INTERNATIONAL

Environmental, Social, and Governance

Getting ESG Right with OKRs

All you need to know about ESG and how to launch it using OKRs. Spotlight – BRSR Framework in India.

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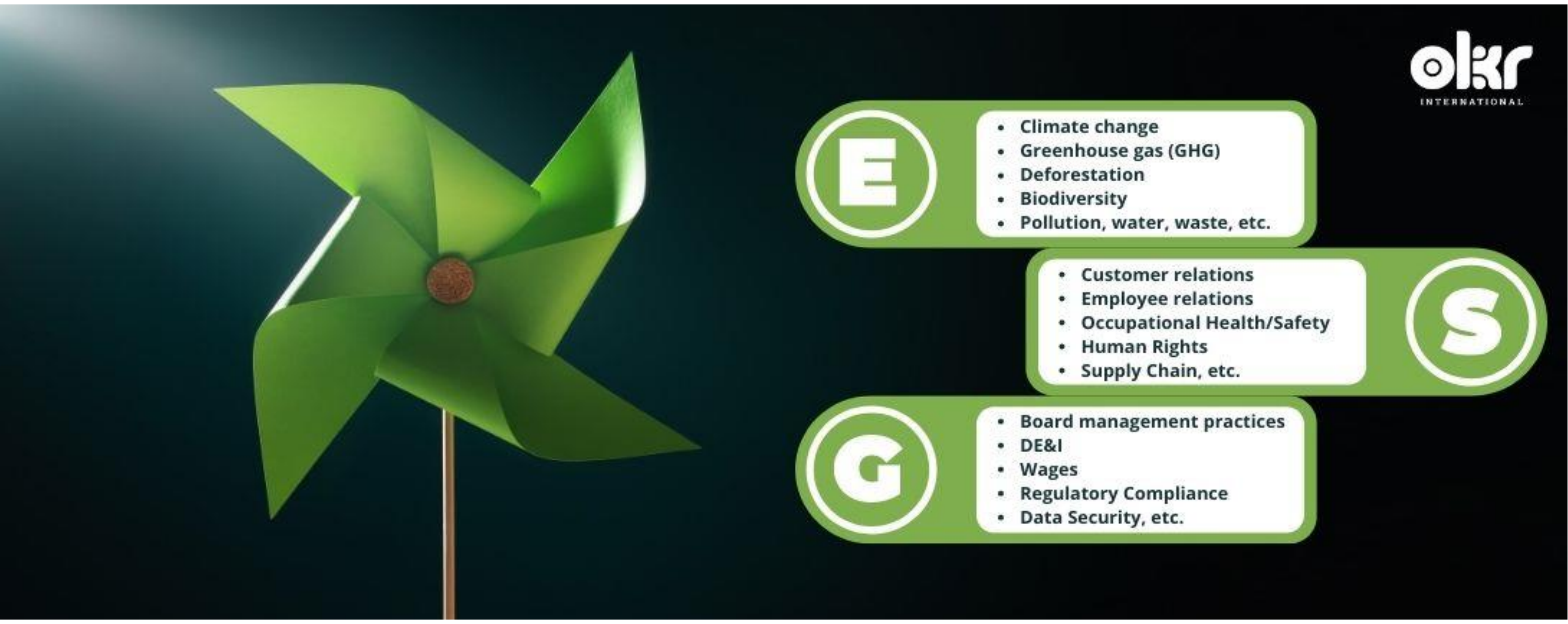

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WHAT IS ESG

Environmental, Social, and Governance (ESG) criteria are a set of standards for a company's behavior used by socially conscious investors to screen potential investments. Environmental criteria consider how a company safeguards the environment, including corporate policies addressing climate change, for example. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

HOW DOES ESG CREATE VALUE?

1. Speedier Growth: faster growth of top-line and access to larger market canvas globally.
2. Better Bottom-Line Management: Cost reductions across various facets of the organization be it manpower, machine, material, money or time.
3. Reduction in Legal / Regulatory Ramifications: better compliances reduce wastages and unnecessary expenses.
4. Better Financials: Enhanced investment returns by better allocating capital for the long term (example: more sustainable plant and equipment). Avoid investments that may not pay off because of longer-term environmental issues.
5. Higher Throughput: Companies that perform well in their ESG initiatives also tend toward strong financial performance, with better investment value and higher returns. According to the Harvard Business Review, "...90% of 200 studies analysed conclude that good ESG standards lower the cost of capital; 88% show that good ESG practices result in better operational performance; and 80% show that stock price performance is positively correlated with good sustainability practices."

Governing Principles

ESG – THE GENESIS

ESG got popular after the release of the 2005 UN-sponsored report, The Global Compact, which highlighted that embedding ESG into capital markets would lead to better societal outcomes. The UN, following this, developed the Principles for Responsible Investment (PRI) to be the standard for global asset manager and asset owner groups to contribute to a sustainable global financial system. The number of signatories to the PRI has grown from 63 (in 2006) with US$6.5 trillion assets under management (AUM) to over 3,800 signatories with US$121 trillion AUM. While public companies have established intensive ESG programs, ESG is also gaining importance with businesses of all sizes.

6. Enhanced Investor Relations: Organizations with ESG strategies are becoming more and more attractive to investors. A higher GRESB (Global Real Estate Sustainability Benchmark) score, for example, creates a stronger case for investment than companies with lower performance, and especially over those who eschew ESG altogether. The GRESB Score is an overall measure of ESG performance – represented as a percentage (100 percent maximum). Your GRESB Score gives you quantitative insight into your ESG performance in absolute terms, over time and against your peers.

TOP CHALLENGES IN ESG IMPLEMENTATION?

1. **Finding the apt ESG Framework**

   A big challenge in implementing an ESG program is the evolving ESG-rating methodologies. With ESG being an immature field, rating agencies are making frequent changes to their ESG-rating methodologies. Add to that, the fact that ESG Frameworks are seldom standard, as they vary based on region or country, the type of body using the ESG framework or simply the industry you may be associated with.

   While different companies combine multiple frameworks in different ways, here is a helpful way to think about how to approach them:

   - SASB tells companies what ESG factors they should measure/report on, to investors.
   - GRI tells companies how to measure and report on those metrics.
   - CDP is an accompanying framework specifically for carbon, water, and forest related reporting.
   - Science Based Targets are an accompanying framework specifically for Net-Zero standards.
   - The UN Global Compact helps companies set targets to report on, that are in line with the SDGs.
   - The B Impact Assessment helps companies identify all the ways they can improve CSR performance (not limited to ESG).

Given below is a list of globally most oft-use frameworks in chronological order. These frameworks are used by nearly three quarters of all companies using ESG frameworks world over.

ESG Framework	Date of Incorporation	Website
ISSB International Sustainability Board (ISSB) provides a global baseline for sustainability standards catered to investors and capital market participants.	2021	ISSB
BRSR Business Responsibility and Sustainability Report (BRSR) is the requirement of The Securities and Exchange Board of India for the top 1000 listed companies (by market capitalization). The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators.	2021	BRSR
SBTi The Science Based Targets initiative (SBTi) mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy. The initiative is a collaboration of CDP, WRI, WWF, and the UN Global Compact. It launched the world's first "Net Zero Standard," which gives companies science-based certification of their net-zero targets.	2015	SBTi
TCFD The Task Force on Climate-related Financial Disclosures are recommendations for more effective climate-related disclosures. They promote more informed investment, credit, and insurance underwriting decisions.	2015	TCFD
SASB The Sustainability Accounting Standards Board (SASB) metrics cover 77 standards that are divided into five broad "sustainability dimensions": Environment / Social Capital / Human Capital >Business Model & Innovation / Leadership and Governance	2011	SASB
GRESB Global Real Estate Sustainability Benchmark is a mission-driven and industry-led organization that provides actionable and transparent environmental, social and governance (ESG) data to financial markets.	2009	GRESB

ESG Framework	Date of Incorporation	Website
CDSB Climate Disclosure Standards Board is an international consortium of business and environmental NGOs that focuses on water, forests, and climate change.	2007	CDSB
CDP Over 6,800 companies use Carbon Disclosure Project to verify their carbon emissions. CDP is a non-profit that survey's respondents, verifies results, and then issues ratings for companies that do the best job reporting on greenhouse gas emissions and water usage. It does not provide specific guidance on what to report on or how to measure it but taking their survey can help ESG leaders think about aspects of their business they can measure and improve upon.	2000	CDP
DJSI The Dow Jones Sustainability Indices (DJSI) are a family of indices operated under a strategic partnership between S&P Dow Jones Indices and RobecoSAM of the S&P Dow Jones Indices. They are the longest-running global sustainability benchmarks worldwide and have become the key reference point in sustainability investing for investors and companies alike.	1999	DJSI
GRI The Global Reporting Initiative is the most widely used reporting framework, with 73% of the world's largest 250 companies using GRI. GRI Standards cover topics ranging from biodiversity to tax, waste to emissions.	1997	GRI
FFBB The Future-Fit Business Benchmark translates this science into principles, goals, indicators, and guides to help businesses play their part in getting us there. The methodology is grounded in a robust principles-based definition of a Future-Fit Society.	1989	FFBB
ISO The International Organization for Standards (ISO) provides companies with global standards across hundreds of sectors covering all things ESG. However, they do not have a single evolved framework for all 3 components of ESG.	1947	ISO

2. **Measuring and Tracking Performance:**
   ESG principles have historically lacked common definitions and metrics. To complicate the challenge even more, many ESG issues span organizational functions and departments. Take for example the 'E' of ESG. Being a good environmental steward means different things for different organizations and industries, and the information used for tracking and measurement — a company's carbon footprint, for example — might be scattered across different parts of the organization, all using different systems of data collection. Such complexities make it difficult for organizations to chart progress, identify and act on red flags, and meet the reporting policies.

3. **Accessing Governance Data and Insights:**
   The foundations of a strong ESG program are built on data. Data-rich organizations operate more efficiently, more decisively and with greater foresight than their peers — and this is particularly true in a complex, evolving area like ESG. An organization that can fully integrate ESG into corporate strategy, with a symbiotic relationship between day-to-day business and ESG goals, will find itself in a much stronger position than its peers.

   That being said, current corporate governance codes and guidelines are scattered across disparate sources and data across metrics is not centralised in any format as of today.

4. **Transparency of Benchmarks and Indexes.**
   With SASB, TCFD, GRI and beyond, the proliferating array of ESG acronyms and frameworks have left much confusion and 'analysis paralysis' in their wake. Without standardized metrics, it's difficult for investors to evaluate companies.

5. **Culture Change**
   When it comes to implementing ESG factors into an organization and value chain, it is not just about the tools used to measure effectiveness – employee mentality and values matter too. Patrick Fetzer, president and CEO, Castolin Eutectic argues, “Employees make decisions every day. You can put a lot of policies in place, but you cannot make each of these decisions yourself, and you cannot check them all the time. This is where culture comes in.”

“Integration of ongoing, real-time data is key to meeting ESG commitments. Just 9% of surveyed companies are actively using software that supports data collection, analysis, and reporting on ESG.”

WORLD ECONOMIC FORUM

Senior members at the top must lead by example, maintaining a high-value company culture through being transparent about the company's goals, needs, policies and ESG mission. Employees, customers, and stakeholders need to understand what the company stands for and why sustainability plays a vital role within company efforts. The more employees understand about ESG benefits and importance, the more they can help to drive the companies' sustainability mission and goals.

6. **Forming Sustainable Partnerships**
   ESG is a huge factor to monitor, specifically for larger organizations. Many companies cannot supervise or measure their sustainable activities daily. When it comes to ESG, organizations cannot fix the E, S or G aspects on their own. This is where partnerships become key. Unless businesses are in constant contact with both suppliers and clients within their supply and value chain, they can never know their exact ESG targets. To gain a better understanding as well as visibility of the involved ESG factors, organizations, agencies, employees, stakeholders, and investors need to collaborate and establish an enhanced communication channel for open and honest conversations. By joining forces, businesses can achieve the targeted ESG factors and commit to long-term sustainability goals that can be realized.

STEPS TO IMPLEMENT ESG

ESG is beyond just intentions. It's about creating a robust plan that achieves value-based results. It should be an inside-out approach that goes beyond just ticking boxes. Building an ESG program helps you in creating sustained outcomes that drive value and fuel growth, whilst strengthening our environment and societies.

Step 0: Levelling & Buy-In
Proper education is the key to kick-starting any ESG initiative within an organization. This requires getting the key stakeholders to not only understand the nuances of ESG but also creating a sense of purpose in the company to see the value of integrating ESG into business. Getting buy-in and clarity is the foremost and most germane element in this journey.

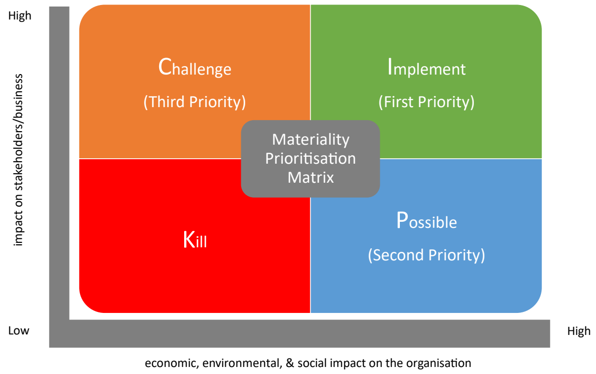
Step 1: Assess Current Reality
Each industry has unique ESG factors, some with higher material issues than others. For a garments manufacturing company, water will be the foremost factor to consider while for an IT company on the other hand, social aspects such as privacy and data security will be more material than environmental factors. This is referred to as a ***Materiality Assessment***.

For a large conglomerate, each business may have its own ESG considerations and even within each business, each function may have their own material factors to work on. For an FMCG company, for instance, the plant and supply chain may look at carbon footprint while the legal function may be more focused on corporate governance and regulatory issues.

Furthermore, conducting a benchmarking exercise into the assessment is also a good way to gather information on the ESG maturity of competitors and analyse industry challenges, opportunities, and best-practices related to ESG.

Step 2: Prioritising & Baselining
Following the Materiality Assessment, you will now be in a better position to prioritise which ESG factors are critical based on your company's overall purpose & vision, strategic imperatives and, the type of industry and company you run.
This will help you achieve 3 outcomes:

1. The Top priorities within your Materiality Assessment.
2. Baseline scores on those top priorities.
3. The choice of ESG framework you need to use to use that would be most apt for your business and industry and how you want to report your metrics and progress



The PICK chart is a powerful tool that helps with prioritisation. The illustration explains how one can carefully pick focus areas within the ESG mandate, once the Materiality Assessment is complete.

Step 3: ESG Framework Decision

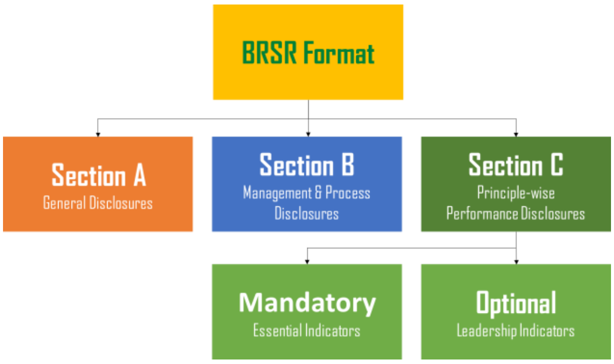
How will a new sustainability reporting plan apply to your overall portfolio? How will you monitor progress and reach goals? What are your preferred benchmarking standards and how will you meet them? How will you ensure compliance with regulatory changes? What reporting to government agencies is required?

Case in Point: Landscape of ESG In India

Companies based in India, for example, are bound by the Business Responsibility and Sustainability Report (BRSR) guidelines regulated by SEBI. As per SEBI's circular dated 10 May 2021, entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD) may cross-refer to disclosures made under these frameworks. The reporting questionnaire is divided into three sections:

Section A: **General disclosures.**

The section contains details of the listed entity; products/services; operations; employees; holding, subsidiary and associate companies (including joint ventures); CSR; transparency and disclosure compliances.



Section B: **Management and process disclosures.**

It contains questions related to policy and management processes, governance, leadership and oversight.

Section C: Principle-wise performance disclosures

Companies are required to report upon KPIs in alignment with the **nine principles of the NGRBC**. The section classifies KPIs into two sub-categories that companies are required to report upon:

I. **Essential indicators (mandatory)**: KPIs include data on training programmes conducted, environmental data on energy, emissions, water and waste, social impact generated by the company, etc.

II. **Leadership indicators (optional)**: Companies are expected to comply with these indicators for better accountability and responsible purpose. Some of the KPIs include data on life cycle assessments (LCAs), details on conflict management policy, additional data on biodiversity, breakup of energy consumption, Scope 3 emissions and supply chain disclosures.

Case in Point: Landscape of ESG In India

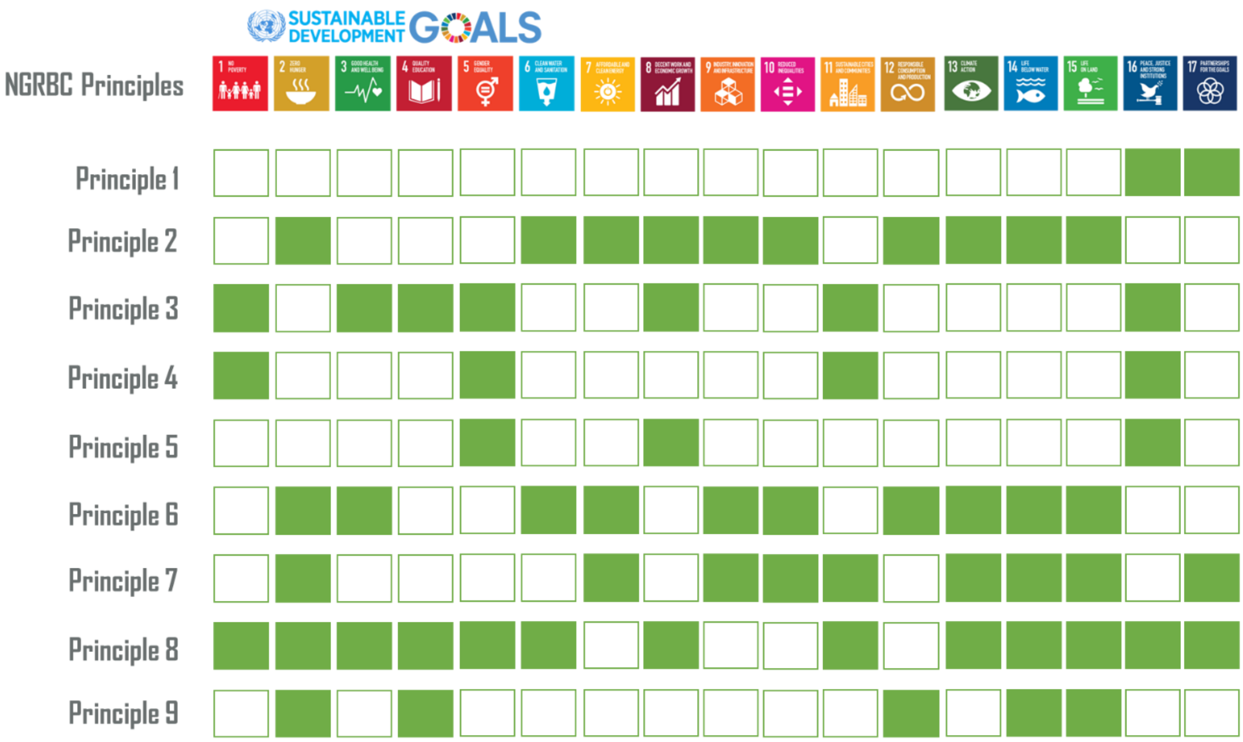
From financial year 2022-2023, the top 1,000 listed companies in India (by market capitalisation) will need to prepare a 'business responsibility and sustainability report' (or "**BRSR**"), containing detailed ESG disclosures. The BRSR has to be a part of the annual report, which gets notified to the stock exchanges, published on official company websites, and separately provided to shareholders.

Both the BRSR and the BRR were designed around the nine business sustainability principles identified by the Ministry of Corporate Affairs in their voluntary ESG guidelines published in 2011 ("MCA ESG Guidelines"), but that is where the similarity ended. The BRR was not well received, since it based its ESG disclosure requirements almost entirely on the nine sustainability principles from the MCA ESG Guidelines (often, as a Y/N questionnaire) and provided very little meaningful ESG data.
The BRSR, on the other hand, built upon the framework of the MCA ESG Guidelines, derives inspiration from international reporting frameworks like the GRI standards, and provides for detailed ESG data, both qualitative and quantitative.

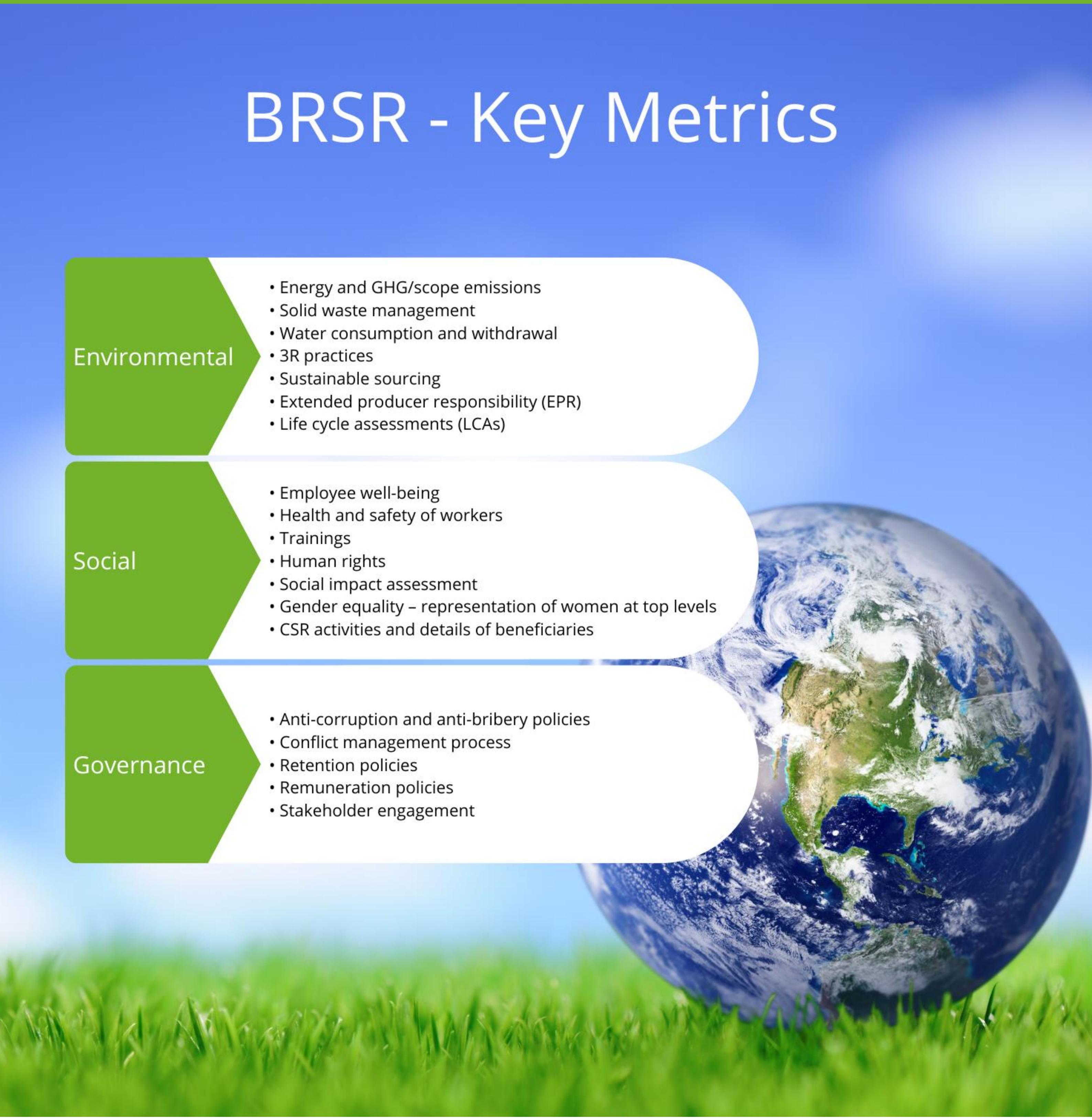
The BRSR framework is not mandatory for smaller listed companies and unlisted public or private companies in India. Such companies can still voluntarily adopt the BRSR framework, but for many, the reporting costs would likely outweigh any potential investment or other benefits.

Outside of the BRSR framework, there are very few mandatory ESG disclosure requirements in India. These include, for example, disclosures regarding energy conservation in the annual reports of Indian companies and statements in board reports regarding compliance with laws prohibiting sexual harassment.

For now, ESG reporting remains a priority for large-listed companies only, but smaller companies, particularly those seeking private investments from VC or PE funds, should also start thinking about their ESG risks and opportunities. In addition, ESG considerations are expected to soon find their way into credit assessments by banks and other private lenders. In fact, India's banking regulator, the Reserve Bank of India, is reportedly looking at issuing ESG-based lending guidelines in the near future.



How NGRBC Principles Integrate with SDGs


BRSR - Key Metrics
Environmental
• Energy and GHG/scope emissions
• Solid waste management
• Water consumption and withdrawal
• 3R practices
• Sustainable sourcing
• Extended producer responsibility (EPR)
• Life cycle assessments (LCAs)
Social
• Employee well-being
• Health and safety of workers
• Trainings
• Human rights
• Social impact assessment
• Gender equality – representation of women at top levels
• CSR activities and details of beneficiaries
Governance
• Anti-corruption and anti-bribery policies
• Conflict management process
• Retention policies
• Remuneration policies
• Stakeholder engagement

Step 4: Using OKRs to Launch ESG Program

For the uninitiated, OKRs (Objectives & Key Results) are a goal setting and execution framework that was first introduced by Andy Grove at Intel in the 1970s. Google, later in 1999, started using OKRs with John Doerr's recommendation.

OKRs today are being used by both technology and non-tech companies globally. In the last few years several start ups have taken to Learning about OKRs as a de-facto framework for goal setting.

Since OKRs are an open-source framework, it allows for myriad ways in which it can be applied to businesses. Some organizations bring OKRs across the company while others choose OKRs for certain factions within the organization. Using OKRs for ESG transformation within your organization is another way to make the power of OKRs work for you.

Being clear about the organizational purpose and strategy is the starting point for using OKRs. With the same yardstick, one could argue that clarity on the ESG strategy and priorities will pave way for your ESG related OKRs. Without this clarity, your ESG related OKRs may not see the light of day.

But, why use OKRs for ESG Transformation?

OKRs are meant for an organization and its people to focus on what's priority. These priorities stem from the strategic intent of the organization.

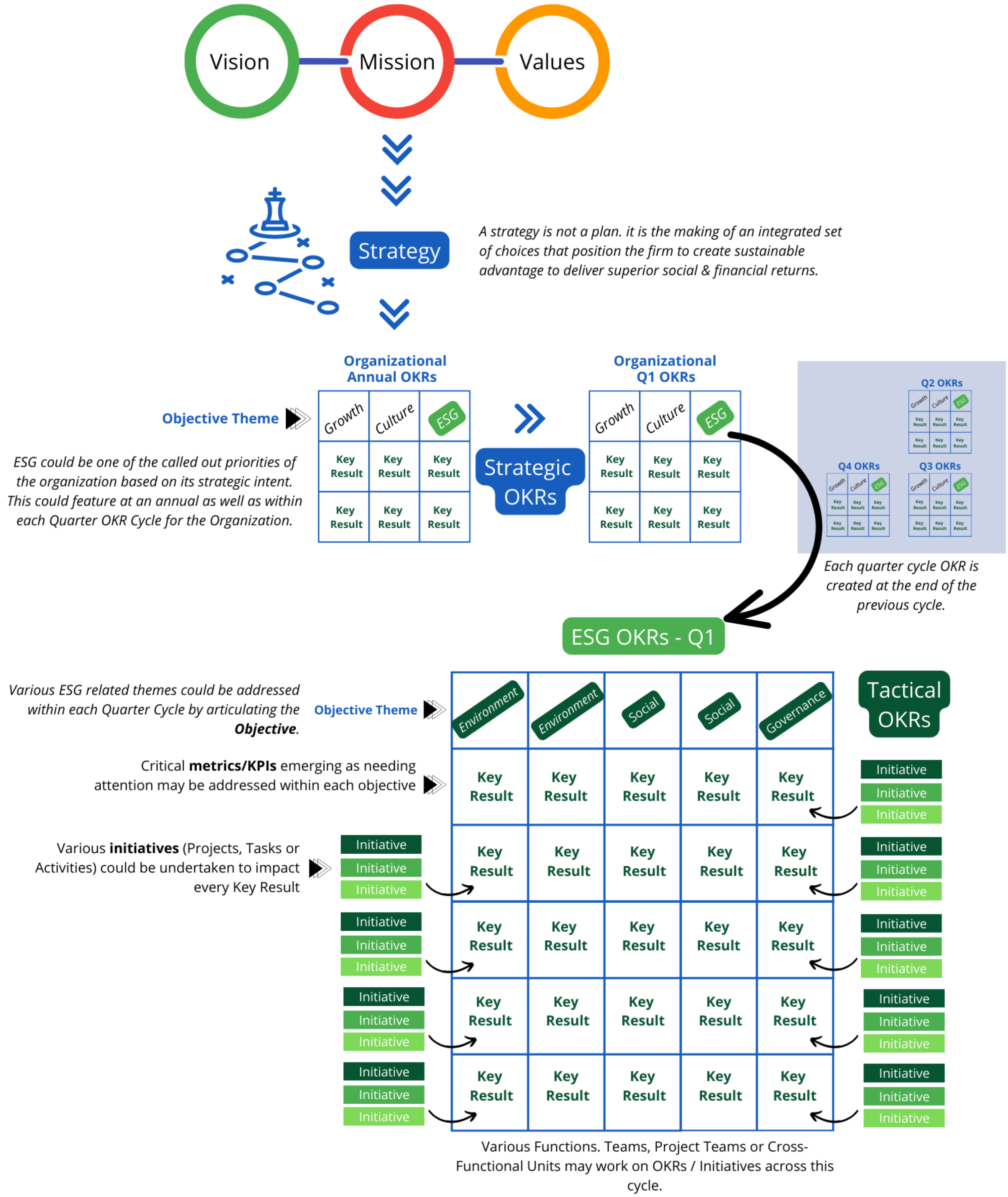
Being clear about why ESG and why OKRs is germane to the process. Once this clarity sets in, OKRs help you with creating Annual and subsequently quarter cycle OKRs that you may choose as your ESG priorities. This helps you in converting your ESG agenda in outcome-based actions. Many ESG programs fail or become slow to start because leaders and employees may not know where to begin or whether resources are being used in concerted ways.

OKRs are required to be transparent which allows a clear line of sight for everyone across the board. Through this transparency, one can see enhanced communication (feedback & feedforward) and collaboration running within and between teams.

OKRs are also quite powerful in helping teams create an outcome-based mindset. What this means is moving focus from just activities and bringing more focus on outcome and results before jumping into initiatives.

Read More

How OKRs Enable ESG Transformation



Step 5: Pivot & Promote Continually
One of the most useful super-powers of OKRs comes with its quarterly cycle approach. This gives agility to any goal and allows for continuous calibration based on regular changes within and outside the organization. However, rigor and discipline in reviewing on a regular and frequent basis provides the cornerstone challenge in this process (as well as an opportunity).

It is, ergo, important that the ESG goals are regularly reviewed, initiatives adding up to these ESG related OKRs are regularly and frequently reviewed (at least once every 15 days) and course corrections and pivots are done in a feedforward stance instead of feedback stance.

OKRs as a process allows for implementation excellence. This means, even larger seemingly daunting goals can be achieved in a concerted manner. Since OKRs are transparent, this kind of visibility can provide context to portfolio-wide performance, it can also foster a sense of accountability with owners/sponsors of the ESG Goals. It also helps in driving buy-in and engagement from key stakeholders.

And finally, your performance needs to be benchmarked against others within the industry and with various standards prescribed by your chosen framework. Choosing the right platform is key.

Promoting and communicating your progress is key to garner the necessary goodwill and branding you wish you create for your organization. This means asking yourself several questions:

- Who is my audience?
- What metrics do I wish to communicate? What metrics do I wish to keep private?
- What's the reporting process going to be like?
- Where will I communicate this? What media and platforms do I want to announce my progress on?
- What format will I use?

It's important to note that manual data collection can get cumbersome and is prone to errors. This can impact your brand image as well. Choosing the right software and automation systems will ease out on repetitive data collection work and reduce errors.

Finally, creating a culture of celebrating successes and learning from failures is the bedrock of successful implementation. Only when the people feel involved and included in the purpose (the why), will they be able to add value to the What & the How of your ESG program.

Ai/Bi Enabled Data Intelligence

Choosing & using the right analytics platforms can create a big impact on your performance and reporting efficacy.

Automation can save time and costly errors, leave alone the loss of brand image due to erroneous reporting.

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