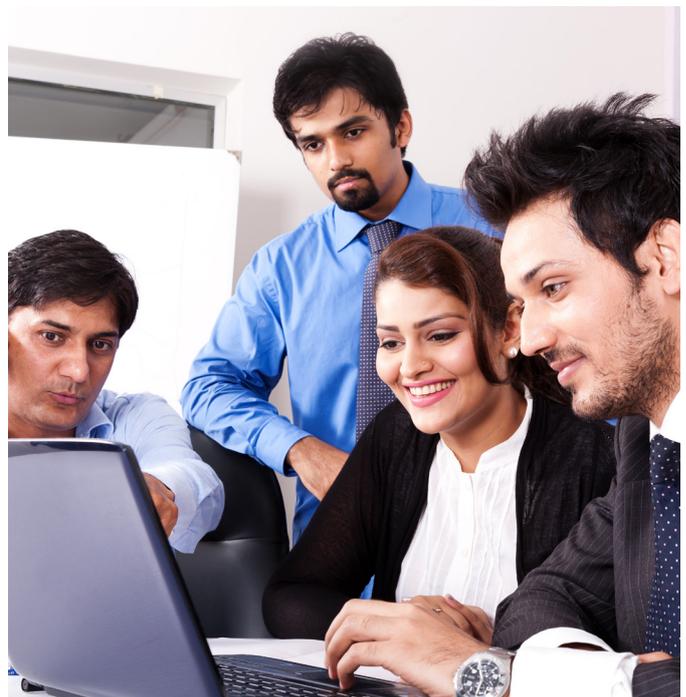
An organisation focused on implementation must have clear and detailed policies, processes, systems, and initiatives, reinforced by change in behaviour.

Implementation must factor in the human capital and intellectual capital in its implementation plan. In the journey towards ESG goals, the unknown outweighs the known at this point of time and hence developing people capabilities and efforts to improve the intellectual capital should be seen as prudent investments. Any change management or behavioural change will require high levels of engagement and capacity enhancement.

## Measuring the effectiveness

In addition to setting the strategy and implementing initiatives, management must constantly monitor the effectiveness of the company's efforts, track shortfalls against targets, address the lacunae in the system, and communicate them effectively to the board and stakeholders. This will help organisations upgrade their systems on a regular basis to ensure continual improvement and enhanced cost-effectiveness.

Relevant KPIs and targets can be used to periodically measure and evaluate ESG performance. Developing performance metrics and data management systems to monitor these can assist in quantifying the costs and benefits of initiatives, over and above existing regulatory mandates.



## Reporting with transparency

Communicating the strategy and framework in an effective manner is an essential part of operationalising ESG. There are multiple channels available for communication, and each organisation must choose the ones that are ideal for its stakeholders.

High-quality data is the foundation upon which strong reporting is built. Efforts to integrate processes, systems and records across departments will facilitate the collection of timely and relevant information in a standardised format. This will help the business keep up with the evolving ESG reporting landscape, shorter reporting timeframes, and stakeholder expectations. Additionally, adoption of ESG frameworks with well-defined KPIs can help create reports that are consistent and comparable across industries and reporting periods. Third-party assurance can also be leveraged to lend further credibility to the data and report and build stakeholder confidence. The balance in the reporting showcasing achievements and failures will help showcase better transparency and hence better credibility with stakeholders.

## Establishing a feedback loop

Regular stakeholder engagement can be an invaluable source of constructive feedback on ESG direction, goals, vision and strategies. The board and top management must ensure that feedback is periodically gathered and incorporated when reviewing the business' strategy and ESG roadmap, to help it mitigate emerging risks and capitalise on opportunities.

**We would like to thank our ESG Council members for their valuable time, insights and perspectives that have contributed to building this PoV document.**

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