Navigating with Risk Enabled Sustainability Management

The Great Transformation – Happening India

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Acknowledgement

The author does acknowledge that freely available graphics and information researched out from cyber space have been used for this presentation with the objective of propagating of knowledge.
Discussion Flow

Your thought lines for
What you pick up in next 30 minutes
Research Materials and References

1. World Commission on Environment and Development - The Brundtland Commission
2. World Business Council for Sustainable Development - Vision 2050
3. Flicia Msiza, Auditing SA, Summer – Journal published from South Africa
5. UN Global Compact and Accenture study, survey of 766 worldwide CEOs
6. Governance and Accountability Institute Research Results, June 2015
7. MIT Sloan and the Boston Consulting, “2011 Sustainability & Innovation Global Executive Study and Research Project,”
8. GRI Focal Point India, Germany and Indian Institute Corporate Affairs
9. Report of Ernst Young on Sustainability Management
10. The Business of Sustainability – Sheila Bonini and Stephan Gorner, Mckinsey Global
11. Annual Reports and Sustainability Management Reports of
   a. Hindusthan Uniliver Ltd.
   b. Vedanta Group
   c. Mahindra Group
   d. Essar Group
   e. SRF Ltd.
Let’s face it!

“You can’t do today’s job with yesterday’s method and be in business tomorrow!”

Unanimous from LinkedIn, the great learning Platform
The World is FastTransforming – Is Sustainability at Stake?

Population increase to 8.5 Bln. in 2050 from 2.4 in 1950

- The world population is increasingly urban
- Global population by type of area and by region: 1950-2050

- Global economic power is shifting
- Top 10 economies by GDP in 2050

- The global middle class is rapidly expanding
- Population in low- and middle-income countries earning $4,000-$17,000 per capita (purchasing power parity)

- Greenhouse gas emissions keep rising
- GHG emissions by regions

- Environmental degradation jeopardises people’s quality of life
- People living in areas of water stress by level of stress

- The world could be running out of some resources
- Global supply forecasts according to the implied ultimate recoverable resources of conventional oil, date of peak production and the post-peak aggregate decline rate

Anaximander, the great Greek philosopher “......postulated about the development of life from non-life and the evolutionary descent of man from animal............

Charles Darwin simply brought something new to the old philosophy - a plausible mechanism called natural selection."

Is India the natural selection as the Growth Engine for tomorrow’s World?
India is at the cusp of such a Darwinian moment!!

Time is here and now to reflect on those great postulations for transforming India into a developed economy....

We need to prove Darwin once again in matters of plausibly selecting India as the drive engine for global economy
Sustainability with Competitive Business Strategy
Theme drawn from Harvard Business School’s publications

A strategy is an integrated set of choices for actions which positions a firm in an industry so as to generate superior financial returns over the long run.

“Strategies are game plans, befitting organisational culture, that yield results in immediate survival and growth with sustainability in long run” (PCB) – But is that so simple in today’s world of pervasive disruption?

- **VUCA** was there at the dawn of civilisation when fire was born with the scratch of two stones
- Its elements are only changing and assuming dimensions as we wake up every day
Mandate for Decision Management for Value Creation

Building Strategies around Vision > Mission > Culture > Values > SWOT
Timeliness and innovative™ action plans
Minimising sub-optimalities and value destructions
Achieving a flexible state of readiness for Challenges from VUCA ...

Transparency and good Corporate Governance
Next-in-class Corporate Reporting with Ind AS
Transforming from Risk Managing to Risk Enabled Organisation
Is Risk Management so simple?
Can a business manager wish away risks and challenges that will unfold in the forward path?
What learning inputs business manager get out of these graphics?
Can a business manager mitigate 80% of risks and leave the balance, without informed judgement, knowing consciously well that net profit may not be even 20% of Turnover?
Is it possible to derive reward without balancing them with Risks?
Table 13: Level of Importance of Risk Assessment within the Organization
(Percent of Organizations Rating Risk Assessment “Important” or “Extremely Important”)

<table>
<thead>
<tr>
<th>Level of Analysis</th>
<th>All</th>
<th>Revenues Under $1 Billion</th>
<th>Revenues Over $1 Billion</th>
<th>Publicly Traded</th>
<th>Privately Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the executive management level</td>
<td>86%</td>
<td>82%</td>
<td>89%</td>
<td>88%</td>
<td>82%</td>
</tr>
<tr>
<td>At the Board of Directors level (e.g., Audit Committee)</td>
<td>82</td>
<td>75</td>
<td>88</td>
<td>86</td>
<td>79</td>
</tr>
<tr>
<td>Within business unit</td>
<td>75</td>
<td>68</td>
<td>80</td>
<td>83</td>
<td>67</td>
</tr>
<tr>
<td>Within department</td>
<td>68</td>
<td>64</td>
<td>74</td>
<td>77</td>
<td>60</td>
</tr>
</tbody>
</table>

Sustainability Management with 4 P Bottom Line
Sustainability Management with 4 5 P Bottom Line

Questions to ponder over

1. Is the Earth finite or infinite?
2. Is the capacity of the Earth limited?
3. Is it possible to restore or reform its capacity?
4. Will growth in this Earth be limited to its capacity?
5. Can an organisation ignore such questions and grow?

Who will answer the last question – the CEO, CFO or CXOs?

Let’s not be in our self ceted cocoon - Sustainability is not to only do with environment – It is omnipresent across all functions

“At L&T Sustainability is embedded in our vision and growth plan.” A. M. Naik, Chairman and Managing Director
Sustainability Management with 5 Ps

The process of “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” is Sustainable Development

*World Commission on Environment and Development (The Brundtland Commission), 1987*

**Sustainable Management**

- Direct the course of a company in ways that restore and enhance all forms of capital to generate stakeholders’ value and contribute to the well-being of current and future generations.

- Integrate environmental, social and governance issues into business strategy.

- Build value by defining, evaluating and reporting on indicators beyond financial performance.

Set Priority of Ps in ‘Four P Bottom Line’ - Profit, People, Product and Planet
The World Scenario
Sustainability Reporting by S&P 500 Companies

As we entered year 2015, just 25% of the S&P 500 were not publishing sustainability reports. The number of companies reporting is holding steady year-to-year. The chart below represents the trends of S&P 500 sustainability reporting over the last 4 years:

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>NUMBER</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>24</td>
<td>19.51%</td>
</tr>
<tr>
<td>Financials</td>
<td>24</td>
<td>19.51%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>20</td>
<td>16.26%</td>
</tr>
<tr>
<td>Industrials</td>
<td>18</td>
<td>14.63%</td>
</tr>
<tr>
<td>Health Care</td>
<td>15</td>
<td>12.20%</td>
</tr>
<tr>
<td>Energy</td>
<td>12</td>
<td>9.76%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>4</td>
<td>3.25%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>3</td>
<td>2.44%</td>
</tr>
<tr>
<td>Services</td>
<td>2</td>
<td>1.63%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1</td>
<td>0.81%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>123</td>
<td>100%</td>
</tr>
</tbody>
</table>
### How do the Corporations worldwide think?

#### Where sustainability matters

% of respondents who consider sustainability issues ‘very/extremely important’ in given area, n = 1,749

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Manufacturing</th>
<th>Energy</th>
<th>Financial</th>
<th>Professional services</th>
<th>High tech/telecom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing corporate reputation, brands</td>
<td>72</td>
<td>79</td>
<td>78</td>
<td>70</td>
<td>70</td>
<td>63</td>
</tr>
<tr>
<td>Overall corporate strategy</td>
<td>60</td>
<td>64</td>
<td>69</td>
<td>60</td>
<td>58</td>
<td>41</td>
</tr>
<tr>
<td>Marketing of products/services</td>
<td>59</td>
<td>68</td>
<td>59</td>
<td>55</td>
<td>54</td>
<td>53</td>
</tr>
<tr>
<td>Developing new products/services</td>
<td>57</td>
<td>72</td>
<td>65</td>
<td>48</td>
<td>49</td>
<td>54</td>
</tr>
<tr>
<td>Developing regulatory strategy</td>
<td>53</td>
<td>65</td>
<td>74</td>
<td>48</td>
<td>41</td>
<td>55</td>
</tr>
<tr>
<td>Managing internal operations</td>
<td>50</td>
<td>54</td>
<td>51</td>
<td>44</td>
<td>46</td>
<td>52</td>
</tr>
<tr>
<td>Planning investments</td>
<td>48</td>
<td>52</td>
<td>73</td>
<td>41</td>
<td>39</td>
<td>44</td>
</tr>
<tr>
<td>Purchasing, supply chain management</td>
<td>43</td>
<td>52</td>
<td>44</td>
<td>34</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td>Attracting and retaining talent</td>
<td>39</td>
<td>39</td>
<td>34</td>
<td>35</td>
<td>43</td>
<td>31</td>
</tr>
</tbody>
</table>

*Source: Mc Kinsey Global Survey Result, February, 2010*
Is mindset of CEOs shifting around the Globe?

Sustainability should be … fully embedded in strategies and operations

… acted upon by boards

… embedded in supply chains

2010  2007

96%  72%
93%  69%
88%  50%
Has SM been embedded into management strategy?

- 70% say that sustainability was on the management agenda in 2011, and will stay there permanently.

- 67% said that sustainability related strategies are necessary to stay competitive.

- 24% are “Embracers” … the Tipping Point?

Globally SM is an accepted reality, embedded into operating strategy.

Developments in India
Some Thoughts from Indian Corporates

Hindustan Unilever Limited
ANNUAL REPORT 2012-13

2014-15 OUR PURPOSE IS TO MAKE SUSTAINABLE LIVING COMMONPLACE. WE SEE IT AS THE BEST,
LONG-TERM WAY FOR OUR BUSINESS TO GROW.

Sustainability Policy & Objectives

“Sustainability is a core
element of our strategy
and fundamental to
creating value for all
our stakeholders.”

At Essar, we shall make sustainable development an integral part of our business model by focusing on
economic, social and environmental activities.

While doing so, we shall maintain accountability and will continue to improve our stakeholder engagement
program.

We shall incorporate sustainable practices in our existing and new businesses and design our growth
strategy to remain competitive and be a good corporate citizen.

In India about 110 Companies started reporting on sustainability Management
Mahindra & Mahindra has made these commitments

<table>
<thead>
<tr>
<th>Commitment</th>
<th>2011-13 (3 years)</th>
<th>2013-14 (5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing energy consumption</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Reducing resource consumption</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Reducing GHG/C02 emissions</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Green IT/ Green Procurement</td>
<td>Draft, release,</td>
<td>Review and</td>
</tr>
<tr>
<td></td>
<td>and implement</td>
<td>update</td>
</tr>
<tr>
<td>Earning green certifications</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Spreading sustainability awareness to stakeholders</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Increasing employee engagement with Esops</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Four P Bottom Line is Wider

Imperatives in CFO’s Journey for Sustainable Value Creation

Bite the Truth

1. Pre-Compliance
2. Compliance
3. Beyond Compliance
4. Integrated Strategy
5. Purpose and Passion

Sustainability Journey
CFO’s Questions – The 5\textsuperscript{th} P, i.e., Process in Planning and Budgeting Process

What are the plans, action points, capital and revenue expenditure for

- Reducing material intensity
- Utility audit and reducing consumption of power, fuel, steam, water, etc.
- Optimisation and substitution of raw natural resources
- Minimising dispersion of toxic substances
- Green logistics for renewable and used products
- Recycling of scrap, wastage and spoilage
- Prolonging product life at minimum differential price
- Increasing service intensity to reduce frequency

CXOs to ensure viability and growth after absorbing all these expenditure

Similar points are also to be ensured by vendors
Sustainability Management & Reporting
The Case Study of SRF
An insight into the stainability report of SRF
A Case Study: 2008-09 to 2011-13
Strategic Pillars for Sustainability

Seven Strategic Pillars

1. Energy and Climate Change
   - Emissions, renewable energy, energy efficiency

2. Community Development
   - Benefit sharing and social investments

3. Responsible Resource Management
   - Waste & water management, Total Quality Management, product safety, transport safety

4. Sustainable Economic Growth
   - Raw material availability & pricing, Business Risk Management, growth

5. Employee Engagement and Development
   - Succession planning, employee growth, values inculcation, labor conditions

6. Environment Health and Safety
   - Emergency preparedness, Occupational Health & Safety

7. Responsible Product Development
   - Product performance, safety, R&D
The business of sustainability: Putting it into practice

Sheila Bonini and Stephan Görner

Companies should integrate environmental, social, and governance issues into their business model—and act on them.

Source:
Sheila Bonini is a consultant in McKinsey’s Silicon Valley office, and Stephan Görner is a director in the Sydney office. Copyright © 2011 McKinsey & Company. All rights reserved.
Further Thoughts

“The essence of management lies in dropping the last letter and make it ‘Manage Men’! It is still better to drop the last two letters and make it ‘Manage Me’!”
Let’s begin