The Hunt Report

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Board and Governance

HUNT PARTNERS
LEADERSHIP EMERGENT INDIA

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BOARD GOVERNANCE & EDUCATION

People & Innovation

Global Best Practices for the 'Now' Normal

Preface

Dear Reader,

We are pleased to bring to you Vol. 15 of The Hunt Report, with the theme of **'People and Innovation'.**

This issue expands on the theme of organizations aligning business and talent-strategies, for a new world order driven by technology. We also talk about new roles being created, driven by either rapid transformation of industries, or by introduction of new business models and regulations. As in previous issues, we continue to track the talent-trends, at the executive suite, across a cross-section of industries. We hope you find this report insightful, and welcome your comments and thoughts.

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The Non-executive Independent Director

A Nuanced Approach to Selection

Author

Arjun Erry

The importance of the non-executive independent director has been settled by decades of corporate governance research and doctrines — all underpinned by legislative acts and further crystallized into regulations by various appropriate authorities including securities regulators, exchanges, and central banks.

What this paper doesn't seek to recreate are the laws, regulations, and statues in our jurisdiction. Rather, this paper attempts to provide insight into often ignored aspects related to the appointment of the Non-Executive Director.

The Ideal Profile

When a vacancy is created on a Board of Directors, it falls upon a committee of the board to move for the appointment of the incoming non-executive. This activity is generally the remit of the Nomination and Remuneration Committee — also known as the **NonRem.**

Herein lies the crux of the decisioning

What skills do we currently have on the Board?

Are there any gaps?

Do we foresee any gaps in the future based upon the desired strategy and direction of the company?

Do we seek expertise in specific emerging areas? ('Digital' being often mentioned these days.)

What international perspective do we need?

These questions should be asked — and must be answered — before the flurry of activity surrounding an appointment. Corporate governance experts recommend that Boards run a study to help answer these questions. This could be done both formally through an external firm or internally: the output of the exercise becomes the input in the search of the non-exec.

Having established the skill profile, the NomRem — as supported by the executive — would then need to deliberate other important aspects of the appointment. A word of caution: having established the expertise need is considered by gurus as only being metaphorical base camp. Several other layers need to be added before the search process may begin.

The essence of appointing a non-exec is for the board and company to gain from the non-exec's rich experience and sagacious advice. A prerequisite for such advice: the non-exec must have the time to devote to the board. Whilst being over boarded has been capped by the regulations, in our view this is only the tip of the proverbial iceberg; for different boards have differing needs of time to be devoted by the non-exec. It is not a one-size-fits-all approach.

We have seen that highly regulated organizations, like commercial banks, have a far greater frequency of meetings — both board and committee — with deeper pre-read papers followed by longer duration meetings. It takes a nuanced approach to discern the capacity of the potential non-exec to devote sufficient time, rather than simply applying the crude filter from the regulations.

Another area where we see a greater depth of discussion needed: what potential committees should the in-coming non-exec become a member of? One segment of the answers will evolve from the reading of regulations pertaining the number of non-exec independent directors per type of committee (based on the number of non-independent executive directors in that committee). Again, we feel steering the ship purely based on regulations leaves the vessel to the vagaries of chance. Due thought must be given to the committees on which the incoming non-executive can truly contribute and participate. For it has been said that, in a highly effective board, the heavy lifting is done in the committees.

In the next paper we look at aspects related to conflicts, the term of appointment, and the process of appointment. Stay tuned.

Towards More Effective Corporate Governance

Author

Peter Crow

From barely rating a mention in the last twenty or thirty years, boards have become fairly newsworthy over the last decade or so.

Questionable practices and failures of various kinds have seen boards become topical; often targets of criticism in the eyes of the business media, regulators and, increasingly, the wider public. In addition, the hitherto little-used term that describes what boards do — corporate governance — has become ubiquitous, hackneyed even, to the point now of being invoked as a perpetrator or panacea for all manner of corporate activity, regardless of whether the board is involved or not. Amidst this, many well-intentioned directors do not seem to understand their duties and responsibilities particularly well; privately admitting they have become confused about the purpose and role of the board, what corporate governance is and how it should be practiced.

This article discusses some of the issues that impair board effectiveness, before suggesting an alternative approach for more effective outcomes.

A Challenging Context

Modern boards face many challenges and complexities. Seismic geo-political shifts; the rise of populism and the diversity agenda; changing shareholder expectations, especially in relation to ESG; the onset of a global pandemic; and, risks of many types — especially terrorism and cyber-risk — mean boards cannot take too much for granted in a dynamic marketplace.

There is abundant guidance to assist boards navigate this landscape and achieve 'best practice'. In fact, a surfeit of recommendations has now pervaded academies, directors' institutes and boardrooms. Many countries have introduced codes and regulations as well, both to limit malfeasance and to provide boundaries and guidance to boards. Amongst them, a clear separation between the functions of governance and management; diversity of various forms; say-on-pay; and, independent directors have been promoted at various times, as precursors to effective board practice. Many boards and shareholders have been enthralled by recommendations proposed to date, as they have searched for a definitive board configuration to suit their purposes.

But what of the efficacy of these recommendations?

Despite the best of intentions, the plethora of recommendations and codes now in circulation has yet to have the intended effect. Instead, the continuing and seemingly endless stream of corporate failures and significant missteps emanating from boardrooms suggests that contemporary 'best practice' recommendations provide little assurance of board effectiveness, much less company performance.

Studies of company and board failures reveal a consistent pattern of contributory factors. These include hubris and overconfidence amongst directors; low levels of board–management transparency; assertive CEOs that 'take over'; lack of a critical attitude, genuine independence, appropriate expertise, and relevant knowledge in the boardroom; and, tellingly, low levels of commitment by directors. Further, first-hand observations of boards in action show that the dominant focus is compliance; monitoring historical performance and checking that regulatory requirements are satisfied.

The protection of professional and personal reputation is clearly a more powerful motivation for many directors than the performance of the company they govern. It is little wonder that regulators are active and public confidence is low.

Focus on What Matters

In sport, it's well known that rules define boundaries, not outcomes; teams that focus on the rules rarely win. The correspondence to boards and governance is direct. 'Best practice' recommendations and codes are, essentially, rules. To focus strongly on them, without also considering the purpose and function of boards, is short-sighted.

If boards are to become more effective in fulfilling their value-creation mandate, directors need to focus on what matters, especially discovering how best to work together in pursuit of agreed performance goals, with the best interests of the company to the fore. This is made plain by Bob Tricker, a doyen of corporate governance. He argued, straightforwardly, that the purpose of the board is to govern, which includes overseeing the formulation of strategy and policy, supervision of executive performance, and ensuring corporate accountability.

Ultimately, the effectiveness of any board is a function of what the board does and how directors work together, not what it looks like. The structure and composition of the board is, in relative terms, less important. Directors take their eyes off this distinction at their peril.

An alternative approach, for more effective contributions

That the ultimate responsibility for company performance lies with the board places it at the epicentre of strategic decision-making and accountability. Consequently, if the board is to have any effect on business performance at all, it needs to maintain an active and sustained involvement in strategic management in some form.

Some commentators (and many directors and managers) have argued against the board becoming actively involved in strategic management tasks. High levels of involvement are frequently perceived by managers as interference, and close involvement can lead to a loss of objectivity in oversight. Yet boards have duties to fulfil.

Clearly, if boards are to contribute well, they need to navigate a fine line between detachment, involvement, and meddling. For that, trust, cooperation, teamwork, cohesion, and consensus building — amongst the directors and with the chief executive — are vital.

Recently published research[1] provides new insights as to how directors might work together more effectively, enabling the board to steer and guide appropriately. If the work of the board (i.e., corporate governance) is conceptualised as a multi-faceted social interaction activated by competent, functional boards, then different (improved) outcomes are possible. The interaction itself is straightforward: an integrative assembly of necessary director capabilities (what they bring); board activities (what the board does); and, relationships and behavioural characteristics of directors (how directors act and interact) — the Strategic Governance Framework.

Necessary director capabilities include deep sector knowledge; technical expertise; business acumen; and, maturity and wisdom. The activities of the board are those described in the Learning Board Framework, a proven model, these being the setting of corporate purpose and strategy; policy making; monitoring and supervising management; verifying performance against strategic goals and in compliance with statutes and regulations; and the provision of an account to shareholders and legitimate stakeholders.

There are five critical behavioural characteristics, as follows:

1. **Strategic competence:** Directors need to utilise their cognitive skills to exercise sound judgement on specific issues — both individually and as a group. Big picture, long-term and impartial inquisitive thinking, and a strategic mindset are particularly important if the board is to be strategically capable.

2. **Active engagement:** This enables directors to gain insights to make informed decisions, monitor the implementation of prior decisions and verify the performance trajectory of the company effectively. Indicators include adequate preparation before board meetings; close and supportive interaction between directors during meetings (read: teamwork); and an established framework within which to make strategic decisions (an approved long-term strategy).

3. **Sense of purpose:** This describes the motivation and resolve of directors to contribute to the work of the board (formulation of strategy, making of strategic and other decisions; monitoring and verification of actual performance; application of controls; and provision of accountability) with the agreed long-term purpose of the company as a guiding principle.

4. **Collective efficacy:** The ability of directors to make informed decisions together is an antecedent of effectiveness and performance. A board's performance is a product of not just shared knowledge and skills, but also of cooperation and cooperation; empathetic interactions between directors; vigorous debate; and the situational awareness and emotional intelligence of each director as alternate points of view are aired, explored and debated.

5. **Constructive control:** Decisions made by the board in response to various inputs should be consistent with the agreed strategy and long-term goals. The mindset should be that of a coach, providing guidance rather than behaving punitively, the likes of which are more commonly associated with boards seeking to minimise perceived agency problems.

[1] Doctoral research conducted by the author, a long-term study of boards in action.

The Strategic Governance Framework outlines how functional boards can 'perform' corporate governance. The significance of this approach is that it marks a return to seminal understandings of shareholder–board–management interaction (the board as a proxy) and corporate governance (the functioning of the board, the means by which companies are directed and controlled) that have been lost amongst the cacophony of more recent diversions and embellishments.

The behavioural dimension provides a platform for directors to interact well and for the board to make forward looking, informed decisions in a timely manner. Unsurprisingly, the core elements are not dissimilar to the antecedents of effective teamwork (compelling direction, enabling structure and supportive context) and proven models of mission achievement (purpose, strategy, values and behaviour standards) described elsewhere.

Thus, effective corporate governance is a product of meaningful teamwork, synergistic interactions and a commitment to action amongst capable, functional directors pursing an agreed strategy and with the long-term best interests of the company in mind.

Implications for Boards

Conceptually, governance is both straightforward and stable (the root word is kybernetes, meaning to steer, to guide, to pilot). However, its practice (i.e., what boards do and how directors behave) is inherently complex and quite dynamic — even more so when the incessant march of innovation, effects of disruptive forces and the miscreant motivations of some directors are considered.

The Strategic Governance Framework provides an alternative pathway for boards to exert influence by outlining requisite capabilities and tasks, and the interactions and behavioural characteristics conducive to effective contributions. But it also challenges orthodoxy, by setting prevailing structure and composition recommendations to one side, as well as any notional physical or task separation between the board and management.

The close working proximity of the board and management that is a feature of the Strategic Governance Framework is not without its challenges. Complex group dynamics and the inherent difficulty of separating shareholder, board and manager roles (more so in smaller shareholder-managed companies or boards with so-called executive directors) can have a negative impact on decision-making objectivity in particular.

Similarly, the temptation to embrace operational detail, inadvertently confuse the roles of the board (corporate governance) and managers (business operations including strategy implementation), and shorten the strategic horizon remain very real challenges for directors around the world — as has become patently clear during the current pandemic. If boards are to fulfil their governance responsibilities well, a clear sense of purpose supported by a coherent strategy and a well-defined division of labour is essential — regardless of the company's size, sector or span of operations.

Early agreement on terminology, culture, the purpose of the company and the board's role in achieving the agreed purpose provides boards a much-needed foundation upon which to assess options, make strategic decisions and, ultimately, pursue high levels of performance. Increasing numbers of boards are starting to realise that material benefits are available if they take these steps.

More generally, directors need to ensure they thoroughly understand both the business they are charged with governing, and the wider operational and strategic context within which the company operates, so their contributions are both contextually relevant and effective. A programme of continuous learning and discovery is recommended. In addition to reading and understanding board papers, directors of high performing boards say they read widely about emerging ideas, trends and technologies, to ensure a sufficiency of knowledge about both the practice of governance and the market the company they govern operates in and new opportunities.

In the end, boards need to remain tightly focussed on their core responsibility, which is to govern in accordance with both prescribed duties and the long-term purpose of the company in mind.

Necessarily, effective steerage and guidance requires the board to be discerning and committed to the task at hand, using reliable governance practices in pursuit of better outcomes, lest they be diverted by spurious (and often discordant) recommendations that appeal to symptoms or populist ideals. The Strategic Governance Framework introduced here provides a useful option for boards to consider, as they strive to realise the full potential of the companies they govern.

How to Enlist Your Board of Directors in Driving Innovation

Authors

Julie McLellan

Innovation within a corporate structure is difficult. The whole idea of doing things differently, achieving uncertain outcomes, and – often – working with different people can seem threatening and dangerous within a corporate structure that is predicated on rules and order, setting and achieving clear targets, and sustaining the team. Yet, if we are true leaders, it is a task we must set ourselves; one that we must accomplish. It is the job of every true leader.

Anyone who is in the boardroom is taking part in leadership. It is important that everyone in the boardroom is able to influence decisions to get better outcomes. This applies even if you are 'just' a director rather than the chair or 'only' an executive rather than a board member. So how, can you, as a leader, influence the board to drive more innovation throughout your business?

The importance of establishing a learning culture

You cannot innovate if you do not have a culture of learning. That implies admitting when your knowledge is less than you would like it to be, and taking steps to increase knowledge. This is often hardest for the senior executives and directors. It is easy when you are a young recruit to ask for education, help, or training. By the time you are in the boardroom it is often seen as a weakness rather than a strength to admit that you don't know, and need outside input to help you do your job.

Directors are often appointed to boards because of what they have done rather than because they are capable of learning to do more. Senior executives are often under pressure to work and be effective rather than take 'time off' for training. Executives and directors can both, therefore, be reluctant to step forward and volunteer for training or learning.

Too many companies have values statements or strategic plans that talk about a 'culture of learning' and then have cultures where having learnt and applying are rewarded; learning more is discouraged. If your company meets this description it is quite appropriate to ask each senior executive to have a personal development plan and commit to learn something new every year. Making this one of the KPIs that must be triggered before a bonus is paid can be transformational.

Building a board conversation

Boards work best when the directors engage in a strategic conversation to develop a shared understanding that allows a confident decision.

The best way to introduce strategic innovation as a discussion topic is to consider a question that will start a useful conversation. To do that well you will need to understand why the company wants or needs innovation. Is there a decision that will require the board to endorse a course of action that the company has not previously attempted? Or is there a need to cut costs, time, or carbon out of your current core processes? Has a competitor started to achieve a success that is threatening or is a related industry innovating in a way that is inspiring?

Describing the context is essential if your discussion is to be given serious board time. You will need serious time to engage the board in a deep conversation that has the power to change the way directors think and underpin a courageous decision.

Start by writing a comprehensive board paper. Outline the changes you see in the world that lead to the board having this conversation now. Create a 'burning platform' so that your conversation does not get brushed from the agenda to make tome for more pressing issues. Consider what could be the most likely outcome of a failure to change. How quickly could that outcome eventuate? But consider also the ability of the board to consider these unwelcome ideas. Your burning platform must not be so scary that the directors refuse to contemplate it. Seek individual feedback on your paper from your peers and others whose discretion and understanding will add to your ability to communicate clearly and persuasively.

Kodak, once a powerhouse of innovation, failed to consider changing to embrace digital visual records even when these were clearly threatening Kodak's traditional film and paper-based records. The company gradually, and then suddenly, lost relevance. At the beginning of this process there would have been a high degree of corporate arrogance, a desire to refuse to believe in the need for change, and a boardroom environment that would not have welcomed presentations on the possible coming dominance of digital records.

Allow the board to prepare thoroughly. Boards need to discuss the information presented, and to do that they need to understand it. Try to provide your paper with the agenda and other meeting papers so that the directors are "up to speed" before you present.

Don't be daunted. If you can see the need then you have a duty to act upon it. Seek to build a collaborative inquiry. Engage shareholders, younger staff members (often a source of great inspiration and information when contemplating strategic changes), supply chain and distribution partners, and, above all else, your customers.

Use your existing practices well

The board is the ultimate decision-making forum within any organisation. Individual board members have very little power but the board as a whole, acting in consensus, is empowered to perform or delegate all of the business of the organisation. The board should act on behalf of the shareholders and should be interested in the trends affecting customer desires. The aim of the board is to enhance shareholder wealth or, in a not-for-profit organisation, to ensure that the organisation does what the people who founded it wished it to do. Make sure that you help the board to fulfil its aims. It is likely that you will, at first, enlist only a few, more progressive, directors. That is enough to get the conversation started and to build a foundation from which to influence further.

Because boards work as a team, rather than as a group of individuals, it is important that they discuss issues thoroughly and form a group decision. When presenting a new idea to a board to a board, even if you are 'only' giving them background information, your aim should always be to enable the board members to have a good discussion of the topic and reach their own understanding and form a basis the future decision-making. Don't attempt to split the board. Most boards react adversely to anyone or anything that threatens their ability to act as a cohesive team. You need to create a process of inquiry that allows the board to question and interpret the signs they see without breaking their unity, blaming the messenger or turning away from uncomfortable truths.

A difficult discussion about challenging ides will not be helped by usurping the board's preferred way of operating. It is normal in most boardrooms for all information to flow to the board under the direction of the chairman. You can expect that experienced board members will address their questions to you through the chairman. The chairman will also manage the amount of time that the board can dedicate to anyone agenda item, and may ask you to spend more on less time on your presentation than previously envisaged depending on the amount of time the board has already spent on other issues. It is wise to enter the boardroom with the ability to present at least 20% more than you planned to present. You should also be able to achieve a good conversation and outcome even if your time is cut by 20%. Practice your presentation and gather feedback on how to improve it.

Information is power

Provide good quality information. Boards need information that is relevant, in perspective, timely provided an appropriate frequent intervals, and reliable consistent coherent and easily comparable with other data, and above all, clear and easily understood. Be sure to name your sources, quote references, and alert the board to any inconsistencies between different data sets that you might have incorporated into your information. Don't 'cherry pick' only data that supports your argument. Share the uncertainty. Your board will respect your honesty and, on a good board, directors will do their own independent research and find any inconvenient data that you may have wished to keep quiet.

Set the content at an appropriate level. What goes into a paper depends upon what the board already know, how important this issue is to the board, whether the information is first presented is in a written or verbal form, any supporting data, etc.

Recognise and acknowledge the risks

Do not gloss over the risks involved. Boards need to understand the worst possible outcome, the most likely outcome, and the best possible outcome in order to make an appropriate decision having full awareness of the risks involved.

Be sure to address legal and financial risks as these are the ones most boards will naturally wish to see discussed before committing to any course of action. Also consider the risks to your established business, supply chains, controls, reputation and other attributes.

Remember that the risk of not innovating is often far bigger than the controlled risks of planned innovation.

Some good questions:

If you are struggling to get the conversation started here are some questions that you might wish to drop into an appropriate board discussion. They are guaranteed to start directors thinking, and that is the best way to approach innovation.

- **How much of our revenue and how much of our profit are from new products and services? How do we define new?**
- **What could we do differently to save time or cost in our operations?**
- **What are customers asking for that we don't do?**
- **What surprises new recruits about the way we do things inside the company?**
- **Where is regulation and/or legislation changing and what do we need to do differently to stay well ahead of any new restrictions?**
- **What did we learn last year and how will we benefit from that new knowledge?**

ESG Measures are Shaping the Future of Corporate Activity

Organisations need to embrace Environmental, Social and Governance (ESG) demands, but can such initiatives improve on the widely criticised CSR of the past? Professors Nada and Andrew Kakabadse of Henley Business School in the UK, consider the challenges and solutions.

Very few companies give due consideration to environmental [E] or social [S] issues. In fact, the majority of their attention is focused on the organisation's purpose and how it is governed [G].

Collectively these matters are known as 'ESG.'

Throughout the COVID pandemic, the growth in ESG investment and the pressure on asset managers to integrate ESG risk-factors into their portfolio has triggered a high demand for businesses to provide shareholders with comparable data, ratings and rankings through consistently applied and easy-to-understand metrics.

On the back of this rising demand as to how businesses should behave, companies must rebuild, reinvigorate and abide by a form of capitalism that is acceptable to the majority. This means the growing investor community interest in ESG funds and statistical measures will only increase during 2022.

All of this has led to a new industry, led by agile agencies specialising in a variety of ESG data and ratings, intended to benefit investor decision-making. Further to this, the addition of numerous standards and guidelines for corporations have sprung up, which some observers view as a near impenetrable alphabet soup of questionable regulation.

The problem with current reporting metrics is that they often detract from pertinent disclosures regarding management capability and intentions that could otherwise provide invaluable information for investors.

This is essentially a repetition of the now outdated days of Corporate Social Responsibility (CSR) reporting, which similarly displayed strong potential at its outset.

In effect, the pooling of responsibility for CSR, standardising its definitions, the casual and ambiguous glossing over of objectives and its ultimate beneficiaries provided a distorted view, which made it difficult to evaluate whether any corporation was in truth upholding its stated responsibilities.

ESG, when effectively utilised, should and can inspire significant change that remoulds business activity and societal expectations for the better.

Unfortunately, the current metrics mania actually detracts from pertinent disclosures regarding management capability and intentions that would provide invaluable information for investors.

These measurement failures are centred on a lack of reliable and appropriate corporate data detailing company ESG adoption. Insufficient transparency and a failure to fully disclose firms' ESG activities present ongoing challenges for asset managers seeking conscientious investments, as does the difficulty in assessing links between long-term value creation and non-financial performance.

Although climate change may pose an existential issue for many companies and humanity itself, other environmental challenges such as biodiversity, drinking water contamination, domestic and agricultural water shortages, air pollution, deforestation and land degradation from mining and waste disposal are also critical.

Similarly, social issues including boardroom diversity, equal pay, human rights, health and safety, consumer protection, animal welfare, income and wealth distribution, terms and conditions for 'gig' workers and minimum pay are all topics requiring serious consideration.

Although it is a management task to address these issues, the board holds ultimate responsibility to ensure these objectives have been achieved.

More recently, ESG has become closely associated with expected investment returns, particularly in the long-term, in the same way as other financial and analytical factors.

Despite the existence of several non-financial reporting frameworks utilising elements of ESG reporting — such as those promoted by the United Nations and the International Integrated Reporting Council — there is a lack of unity that makes it challenging to draw comparisons between various firms and industries.

Neither the International Financial Reporting Standards (IFRS) nor the Generally Accepted Accounting Principles (GAAP) have developed the necessary methodologies to assist enterprises in accounting for ESG initiatives from a financial perspective.

The IFRS considers materiality in financial terms, when 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions.' However, environmental and social materiality is about the impact of a company on the environment and society.

While the main objective for investors, up until recently, has been to understand possible degrees of warming around financial performance, it is increasingly being recognised that ESG perspectives have an impact on enterprise value.

As a result 'non-financial information,' used by analysts trying to value a company, is not currently recognised in financial statements, but is nevertheless useful in analysts' and investors' decision-making.

While this detail can be useful to a wide range of stakeholders, non-financial information is specifically designed for the benefit of investors. Moreover, the expression sustainability-related financial disclosure is being increasingly used to reflect the material importance of such disclosures to providers of financial capital such as equity, bonds and loans.

The European Securities Market Authority (ESMA) stresses the need to rely on a broad notion of 'double materiality,' meaning two types of regulation or directive. One is aimed at corporate disclosure (NFRD and CSRD), while the other, such as Sustainable Finance Disclosure Regulation (SFDR), serves asset owners and managers.

The EU Commission has been concerned with both perspectives and social factors in corporate behaviour and decision making. This has been put into effect in their Non-financial Reporting Directive (NFRD), soon to be updated and become law, at which point it will be titled the Corporate Sustainability Reporting Directive (CSRD). This will also provide the background for introducing the EU Sustainable Finance Disclosure Regulation (SFDR).

In addition, last November, the IFRS announced the formation of a new International Sustainability Standards Board (ISSB) to provide a comprehensive global baseline of high-quality sustainability disclosure standards. This will be published in June 2022 and is a significant step forward in achieving a globally-unified standard for sustainability disclosure. It is notable that the US has not announced a similar initiative for GAAP.

If both IFRS and GAAP move forward to establish a standard framework for ESG reporting and corporate boards strategic lever for company success, then, and only then, does ESG have a better chance of success than its predecessor CSR in the minimisation of 'greenwashing'.

Sustainability Landscape in Corporate India

Authors

Nikita Garg and

Brinda Khatri

It goes without saying that the widespread acceptance and adoption of corporate sustainability practices in India is on the rise. Although the packaging of sustainability has evolved from Environment, Health and Safety (EHS) and Corporate Social Responsibility (CSR) to Environment, Social and Governance (ESG). However, it is only recently that sustainability has been at the forefront, where it has gone beyond communication attributes and also includes internalization of the concept, to drive business value.

Growth Factors

- **Companies Act and Listing Obligations**
- **Growth of Conscious Consumers**
- **Investors**

This could be a result of the recent update to the Companies Act and Listing Obligations, whereby India's largest and public companies are mandated to improve governance and action on corporate sustainability, with disclosure of sustainability policies, targets and outcomes required through their mainstream annual reports.

Another contributory factor is the growth of consumers who are aware and conscious of sustainability. Large legacy organisations are gravitating towards clear conscious agendas, transforming on the way, while emerging companies are getting sustainability engrained into their DNA from the get-go. Research has found a direct correlation between Sustainability and consideration towards using/purchasing a brand.

Another key stakeholder positively influencing the rise of sustainable practices are investors. The capital pool available for driving growth in emerging economies is global in nature. By incorporating sustainable elements into business strategy, organisations are able to attract impact investors who are have positive environmental impact in mind, alongside investing for financial gain.

India remains the fastest growing economy in the world and this will not change over the foreseeable future. With a renewed focus on sustainability, investors must continue to drive sustainability across sectors by making India a hub of Sustainability financing. Coalitions must identify and create new metrics to measure long-term value creation through sustainability.

Sandeep Chandna, Chief Sustainability Officer
Tech Mahindra

Market Overview of Sustainability Talent

- While sustainability is on the upsurge, yet for a quite a few organisations, the sustainability vertical continues to fall within the domain of HSE or CSR. These are organisations who view sustainability from a compliance perspective.
- Organizations also tend to view sustainability as a generalist function by promoting senior leaders from within the system to look into sustainability, as an additional responsibility.
- Specialist talent exists in consulting organizations that work across industries and clients. While the larger consultancies like KPMG and PWC have established their strong practices, specialist organisations like Environmental Resources Management (ERM) hone their niche.
- However, in recent times, progressive organisations have set up a separate sustainability vertical with the leaders leading the integration of sustainability in business strategy and being the face of the organisation in external forums. The team would also include waste, water and energy specialists who bring in their expertise. These organisations typically are also focused on reporting and disclosures.
- Large conglomerates have also set up their group sustainability cells that develop strategy and road maps that are implemented across group companies like the Tata Sustainability Group for instance.

Some marquee projects/ achievements of the sustainability leaders in India

- **Aditya Birla Group's** extensive work on "<2 C Futures" and how businesses must fundamentally alter and adjust processes to survive in a hotter world and ensure resilience.

- **Godrej Group's 'Greener India' initiative** makes sure that environmental sustainability is a key part of the entire value chain. They have succeeded in reducing the specific GHG emissions by 51% and more than half of their energy consumption is from renewable sources.
- **Tata Group** has been actively implementing Circular Economy principles through their "closing the loop" initiatives for resource efficiency such as sustainable packaging, producing fertilizers through waste and unlocking the value of their industrial by-products such as fly ash, road construction.
- **Reliance Industries** recently launched a project to tackle plastic waste in India by supplying waste plastic for road construction. They have started their own and outsourced garbage collection and segregation to aid this process.
- **Havells** eliminated the use of trace Kr-85 radioactive isotope from the entire CMI (ceramic metal halide) lighting range a few years back and no product of theirs has radioactive components. They have four zero water discharge facilities, two renewable energy initiatives — biomass and solar lamps — and four resource conservation initiatives across all its plants.
- **Diageo India** reached their 2020 sustainability targets ahead of time, including 100% replenishment in community areas where water is extracted for manufacturing, 79% decrease in reduction in greenhouse gas emissions, 54% increase in improvement in water efficiency in operations and 45% increase in recycling of content packaging.

Sustainability is being viewed through the lens of three stakeholders: regulators, investors and industry. It is giving rise to corporate sustainability champions who are seen as in-house experts to drive agendas related to circular economy, net zero, zero waste land fill, waste to energy and other such green initiatives.

This champion is expected to demonstrate influencing, analytical and commercial skills in order to drive the acceptance of such goals across the length and breadth of the organisation. As a result of which CEO pay is often being linked to green goals these days and in a similar fashion, KRAs and KPIs are being integrated with sustainability goals.

People Movement

Name	From	Designation	To	Designation	Date
Madhulika Sharma	Tata Steel	Chief Corporate Sustainability	ITC	Chief Sustainability Officer	Dec-21
Anjalli Ravi	Unilever	Global Sustainability Director.	Zomato	Chief Sustainability Officer	Dec-21
Vineet Shastry	Voltas	Head - Sustainability	PharmEasy	Head (ESG)	Dec-21
Sandeep Shrivastava	Aditya Birla Group	Group Sr Vice President and Head - Environment Sustainability	EverEnviro Resource Management	Head- ESG	Nov-21
Amor Kool	IIFL Home Loans	Environmental and Social Governance Lead	Welspun Enterprises	Lead - Environment, Social and Governance	Sep-21
Charanjit Singh	Acuity Knowledge Partners	Head of ESG	Adani Ports and SEZ	Head ESG	Sep-21
Sabyasachi Ghosh	Welspun Group	Head - Sustainability			Aug-21
Shipra Sharma	LTI - Larsen & Toubro Infotech	Head CSR & Sustainability	Microsoft	Sustainability Lead, Cloud Supply Chain Sustainability Team	Jul-21
Dr. Pradeep Panigrahi	Mahindra Group	Dy. General Manager (Corporate Sustainability) - Head of Circular Economy and Water Security	Larsen & Toubro	Head - Corporate Sustainability	Mar-21
Namita Vikas	Yes Bank	Senior Group President & Global Head, Climate Strategy & Responsible Banking	auctusESG	Founder & Managing Director	Jul-20
Sridhar L	Diageo	General Manager & Head Environment Sustainability	Bangalore International Airport	Head - Sustainability	Jun-20

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Andrew is a Professor of Governance and Leadership and one of the very few to be elected lifelong member of the Thinkers 50 Hall of Fame 2015 and awarded the honour of Emeritus Professor. Published 47 books and 130 presentations; has been awarded 27 independently funded research grants. He is currently embarked on a major world study of boardroom effectiveness and governance practice.

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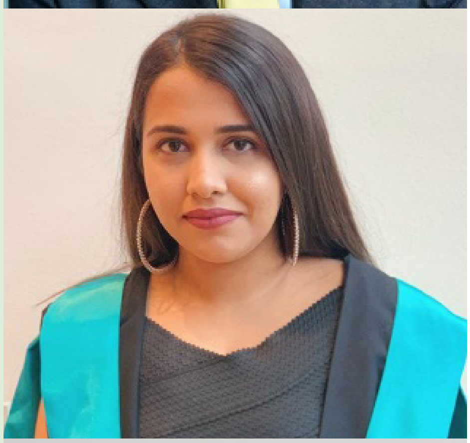
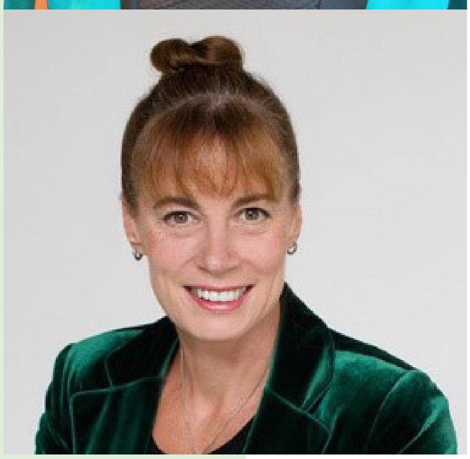
Partner – Hunt Partners, India

Arjun is a Co-founder and Managing Partner of the firm. He brings a combination of over 15 years of multinational corporate work experience and over 10 years in retained executive search. He leads several practices within the firm's Regional Financial Services offerings, including Investment Management and Insurance, the two Pan-Asia practices spearheaded by him, as well as NBFCs. He also co-leads the Information Technology and BPO practices. In addition, Arjun oversees operations in the Southeast Asia market.



Brinda Khatri
Senior Consultant – Hunt Partners, India

Brinda is a Senior Consultant with Hunt Partners and brings over 3 years of Executive Search experience. She joined Hunt Partners in 2019 and since then she has executed leadership assignments across various industries like Consumer, Infrastructure, Real Estate and Private Equity. She has completed her Masters in Human Resource Management and Organisational Analysis from King's College London and is also a CIPD qualified professional.



Julie McLellan

Julie Garland McLellan is a boardroom specialist and has served on a range of boards within not-for-profit, government, and with publicly listed companies in the industrial and commercial sectors. Julie has been a longstanding course facilitator and program developer for the Australian Institute of Company Directors. She was previously General Manager of the Energy and Natural Resources Practice for KPMG, and a Corporate Planner with BHP. She started her career as a civil engineer in the UK. Julie holds a BSc in Civil Engineering (London), an executive MBA (IE Spain), a Graduate Diploma in Applied Finance (SIA) and investment, and an Advanced Diploma in Company Directorship (AICD).

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Nada is a Professor of Policy, Governance and Ethics at the Henley Business School, University of Reading. She is a member of the Governing Council of the Empress Theophano Foundation. She has also contributed over 96 chapters, published 200 scholarly articles and co-authored 23 books in the area of global governance.

Nikita Garg
Partner – Hunt Partners, India

Nikita brings 14 plus years of executive search and board advisory experience in India. She has represented clients, both MNC's and Indian corporates across sectors such as, Industrial, Infrastructure, Real Estate, Consumer and Private Equity. Today, she leads the firm's Real Estate, Infrastructure and Retail practice. Having worked on more than a 150 C-Suite mandates, Nikita brings a strong track record of closing mandates. Her clients like her for her commitment, tenacity and influence.

Dr. Peter R Crow
CMInstD

Dr. Peter R Crow, CMInstD has extensive international experience advising and educating boards. He is also an independent company director and chairman.

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