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Corporate sustainability: Drivers and enablers

India Sustainability Conclave 2014

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Foreword from FICCI

The Indian corporate sector has taken initiatives on the social and environmental front for several decades, either driven by compliance or driven by a market pull. Therefore, the core elements of environmental and social concerns are not new to corporates. These initiatives are not necessarily formulated under a 'sustainability' framework for companies, thereby directing the focus mostly towards companies who are today formally reporting on sustainability.

The sustainability dialogue has in the last three years taken a new turn because of various regulatory requirements such as Business Responsibility Reporting (BRR) arising out of the National Voluntary Guidelines for Social and Environmental Responsibility (NVGs) and the Corporate Social Responsibility (CSR) provisions under the Companies Bill. This has started a new conversation within the corporate sector on the appropriate paradigm for sustainability. At the same time, it has resulted in a confusing debate, on the one hand, on the relationship between CSR and sustainability and, on the other hand, about the overlaps in terms of reporting requirements. We are at a juncture where this debate must clear the air and provide companies the contours for internalising social and environmental concerns. Ultimately a business is sustainable if it has factored in social concerns. Then where is the dichotomy?

FICCI launched the India Sustainability Conclave in 2012 as an annual platform to engage businesses and other stakeholders on corporate sustainability and its mainstreaming in India, and to create a momentum towards adoption of sustainability practises.

This year's Conclave, the third in the series, will focus on global trends on corporate sustainability, the relationship between CSR and Sustainability, sustainability of supply chains, future of sustainability reporting, sustainability as a Business Excellence Mantra, responsible investment, and the roadmap for corporate sustainability in India. We hope these topics would bring greater clarity to companies who have already embarked and to those who are planning to embark on the sustainability journey.

We are happy to have KPMG in India as the Knowledge Partner for the Conclave this year. The FICCI - KPMG Knowledge Paper titled 'Corporate Sustainability: Drivers and Enablers' would provide a good reference point for the discussion on Corporate Sustainability as it stands today. FICCI looks forward to taking this dialogue with the corporate sector and government forward. We also hope to draw from the international experience in this space and I am sure that the participation of diverse stakeholders will help bring in deeper insights on sustainability practices in India and globally.

A Didar Singh

Secretary General
FICCI

Foreword from KPMG

Rapidly proliferating corporate sustainability initiatives are restoring the balance between regulation and voluntary activities. Today, the attitude towards sustainability investment is not merely defined by compliance requirements, but by the pressing demands of climate change and reasonable expectations of stakeholders. Even in the face of economic downturn, sustainability has ceased to be an optional topic in the strategy harvesting process, and has become a medium to filter risks and optimise opportunities for growth. Companies are ensuring that the key focus is not merely on accumulation of financial returns, but a curation of leading practice and material issues, that are aligned with the company's business priorities.

No company is immune to the increasing number of regulations, industry measures or consumer driven initiatives on sustainability. Depending on the industry sector, location or type of work, the aspect and extent of exposure to environmental, social and economic risks might differ. But, the need for a long term strategy that addresses global and national drivers that are steering the path of corporate sustainability is unquestionable.

The FICCI India Sustainability Conclave 2014 is aimed at highlighting several such developments on corporate sustainability, especially in India. This Knowledge Paper 'Corporate sustainability: Drivers and enablers' is expected to set the context for corporate deliberations at the Conclave, and act as a platform for enhancing the dialogue on this topic. KPMG in India is proud to be associated with FICCI in bringing out these key observations on sustainability strategy, governance and practices of reporting.

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Chapter 1

Global drivers for corporate sustainability

The mainstreaming of sustainability into corporate business operations has been gradual. Initially, corporate sustainability programs were focussed on facilitating compliance with environmental standards and safeguarding natural resources. Sometimes, they were also standalone acts of philanthropy. However, today's programs adopt new environmentally and socially conscious sustainability approaches that reduce risks while delivering enhanced profitability. This is a multi-dimensional benefit scenario, achieved through a combination of improved resource-accessibility, cost-reduction, marketing and recruiting benefits. According to the KPMG International Survey of Corporate Responsibility Reporting 2013, over half of the reporting companies worldwide (51 per cent) include sustainability information in their annual financial reports. This is a striking rise since 2011 and 2008, where only 20 per cent and nine per cent companies respectively included sustainability information in their financial reports. Also, many companies no longer saw corporate responsibility as a moral issue, but as a medium for identifying core business risks and opportunities. More and more investors accepted that environmental and social factors put company value at stake.

Stakeholder awareness and business' increased exposure to regulators, customers, and investors is expanding the ambit of sustainability. Most corporates now feel the need to define, implement, measure and communicate their sustainability strategy. Improving sustainability perception in today's world makes good business sense. It helps identify and address the concerns of key external and internal stakeholders. It contributes directly to triple bottom-line profitability, mitigates risks, enhances brand image, creates a competitive edge and boosts employee morale. Now more than ever, failing to adopt impactful sustainability practices throughout an organisation means missing opportunities for improving commercial performance. Executives recognise that tangible, results-focused sustainability strategies are evidence of sound management, resulting in increased readiness to adapt to changing markets and respond to customer needs. A clear sustainability strategy helps to provide confidence and reassurance to stakeholders that a company has a solid foundation for future success.

Sustainability is a long-term goal and an evolving agenda. There is no 'one-fits-all' approach to sustainability, and translating it into action means defining it in the company's context. Further, such actions and operational implementation cannot be separated from public perception. Capitalising on sustainability involves behavioral changes and developing a new corporate culture. Every business unit and function of a company will be touched by sustainability. Adopting sustainability as the way of doing business may bring in path-breaking business models or approaches. Market dynamics, coupled with increased economic uncertainty increase the need for corporate entities to better understand the risks associated with their sustainability programs. Every company has its own reason for investing in sustainability. Broadly, the drivers can be categorised as:

- Regulations
- Access to capital
- Expanded consumer base
- Social license to operate
- Innovation
- Brand and Reputation
- Operational Efficiency.

Driver 1 – Regulations

Legislation can be a powerful force of change. The stance and level of activity by various governments on corporate sustainability is varied across the globe. Currently there are over 1700 regulations related to climate change worldwide, that are implemented, planned or have been superseded[1]. The regulatory agenda for certain energy intensive sectors has been set, with the number of regulations increasing by the day. Although the current economical and political situation is not in favor of materialising far-reaching regulatory changes in the short term, environmental and social disasters have made it certain that more regulation is set to continue. Bottom-line is that companies need to be prepared.

[1] http://www.iea.org/policiesandmeasures/climatechange/?refine=true&countries=AllCountries, accessed on 10 January 2014, 4:00 pm

United States of America	In 2009, the President had called on the Federal government, U.S.A.'s largest consumer of energy, to set an example in achieving sustainable operations and energy efficiency. Executive Order 13514 requires Federal agencies to report and reduce greenhouse gas pollution[2]. It is expected that the federal government's sustainability goals and reporting requirements will encourage business entities to develop their own sustainability strategies. Many U.S. government agencies, including the Environmental Protection Agency (EPA), the Securities and Exchange Commission (SEC), and Federal Trade Commission (FTC) are increasing the expanse of their sustainability performance. These include the following: • Effective in December 2011, the EPA established mandatory greenhouse gas (GHG) reporting requirements (40 CFR Part 98) for large sources and suppliers in the United States[3] • In response to requirements in the 2010 Dodd-Frank Act, the SEC adopted conflict minerals reporting requirements[4] • The FTC has issued Guides for the Use of Environmental Market Claims (Green Guides) to address sustainability reporting at the product level.[5]
European Union	In October 2011, the European Commission issued a press release communicating a new definition and strategy for corporate social responsibility for the years 2011 through 2014[6]. The European Commission now defines CSR as 'the responsibility of enterprises for their impacts on society' and calls for public authorities of the EU Member States to support corporate social responsibility through a mix of voluntary policy measures and necessary complementary regulation. In the Single Market Act I & II[7], the European Commission announced its intention to adopt a legislation aimed at improving the transparency of company disclosures pertaining to social and environmental information. Of the 27 EU member states, only 15 have national policy frameworks to support corporate social responsibility. Further, at the U.N. Conference on Sustainable Development (Rio+20) held in June 2012, EU Member States opined that corporate sustainability reporting was useful and decided to encourage companies to integrate sustainability disclosures in their annual financial reports. Four EU Member States, along with Brazil, Denmark, France, and South Africa are working with the Global Reporting Initiative (GRI) and the United Nations Environment Programme (UNEP) to further encourage integrated reporting[8].
United Kingdom	In 2013, U.K. became the first country to mandate companies to disclose their greenhouse gas emissions. As per the 2013 rules to The Companies Act 2006, the annual Directors' Report of a company must now include a detailed methodology and quantification of it's greenhouse gas emissions. Where obtaining data for determining emissions is not feasible, the reason must be cited clearly[9].
Canada	Environment Canada, a Canadian government department, has several initiatives, including the Carbon Disclosure Project, the National Pollutant Release Inventory, and the Greenhouse Gas Emissions Reporting Program to ensure that information on corportae sustainability performance is easily accessible and used in various decision making processes[10].
South Africa	Effective in March 2010, South Africa's third report on corporate governance (King III), recommended that companies integrate sustainability disclosure with financial reporting[11].
Indonesia	Indonesia, over a period of years has launched several regulations to encourage/mandate various public and private sustainability initiatives. These include: • Companies must include information on environmental and social responsibility initiatives in their annual report. Companies that do not carry out social and environmental responsibilities as stipulated by law, are liable to be penalised • Publicly-listed companies are required to disclose information on their CSR programs in their Annual Report. Information about CSR, including CSR budget and spend included in the annual report must be submitted to the General Meeting of Shareholders for approval • Central government, local governments and state-owned companies have been mandated to achieve pre-set electricity, fossil fuel and water saving targets[12].
India	The Indian regulatory scenario has witnessed significant activity in the past two years. Building on the base created by various voluntary initiatives to streamline corporate sustainability, the Securities and Exchange Board of India introduced a new reporting requirement in August 2012. It mandated the Top 100 listed companies on Indian bourses to include a report on their Business Responsibility towards Environmental, Social and Economic aspects, in their Annual Reports. Subsequently, in 2013, the Companies Act was revised. Section 135 of this Act requires companies meeting set eligibility criteria to spend 2 per cent of their annual profit on CSR activities. A progress report on the activities undertaken must form a part of the Annual Report and signed by a Director of the company[13].

What is more important than the current regulatory regime is the prospective agenda of future regulations in context of the frequent and clearly visible impacts of climate change. Evidently, there will be winners and losers between and within sectors, where historically well-prepared and targeted segments will have a competitive advantage.

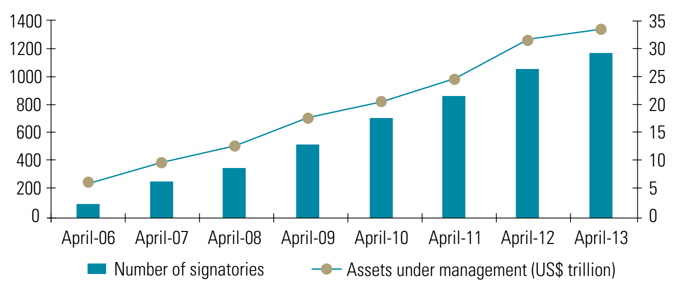
[2] http://www.whitehouse.gov/assets/documents/2009fedleader_eo_rel.pdf
[3] http://www.gpo.gov/fdsys/pkg/CFR-2011-title40-vol21/pdf/CFR-2011-title40-vol21-part98.pdf, accessed on 27 January 2014, 6:00 pm
[4] http://www.sec.gov/rules/final/2012/34-67716.pdf, accessed on 27 January 2014, 6:00 pm
[5] http://www.ftc.gov/sites/default/files/greenguides.pdf, accessed on 27 January 2014, 6:00 pm
[6] http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm, accessed on 27 January 2014, 6:00 pm
[7] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0608:REV1:EN:PDF#page=2 http://ec.europa.eu/internal_market/smact/docs/single-market-act2_en.pdf
[8] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF, accessed on 27 January 2014, 6:00 pm
[9] https://www.gov.uk/government/news/leading-businesses-to-disclose-greenhouse-gas-emissions
[10] http://www.tbs-sct.gc.ca/rpp/2007-2008/ec-ec/ec-ec-eng.pdf, http://sustainability.thomsonreuters.com/2012/10/05/the-rising-global-interest-in-sustainability-and-corporate-social-responsibility-reporting/ accessed on 27 January 2014, 6:00 pm
[11] http://sustainability.thomsonreuters.com/2012/10/05/the-rising-global-interest-in-sustainability-and-corporate-social-responsibility-reporting/, http://www.ecgi.org/codes/documents/king3.pdf, accessed on 27 January 2014, 6:00 pm
[12] http://aeiforia.in/images/pdf/Indonesia.pdf
[13] http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf, http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf, accessed on 27 January 2014, 6:00 pm

Driver 2 – Access to capital

Sustainability challenges can have a significant and measurable impact on key financial value drivers. A cohort of lending institutions has quantified these impacts and adopted comprehensive 'Responsible Investment' guidelines. While the primary intention is to minimise the negative environmental and social impacts in projects financed, the fact that responsible organisations are better prepared to deliver superior financial performance cannot be ignored. Corporate activity towards integrating sustainability into business operations enhances access to capital in two ways:

- Leading banks, funding institutions and capital providers seek information on companies' environmental and social performance. Popular project Environment, Social and Governance (ESG) evaluation standards include Equator Principles, UN Principles on Responsible Investment (UNPRI), IFC Performance Standards and The Climate Principle. Most large international banks have customised standards for evaluating project proposals across various sectors. The graph below showcases an increase in the quantum of assets under management and number of signatories to the UNPRI over a period of 8 years[13].

Figure 1: Assets under management through UNPRI



Source: UNPRI, _http://www.unpri.org/news/pri-fact-sheet

Unlike the mature investment practices in America, Europe and Australia, where state pension plans and stock listing requirements incorporate ESG parameters, adoption of Responsible Investment guidelines in Asia is still emerging. For example, no Asian country features in the list of the Top 12 countries, by number of signatories to UNPRI[14]. However, the proceedings in the past three years have been encouraging, with an increasing number of country governments, investment regulators and industry associations encouraging responsible investment practices.

- Public disclosures on sustainability performance are utilised by analysts to benchmark historic performance, establish linkages between financial and non-financial parameters and evaluate trends. Several stock exchanges and indices have been set up to work exclusively on establishing these connections. The major indices include the Dow Jones Sustainability Index, FTSE4Good Index series, MSCI Sustainability Index and STOXX. Research shows that being added to a sustainability index doesn't increase a company's share price, but when a company is removed, firms were shown to loose more than 1.2 per cent of their market values in only two days following the announcement of their removal[15]. This trend is widespread even in rapidly developing countries like India, where BSE has launched two new indices S&P BSE Greenex and S&P BSE Carbonex[16]. Whereas S&P BSE Greenex lists the top 25 companies among S&P BSE 100, in terms of their quantitative and objective performance indicators on energy efficiency, S&P BSE Carbonex is a tilted version of S&P BSE 100 on the basis of commitment to mitigating climate change.

While expectations around corporate sustainability are usually focused at large corporates, lending institutions have placed no such bias in evaluating small or large companies for ESG risks[17]. Taking cue from the responsible lending requirements of leading banks, many companies are securing the sustainability of their supply chains. Activities range from encouraging or preferring to mandating balance scorecard evaluation methods. For example, an AT Kearney and WRI study identified that the effects of environmental change (e.g. natural resources constraints, new government policies) on FMCG companies could results in earnings fall by 13-31 per cent by 2013 and 19-47 per cent in earnings in 2018 if they do not implement sustainable strategies throughout their supply chains[18].

As the paradigms of sustainability shift, it is not just the carbon intensive sectors, but all 'resource intensive' product and service offerings, cutting across all verticals of business that could be impacted by investor interest in corporate sustainability.

[14] http://www.unpri.org/news/pri-fact-sheet/
[15] UNPRI Annual Report 2012
[16] Does the Market Respond to an Endorsement of Social Responsibility? The Role of Institutions, Information, and Legitimacy http://web.cim.org/csr/documents/Block669_Doc126.pdf
[17] http://www.spindices.com/documents/methodologies/methodology-sp-bse-indices.pdf
[18] Rattling supply chains - The Effect of Environmental Trends on Input Costs for the Fast-Moving Consumer Goods Industry http://pdf.wri.org/rattling_supply_chains.pdf

Driver 3 – Expanded consumer base

In principle, access to market can be both, internal (within the region or country) and external (outside the country). Companies with inclusive strategies or better brand value in terms of going 'green' would be better placed to compete in newer markets. This is primarily on account of emerging regulatory requirements and increasing consumer awareness.

An Ipsos poll in US revealed that 25 per cent of consumers (who responded to the survey) proactively adopted a green lifestyle, reflected in the type of products they buy and services they use. These range from recycling, usage of energy efficient vehicles, eco-friendly products and choosing the HVAC equipment for their homes. What is notable is that nearly half of the respondents (46 per cent) said that they were more inclined to buy an environmentally friendly product. However, the profile of consumers preferring 'green' products is skewed towards college graduates, Northeasterners and adults under 35[19].

Consumer awareness in this aspect is also evident from the rising number of anti-greenwashing drives initiated at various scales. Tapping into this growing pool of knowledgeable buyers will become critical to achieving exponential growth numbers. While incorporating sustainability into product design and operations has been welcomed by stakeholders, unverifiable claims, especially in marketing activities have resulted in adverse impacts. A Harvard Business Review publication recommends companies to implement robust sustainability initiatives, but not directly market products or services to the 'Green' consumer, as it presents more challenges than opportunities. In a carbon-aware world, it is more important to analyse the risks and opportunities in the sector, and clearly differentiate between bearable, viable and sustainable initiatives[20].

Driver 4 – Social license to operate

The emergence of 'triple bottom line' accounting has prompted many organisations to take a more objective look at their impacts on people and communities, rather than focusing on environmental impacts alone. While environmental effects are usually straightforward to quantify and set targets for, assigning numerical values to social impacts is more challenging. Also, community wellbeing initiatives are often dominated by acts of philanthropy or charity.

In their game-changing article in the Harvard Business Review, Michael E Porter and Mark R Kramer introduced the concept of 'Creating Shared Value' in social responsibility activities[21]. They quoted four justifications for corporate action towards community development – moral obligation, sustainability, license to operate and reputation of the four major reasons that drive CSR, the license to operate approach was observed to be the more pragmatic one. By identifying the needs and concerns of key stakeholders, companies are able to anticipate future conflicts and asses prospects for expansion. This is especially true of certain industrial sectors where resource intensity significantly impacts the availability or quality of shared resources like air, water and land for other users in the vicinity.

Several social accountability standards today help companies assess and benchmark their performance. The most widely used among these include:

- The Social Accountability standard, SA8000, launched in 2000 by the Council on Economic Priorities Accreditation Agency (CEPAA)
- The UN Global Compact, a management led commitment around human rights, labour, environment and anti-corruption
- ISO 26000 management system certification on Social Responsibility that helps businesses implement robust social responsibility practices.

Driver 5 – Innovation

72 per cent of the companies included in KPMG International's Survey of Corporate Responsibility Reporting 2013 cited that innovation of new products and services is a key opportunity arising out of company's efforts to bring in social and environmental change. Many companies discovered innovative solutions to other aspects, like diversification of energy procurement portfolio, introduction of effective monitoring procedures and improvement of operational efficiency.

In many such ways, companies can redefine their organic growth plans by designing more effective, efficient, sustainable products, or operations that cater to changing social and economic challenges of a region. Solutions where the value generated accrues to society primarily, rather than meeting individual needs might attract government support as well. Innovation could be bidirectional, both in operations and product design. For example, the environmental concerns of a country could inspire companies to launch eco-friendly products or buying methods. Similarly, solutions to the neighborhood's social problems could resolve an organisation's pertinent human resource issues.

[19] http://www.ipsos-na.com/news-polls/pressrelease.aspx?id=5598
[20] http://blogs.hbr.org/2008/01/harvard-business-ideacast-78-d/
[21] Strategy and Society - The Link Between Competitive Advantage and Corporate Social Responsibility by Michael E. Porter and Mark R. Kramer

Driver 6 – Brand and reputation

Alike every company, corporate identity plays an important role in formulating the company's sustainability strategy. The most common factor is maintaining cultural and traditional values. Most companies are either fighting market downturns or are in the mode of rapid economic development. Both situations create opportunities and challenges for the region they operate in. Preserving brand and reputation in precarious times is even more important than in times of prosperity. The rapid increase in the number of reporters on topics of sustainability is testimony to the fact that most corporates are beginning to reap the benefits of enhanced brand image due to sustainability initiatives.

Every region and sector has developed a strong stakeholder base in the form of non-profits and activist organisations that constantly watch corporate behavior. Several benchmarking tools have been developed, and research surveys are published annually. From defending their status in independent rankings to proudly showcasing achievements, companies have come a long way in accepting this newly formed mechanism for measuring brand value.

Brand loyalty among employees and customers can be tested by analysing the extent to which customers and employees adopt the company's sustainability principles in their daily lives. For example, the sustainability initiatives of a company could be so strong that the employees are motivated to voluntarily reduce their carbon footprint at homes by using CFL bulbs instead of incandescent bulbs. Or suppliers to a large corporate could be willing to incur additional expenditure in minimising waste generated, just so that they can be associated with a 'responsible brand'. Brand and reputation being intangible benefits, are definitely influenced by a company's stance towards sustainability. The lack of a sustainability strategy has affected many a company's reputation adversely.

The uptake of sustainability can significantly boost brand value and increase customer connectivity. As company's initiatives continue to grow, the discussion around sustainability, including corporate credibility should continue to rise. This enhanced participation of internal and external stakeholders would occur partly due to various drivers discussed earlier, and benefit organisations in many different ways.

Driver 7 – Operational efficiency

The products and services a company delivers lie at the heart of the enterprise and represent the primary interaction the company has with society outside of its walls. Robust internal mechanisms that speak to operational efficiency are key in demonstrating the true character of the company. They also help ensure that product development and services delivery remain reliable, profitable and aligned with business interests in the short and long term.

Operational efficiency has often been experienced as a tangible impact of corporate sustainability most particularly in the field of resource use efficiency, and is easily measurable and verifiable. In the 1990s, the presence of management system certifications assured stakeholders of a company's operational efficiency[22]. This era has gradually been phased out and paved the way for carbon or energy auditing systems that lead to market mechanisms for trading and offsetting footprints. Rising costs of energy, water scarcity, waste management and land use restrictions have lead to the implementation of energy management systems, ERP enabled monitoring packages and real-time reporting tools. Ensuring effective operations at relative costs are crucial aspects of reliable supply-chains. .

Fortunately, many government and lending institutions provide economic incentives aligned with supporting companies to help ensure efficient and effective energy and material utilization. For companies yet to embark on their sustainability journey, a suggested approach to the dilemma of 'should we' or 'should we not' is consideration of the full implications of a company's products and services over its lifecycle of existence. Understanding the full value chain, and setting expectations based upon it, forms the backbone of leading sustainable practices.

Precedence for enhancing operational efficiency through sustainability ranges from assessing the impact of coffee sourced from non-fair trade growers to the use of heavy metals processed overseas by subcontractors and suppliers without regard to environmental impacts.

[22] http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1897&context=globaldocs
KPMG in India analysis, accessed on 27 January 2014, 6:00 pm

Chapter 2

Indian drivers for corporate sustainability

The Indian corporate group is cosmopolitan. The entities range from subsidiaries and branches of international companies, Indian conglomerates, State owned agencies, Small and medium scale companies to Entrepreneurial ventures. Traditionally, the impact of global megaforces is first recognised by the large companies first, who often set benchmarks for other companies to follow. Further, sustainability drivers in the global scenario cascade to companies operating in India, albeit with reduced impact.

Corporate sustainability in India is currently a multi-level learning process, where regulators, companies and other stakeholders are experimenting with innovative approaches to establish sustainability benchmarks. These attempts are dominated by the trends in adoption of sustainable development policies by world economies and developments in industry sector circles.

Sustainable development trends

Regulator and consumer perspectives on the role of Indian businesses in sustainable development are changing. The Government of India has launched an array of regulations around business responsibility and community development. The first non-financial reporting requirement for business entities was introduced by the Ministry of Environment and Forests in 1993, with the launch of the Air, Environment, Waste and Water Acts that aim at prevention and control of pollution of natural resources. Since then, the regulatory scenario has been evolving, with much of activity being witnessed in the past two years[1].

Year	Regulations
June 2007	The Department of Public Enterprises launched a Guideline on Corporate Governance for Central Public Sector Enterprises (CPSEs) that was voluntarily utilised for reporting under a pilot programme in the year 2008-09. Subsequent to a progress review of the pilot, reporting against the guidelines was made mandatory.
2009	The Ministry of Corporate Affairs launched the 2009 Voluntary Guidelines on Corporate Social Responsibility.
July 2011	The above guidelines were revised to launch the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business (NVGs). The guidelines are based on 9 principles around environmental and social sustainability.
February 2012	Launch of S&P BSE Greenex, an Index that includes the top 25 companies according to their performance against carbon emission offset/ footprint and financials.
August 2012	SEBI mandated the Top 100 listed companies in BSE/NSE as per market cap to include a Business Responsibility (BR) Report in their Annual Reports. The report was to be made on the basis of NVGs in the format prescribed by SEBI.
November 2012	Launch of S&P BSE Carbonex that lists companies based on their ESG performance. The BSE Carbonex can be considered a tilted version of the S&P BSE-100 index.
September 2013	The Companies Act, 2013 mandates companies to spend 2 per cent of their annual profit on CSR activities. A progress report on the activities undertaken is to be included in the Annual Report and signed by a Director of the company.

Source: KPMG in India analysis

[1] https://www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf accessed on 27th January 2014, 6 pm

It is interesting to note that the focus of regulations covers a cohort of issues, ranging from CSR to sustainability reporting. It is likely that regulations in future will concentrate on minimising the risks associated with depleting natural resources. For instance, it is widely established that the demand pressures for water will be exacerbated by the effects of a changing climate. Water risks associated with changing climatic conditions, droughts and flooding are becoming more severe. Currently, there are at least a couple of water related regulations pending for approval or under consideration by the Government of India. When implemented, companies might have to initiate measures to secure their water supplies or water-dependent operations.

Key issues diverge from companies' carbon or energy centric operations. Not only direct operations, but indirect operations in the form of responsible supply chain management are expanding the scope of sustainability. Either through regulatory pressure or voluntary initiatives, sustainable development is coming into its own as a driving force for competitiveness and innovation. Industry associations and trade bodies also are initiating measures to support organizations in rising to this requirement of linking core business agendas with sustainability.

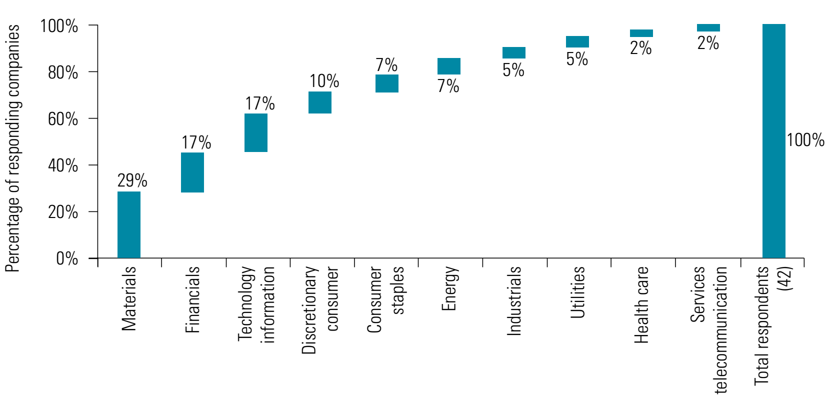
Sector trends

Corporate sustainability of the 1990s stressed on self-regulation and employee voluntarism. It was dominated by codes of conduct, certified management systems, philanthropy and environmental compliance reporting[2]. Company codes were heavily concentrated in sectors where brand reputation and export orientation are important. Codes addressing labor issues tend to be associated with the garment, footwear, sporting goods, toy and retail sectors; whereas those concerned with environmental aspects are likely to be found in chemicals, forestry, oil and mining. The limitations of company codes of conduct and corporate self-regulation have been addressed in recent years through multi-stakeholder initiatives, involving standard setting and the promotion of dialogue, reporting, monitoring, auditing and certification related to social, environmental and cultural aspects.

Despite regulator and investor pressure towards normalising corporate sustainability behaviour, sectoral trends are unavoidable. However, significant changes are observed in the list of 'generic parameters' considered material by various companies. For example, eco-design, green buildings and the use of renewable materials are on the rise and becoming a standard practise. At the same time, due to worldwide recession, companies are scrutinising procurement processes more closely and ensuring implementation of supply chain sustainability programs. More and more sectors are breaking the 'circle of blame' and moving towards low carbon futures. New business models are being developed (via vertical integration and strategic partnerships) based on innovative, sustainable principles and total cost of ownership considerations.

The figures below demonstrate sectoral distribution of sustainability disclosures in India.

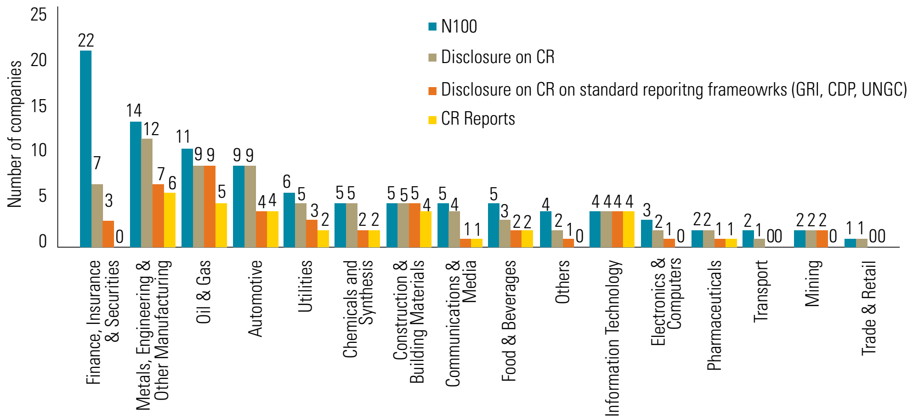
Figure 2: Sectoral distribution of companies in India, responding to CDP 2013 Investor Information Request



Source: CDP India 200 Climate Change Report 2013

[2] http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1897&context=globaldocs, KPMG in India analysis accessed on 27 January 2014, 6:00 pm

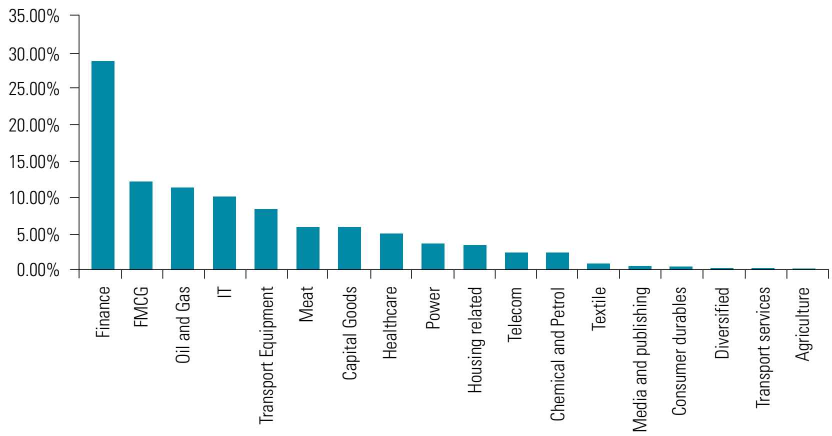
Figure 3: Sectoral distribution of sustainability reports/ disclosures published



Source: India Corporate Responsibility Reporting Survey 2013, KPMG in India

The trends in sustainability disclosures with respect to various reporting formats (GRI, CDP, UNGC) showcases a skewed distribution in favour of certain sectors only. The oil and gas and materials/metals, engineering and other manufacturing sectors have made the highest quantum of disclosures (qualitative and quantitative). However, the financial services sector has been relatively inactive. While it is obvious for resource intensive sectors to display maximum proactive behaviour, other sectors should not discount the cascading effects of climate change disasters on their direct or indirect operations.

Figure 4: Sectoral composition of S&P BSE Carbonex in 2012



Source: BSE CARBONEX Fact Sheet_Dec 2012

The S&P BSE Carbonex which is a tilted version of S&P BSE 100 has maximum representation of (over 27 per cent) constituent companies from the Finance sector. Oil and Gas companies constitute around 11 per cent of the index, while there is moderate representation from the Metals sector. The listing assessment for the index focuses on climate change initiatives of companies across four aspects – Reporting and disclosure, Strategy and governance, performance and achievement and Ecosystem action. Despite publically available information on the index's evaluation criteria, there is significant mismatch in the extent of proactive behaviour displayed and expected out of certain sectors. An in-depth assessment of these objectives could probably prompt various sectoral associations to initiate collaborative efforts and drive enthusiasm across member companies.

Chapter 3

Enablers for corporate sustainability in the Indian context

Companies are exposed to increasing pressure from regulators, customers, suppliers, investors and peers to define their sustainability strategy; measure and communicate performance. Successfully implemented corporate sustainability measures are acknowledged as a key indicator of the company's foresight and management objectives. They are also an indicator of good governance – and are increasingly seen as an investment deal-maker and breaker. Key enablers to an effective sustainability approach include:

- Vision and Strategy
- Governance structure
- Monitoring and reporting.

Enabler 1 – Vision and strategy

Sustainability strategy is central to the way any company operates and grows its business in an economically, environmentally and socially responsible way. Guided by clearly defined values and business principles, solid performance around the triple-bottom-line gives companies license to operate, enhanced access to market and finance, enabling the pursuit of aggressive growth numbers. Sustainability vision is a function of the company's history, affiliations, regional policy scenario and sectoral maturity in the context of its long-term growth strategy.

An integrated sustainability strategy stands on two pillars – direction and extent of embedment. While this activity should ideally be a management led function, penetration of the vision into the deepest rungs of an organisation is critical for yielding results. Companies aspiring to become sustainability frontrunners include a select list of sustainability topics into their vision and work in a focused manner. Accordingly, external stakeholders and employees should be engaged with the vision effectively. This helps ensure that the company is capitalising on its efforts and realising maximum achievements.

The figure depicts a typical strategy preparation process beginning with the vision and ending with the reporting process.

Key aspects to be considered through the planning phase include:

- Strategy should evolve and be continuously updated through a multi-stakeholder consultation process
- Integration of management systems (including guidance documents, policies, procedures and monitoring methodologies) with IT based ERP systems is vital
- Regular peer review and benchmarking initiatives help companies stay on track
- A goal driven approach is easier to implement, monitor and defend
- External audits and verification processes infuse fresh learning and enhance the authenticity of information disclosed.

Figure 5: Building blocks of a sustainability strategy and performance system

Source: KPMG in India analysis

Enabler 2 – Governance structure

Governance structures enable smooth embedment of the strategy into each function and activity of the company. Depending upon the level of maturity in the company, a traditional, strategic or transformational response level of governance can be implemented. It is imperative to design both the macro and micro organisation blueprints simultaneously. The macro aspect comes from the top management that set the direction of sustainability, while the micro aspect deals with the everyday responsibilities of employees at middle levels down to the front-line of the company.

Organisational structure, tools and infrastructure should be defined and applied to govern the processes successfully. 'Hard' governance tactics create the seriousness required to introduce an alien concept into the company. This deals with reporting structures, policies, procedures and tools for implementing the planned sustainability strategy. The 'hard' governance aspects should be balanced with 'soft' governance that typically comes from the company's culture and employee behavior. The sustainability strategy implementation process will succeed only if it is truly embedded within the organisation and engrained in 'the hearts and minds' of its employees.

Governance framework levels can differentiate a mediocre company from a leading one. Primarily, the skills and capabilities that drive value should be recognised, rewarded and preserved for long term success. Since the beginning, an inclusive approach where all departments contribute to the company's sustainability initiatives should be fostered. Effective ways of work develop gradually, with the company's increasing clarity and focus towards its long term sustainability vision. Continuous stakeholder engagement is one such way to keep the company's sustainability strategy on track and in line with the society's requirements. On the whole, good governance structures and practices drive the pace at which sustainability penetrates into an organisation's core business.

Enabler 3 – Monitoring and reporting

Robust monitoring practices are key to successful strategy implementation. Regular review and evaluation of progress against set goals helps in establishing internal and external accountability. Developing an understanding of the key barriers in the implementation phases helps define robust performance evaluation and change management procedures. This also helps in raising an alarm in case of variances against targeted performance goals. At the strategy preparation phase itself, review processes, parameters and metrics should be identified, captured, documented and communicated. The other benefits of regular monitoring and reporting include:

- Correlating the risks identified against the changing scenario of regulations, climate change impacts and peer best practices
- Assessing the effectiveness and impact of programs implemented through due diligence processes
- Reviewing policies, processes, practices, roles responsibilities and key activities associated with the lifecycle of strategy implementation to identify bottlenecks and loopholes
- Evaluating existing IT support systems to enhance the benefit of analysis results and management reviews
- Empowering stakeholders with information on the progress of issues discussed in the reporting period to enhance accountability and trust.

Conclusion

The common 'sustainability' priorities between the world and India have set the stage for corporate action. The government's proactive role and report-or-explain approach is a welcome change that will deliver long term sustainable benefits to the companies, their neighborhoods and the economy at large. This is the time to reconcile the social, economic and environmental demands of development and work towards a sustainable future. In an idealistic world, companies can delink the interconnected risks of the workplace, marketplace, community and environment. Since this is far-reaching, it is pragmatic to plan macroeconomic corporate reform on the basis of stakeholder engagement, risk assessment and evaluation of other significant drivers.

Over the past year, many companies have taken steps to establish a global vision, direction and goals for sustainability. They have carefully considered the business drivers in their context, worked on their strengths and leveraged the full benefits of sustainability enablers. Although the current focus is on tangible benefits like enhanced access to capital, market and a social license to operate, companies have begun relating to the intangible benefits as well.

The Indian scenario, filled with regulatory and voluntary activity is moving towards responsible corporate behaviors and consumerism. It is not before long that companies operating in India will be setting benchmarks for global sustainability behavior. Every company that tags along in this journey will have an impact to make and an idea to drive. The onset of new regulations, business-as-usual scenarios and actual impacts of climate change will present newer challenges. Utilising the time in hand to create sustainability strategies could act as a powerful defense mechanism to tackle unforeseen circumstances in this carbon-guilty world.

Chapter 4

Global trends in corporate sustainability

Corporate response to risks and opportunities is largely defined by their perception of the future, where sustainability is the standard. Sustainability can be turned into a competitive advantage. It can be utilised as a risk mitigation mechanism and force of innovation. Recent trends demonstrate an increasing inclination in companies to expand the reach of sustainability related activities and communication.

Aspect-based initiatives

We define aspect based initiatives as standalone activities, wherein companies address selected parameters of sustainable growth, like emissions, energy, water, waste or community development. Regulatory requirements are a good starting point for implementing activities that focus only on one aspect of the company's environmental and social impacts. Taking the case of energy alone, regulatory requirements, incentives and tax benefits are driving energy efficiency and renewable energy proliferation in many countries.

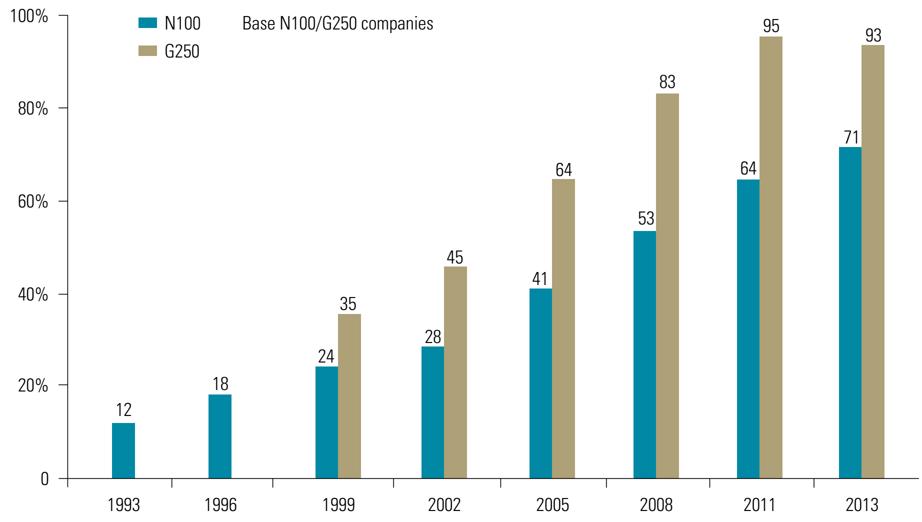
Sustainability reporting

There is an upsurge in the demand for non-financial reporting. The most popular framework used is GRI Guidelines. The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance[1].

Many companies also respond to the carbon, water, supply chain questionnaires of Carbon Disclosure Project, and have made management commitments under the UN Global Compact. Although GRI continues as the global reporting standard, integrated reporting is an upcoming trend. The maturity of reporting practices is evident from the embedment of sustainability in companies' internal and external communications. Reporting is also embracing new technologies such as webcasts and social networking tools. The figures below indicate the growth in sustainability reporting.

[1] http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf, accessed on 27 January 2014, 6:00 pm

Figure 6: Growth in reporting since 1993 - Percentage of companies with CR reports



Source: KPMG International, the KPMG survey of Corporate Responsibility Reporting 2013, December 2013

From 1993 to 2002, the survey included only standalone CR reports. From 2005 onwards, the survey includes CR information in annual reports as well as separate CR reports hardcopy or web-based, due to the trend of more companies reporting on CR in company annual reports.

Supply chain sustainability

A few corporates take their sustainability strategies to a level higher by integrating supply chains with key business decisions to reduce the life cycle emissions of products and services. The key drivers include stakeholder pressure towards measuring and reducing greenhouse gas emissions across value chains and increasing Government focus on sustainable procurement. It should also be noted that there is significant evidence that poor management of sustainability risks in the supply chain can result in significant costs, depressed sales and broader reputational harm. Further the issue of human rights violation is rampant in some sectors, especially in geographies with limited understanding on these aspects. Large companies are beginning to realize this, and are introducing customized 'balanced scorecard' evaluation methods or supplier codes of conduct. Obtaining third party assurances, along with undertaking internal evaluations has become a common trend. High performers are often rewarded through incentives, awards and preferential allotment of work. Various agencies, specifically the Carbon Disclosure Project are helping more and more suppliers, especially the small and medium scale industries participate in the journey towards sustainable operations.

Product and service labeling

Consumer requirements drive innovation in products and services. The onset of green labeling programs is an indication of this growing proportion of knowledgeable consumers who prefer green products to resources intensive ones. Regulatory impetus on resource efficient lifestyles is also evident from the array of energy efficiency, building efficiency and product efficiency norms prevalent globally. While the trend is largely positive in Europe, product labeling is still voluntary in nature. Further, the distribution of consumers preferring green products is haphazard. This could be attributed to lack of awareness, preference to low-price products or inability to see value in such initiatives.

Nonetheless, the diversity in the thought process of companies is bringing in innovation into the field of corporate sustainability. Despite lack of pressing regulations, many companies are voluntarily investing time and resources in reducing their impacts on the environment and society.

About FICCI

FICCI, the apex industry organisation in India, is the leader in policy thinking and change and is in the vanguard of nation building. Established in 1927 and with a nationwide membership of over 1500 corporates and over 500 chambers of commerce and business associations, FICCI espouses the shared vision of Indian businesses and speaks directly and indirectly for over 2,50,000 business units. It has an expanding direct membership of enterprises drawn from large, medium, small and tiny segments of manufacturing, distributive trade and services. FICCI maintains the lead as the proactive business solution provider through research, interactions at the highest political level and global networking. It is constantly involved in bringing about integration of the Indian economy with the global mainstream. FICCI facilitates business-to-business linkages, promotes trade and investment linkages, creates awareness on key issues for the economy, provides inputs for policymaking, acts as a conduit for government-industry exchange and promotes bilateral ties.

FICCI's Expert Committees and Task Forces, headed by leading Industrialists, regularly meet to discuss the current issues. Joint Business Councils (JBCs), FICCI's track two business diplomacy with India's trading partners, open up new business opportunities to Indian businessmen with overseas investors, technology suppliers, multilateral and bilateral funding agencies.

FICCI's Committees and Task Forces on Environment, Climate Change and Renewable Energy serve as platforms for policy deliberations and interface with the government on key policy and regulatory developments. FICCI is actively involved in creating awareness, outreach, capacity building, business linkages, international partnerships, thought leadership, and policy change on key environmental issues, climate change and carbon market, corporate sustainability, and alternate energy sources in the solar, wind and bio-energy spaces. The Climate Change Task Force serves as the voice of Indian industry on domestic and international policy and regulatory issues pertaining to climate change and carbon market. FICCI has been promoting Indian business interests in the global carbon market. FICCI is also an accredited observer organisation under the United Nations Framework Convention on Climate Change (UNFCCC). On environmental issues, the FICCI Environment Committee represented by 28 industry members has actively engaged with the government on policy issues pertaining to environment & forest clearances, waste management, biodiversity, and electronic waste regulations. The FICCI Solar Energy Task Force was launched in February 2010 to provide a platform for the solar energy sector to deliberate on policy and regulatory issues and advance interests of the sector at domestic and global platforms. The Task Force is represented by 32 members from the entire value chain of the solar industry including manufacturers, project developers, system integrators, EPC companies, raw material suppliers as well as the certification agencies. In July 2013, FICCI also launched the Wind Energy Task Force and the Bio-Energy Task Force comprising diverse industry members to extend its work in a focused manner in the renewable energy segment.

FICCI's Annual Flagship Events that provide the platforms for policy advocacy and business linkages in the above areas include:

- India Sustainability Conclave
- India Climate Policy and Business Conclave
- India International Cleantech Summit.

For more details, please visit www.ficci.com

About KPMG

As sustainability and climate change issues move to the top of corporate agendas, KPMG member firms advise organisations to better understand the complex and evolving environment, helping them enhance their sustainability strategy.

KPMG member firms' Climate Change and Sustainability Services (CC&S) professionals provide sustainability and climate change Assurance, Tax and Advisory services to organisations to help them apply sustainability as a strategic lens to their business operations. Since 25 years, our member firms have been offering these services to leading businesses and public sector organisations. This gives KPMG's network in-depth experience. Today KPMG's global network employs several hundred sustainability professionals located in around 60 countries. We offer services in the following areas:

- Sustainability risk and opportunity analysis
- Corporate responsibility strategy assistance
- Corporate Social Responsibility/Sustainability/GHG information systems design and implementation
- Regulatory framework assessment and analysis, including tax and carbon emission regimes
- Tax incentives and credits
- Sustainable supply chain enhancements
- Corporate responsibility reporting and assurance, including pre-audit assessments and Green House Gas emissions verification.

Local knowledge, global experience

KPMG's global network means we have in-depth understanding of the economic, political, environmental and social landscapes wherever your organisation may operate. At the same time, member firms are closely connected through a Global Center of Excellence. This means that, whatever challenge you face, we can put together a knowledgeable team with international experience to help you.

KPMG in India

KPMG in India has a dedicated team of sustainability professionals with varied industry and consulting backgrounds. We work with organisations across sectors to help deliver sustainable business solutions. We are actively associated with Governments, Industry bodies and NGOs in shaping the sustainability policies and frameworks in India. KPMG in India is also a GRI certified training partner and one of the pioneers in delivering GRI certified G4 course.

We help organisations to develop future-fit business strategies based on solid understanding of the issues. We strive to think big and challenge convention, with implementation in mind, working with you to find practical approaches that can create success and growth through change. We don't work in a sustainability vacuum. We work side-by-side with professionals from tax, audit and advisory including sector specialists, management consultants, tax accountants and specialists in IT, supply chain, infrastructure, international development and more. You won't receive generic advice and one-size-fits-all methods from us, instead you can benefit from a hand-picked multidisciplinary team.

For more information, please visit www.kpmg.com/in

Acknowledgements

This report was prepared by KPMG in India, under guidance from FICCI, with inputs from the following people:

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The project team would like to thank the following people from KPMG in India for their contribution in producing this report: Nitin Atroley, Subir Moitra, Pranav Desai, Jiten Ganatra, Darshini Parikh, Subashini Rajagopalan and Neelima Balachandran.

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Printed in India.