GUIDANCE • IMPLEMENTATION • LEARNING • OVERSIGHT

SUSTAINABILITY GOVERNANCE SCORECARD

“INDIA” SPECIAL REPORT

ARGÜDEN GOVERNANCE ACADEMY

Good Governance for Quality of Life

Introduction

Today, the corporations' response to emerging sustainability challenges will determine not only their long-term viability and competitiveness, but also the viability of the planet and its inhabitants. Sustainability is no longer a "**nice to have**" issue for companies, but a crucial element for preparing for the future. Companies need to adopt a long-term and holistic view of how they create value that encompasses **environmental**, **social**, and **governance** issues, which are fundamentally core to sustainable value creation.

A growing number of companies are prioritizing sustainability issues at the CEO and board level. There is an increasing number of companies, both public and private, committing to the **Sustainable Development Goals** (**SDGs**). However, business reporting on credible contributions to SDGs is falling short and the key challenge companies face is their inability to **translate goals into action** and lack of **outcome measurement**.

We believe the next leap in sustainability management will come from corporations taking on the responsibility to proactively manage their sustainability efforts. To aid them with this effort, we designed the **Sustainability Governance Scorecard©**; an impact-research conducted to help improve the state of the world by **speeding up learning from peers**[1]. In this report, we analyzed publicly available data through a '**governance lens**', as good governance is key to the sustainability of sustainability efforts. Our aim is to motivate the business world to act for a more sustainable future by highlighting good practices and providing benchmarking information.

In this special report of the Sustainability Governance Scorecard, we analyzed 33 leading Indian public companies trading at **Bombay Stock Exchange**, which is one of the signatories of the **Sustainable Stock Exchanges Initiative**.

The results of this report are open to comparison with other countries analyzed in the Sustainability Governance Scorecard[2] (**https://sgscorecard.argudenacademy.org**) and can be utilized to accelerate peer learning across countries.

1 This research was inspired by the publication of Dr. Yılmaz Argüden, which includes the sustainability checklist for responsible boards. The checklist is listed in the Appendix 3 of Sustainability Governance Scorecard Report. For the full version, please refer to "Responsible Boards - Action Plan for a Sustainable Future" article of Dr. Yılmaz Argüden published in IFC Private Sector Opinion 36, 2015.

2 The results of Sustainability Governance Scorecard is available online https://sgscorecard.argudenacademy.org

Background

Today's improvements in Indian corporate social responsibility (CSR) can be traced back to 2007, when the **Reserve Bank of India** issued a circular highlighting the role of financial institutions in sustainable development. In 2014, India became one of the first countries to impose the legal prerequisite that corporations set aside **2% of their profits to social development projects**. Since then, there has been considerable focus on CSR spending with an increasing amount of corporate earnings being directed towards education and public health initiatives.[3]

The government of India also released the **National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business** (**NVGs**), which provide a robust framework for companies to voluntarily adopt and address interests of various stakeholders, including employees, customers, and investors. This principles-based approach sets guidelines for companies to create a positive impact on their communities and the environment, while remaining profitable. Furthermore, the **Securities and Exchange Board of India** (**SEBI**) in November 2011 mandated that the 100 top listed entities must submit **Business Responsibility Reports**, as part of their annual reports.[4] The requirement was then expanded to t**he 500 largest companies in SEBI's Disclosure Requirements Regulations** in 2015.

As the 6th largest economy in the world driven mainly by industry and production, as well as increasing population; India will play a central role in addressing sustainability challenges in the next decade, both domestically and globally. To address this challenge, Indian regulatory agencies have released various legal and regulatory frameworks, which have contributed to the development of standards in sustainability reporting. The Indian government has actively developed policies that mandate corporate action in combating **poverty**, **inequality** and **environmental damage**. The analysis below provides insight into whether these policy-driven and voluntary frameworks have translated into sustainability reporting practices.

3 Ministry of Corporate Affairs, Government of India. Retrieved on August 25, 2019. Retrieved from http://www.mca.gov.in

4 Securities and Exchange Board of India. Retrieved on August 25, 2019. Retrieved from https://www.sebi.gov.in

Findings & Good Practices

The Sustainability Governance Scorecard consists of four main areas which are **board guidance**, **implementation coverage**, **board oversight**, and **continuous learning** throughout the organization. Below, we summarize our findings and share good practices in these four categories:

Guidance

Guidance covers directing values, strategies, and policies (environmental, social, and governance coverage link to SDGs); board's role in stakeholder engagement and setting materiality thresholds; setting key performance indicators and targets and incentivizing management by linking executive compensation to sustainability metrics.

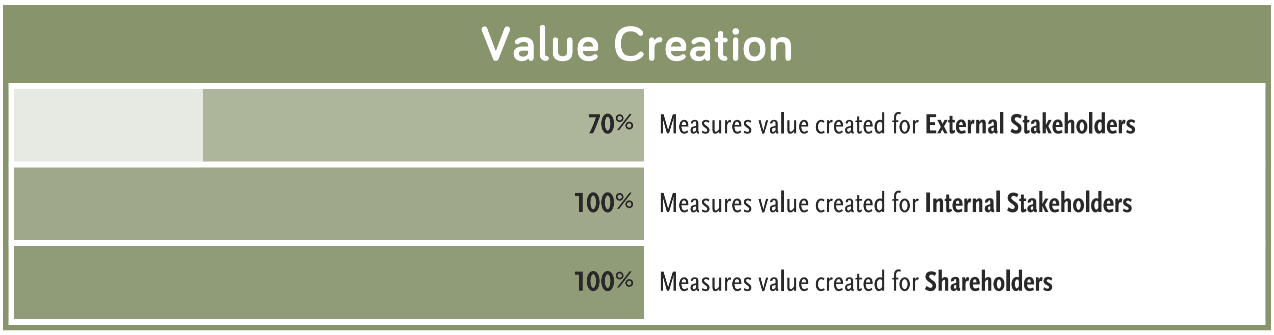
Right guidance is required for companies to **manage risk** and **capitalize on opportunities** related to sustainability, and to adopt a leadership role in creating a more sustainable future. Responsible boards make sustainability a leadership priority and ensure that they have the right people (skills and diversity) to provide leadership and direction on sustainability.

Companies in our sample have taken the challenge to integrate environmental, social, and governance (ESG) issues into their value creation approach, policies and KPIs. We find that all companies in our sample report detailed information on their involvement with communities in relation to CSR spending and all companies shared their policies on ESG issues.

Value Creation Model

From a stakeholder perspective, articulating a holistic story of how a company creates value for the company, society and the environment and sharing progress of this journey is a strength. For investors, it offers a proxy for management quality; for customers, it allows responsible choice and enhances brand loyalty; for governments; it highlights where to partner for global action; for communities; it allows a company to maintain its social license to operate.

We find that all the Indian companies analyzed measure value for internal stakeholders, but only 70% for external stakeholders.



Based on Argüden Governance Academy research for Sustainability Governance Scorecard©

With this approach, they are above the other sustainability leaders average (China, Germany, South Africa, Türkiye, UK, and US).

Stakeholder Engagement

The success of a company depends on its relationships with the external world, not just customers and investors, but also employees, regulators, politicians, activities, NGOs, the environment, and technology. **Good governance covers all stakeholders** to achieve balance between risk/reward, short/long-term, stakeholder goals, motivate/audit management.

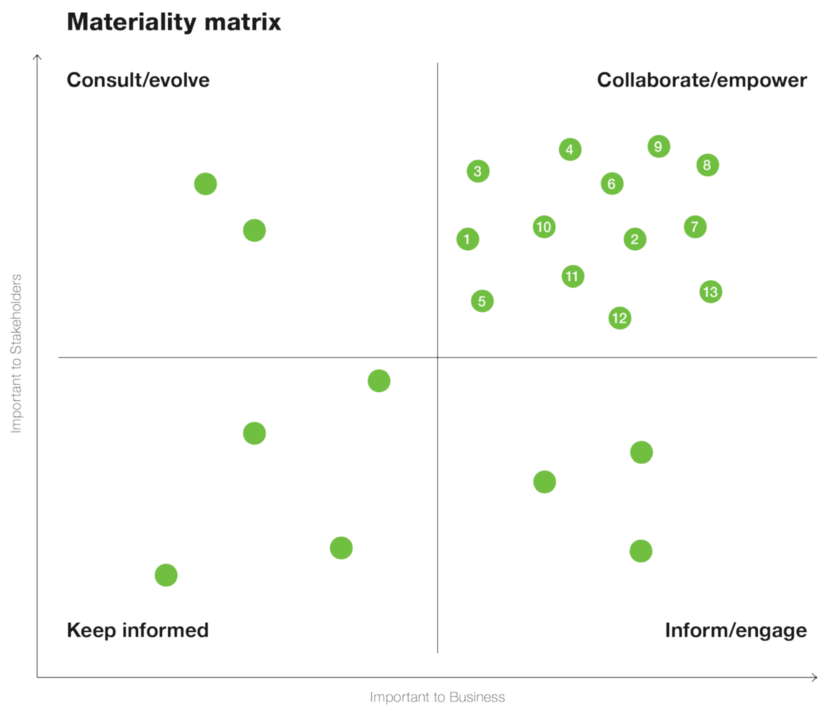
In Indian companies, **Business Responsibility Reporting** (**BRR**) is a key required section in the sustainability reporting. This section may refer to several necessary ESG related data even if they are omitted in other sections. Therefore, BRR became another reporting tool visualizing stakeholder engagement. It is critical that sustainability reporting continues to reflect a multi-stakeholder principle in its content. As some Indian corporations have omitted putting together stakeholder maps and prioritization matrixes along with their materiality matrix, BRR forces the corporations to adopt more transparent reporting and better governance through questions such as "**how engaged the corporation is with its main stakeholders or communities?**". Again, this puts pressure on Indian corporations to align their long-term sustainability planning when putting their CSR spending in action.

In the stakeholder prioritization matrix reported by **Godrej**, the stakeholders are **clearly identified and prioritized**. The chart also clearly shows methods of engagement for each stakeholder group, including "collaborate/evolve" in areas that are important for both business and for stakeholders, "consult/evolve", "inform/engage", and "inform" for other categories – creating alignment and setting clear expectations for business and its stakeholders.

Stakeholder Prioritization Matrix

Shares a priority matrix for stakeholders which also specifies the **method for engagement**.

1. Product safety and quality
2. Occupational health and safety
3. Energy consumption
4. Emissions
5. Waste and effluents
6. Water
7. Solid waste
8. Economic performance
9. Diversity and equal opportunity
10. Packaging
11. Supply chain
12. Employee engagement
13. Emerging regulations



Source: Godrej Consumer Products Limited 2017-18 Sustainability Report, p. 20

Target Setting / Commitment

Investors look to companies to identify the ESG factors that are important to helping them achieve their strategic objectives and to set targets that will be relevant over that time horizon. To move forward, companies should strengthen their commitment to sustainability by setting targets for **environmental**, **social**, and **governance** related outcomes and tracking performance against **key metrics**.

We find that only 64% leading companies in our sample set targets for environmental and social performance, and only 6% sets targets for governance-related measures.

Sustainability Governance Targets

	Environmental	Social	Governance
Sets Targets for Future	64%	64%	6%
Sets KPIs	79%	97%	97%
Defines Policies	100%	100%	97%

Based on Argüden Governance Academy research for Sustainability Governance Scorecard©

Compared to other countries in our research, governance-related target setting is significantly lower for India (54% average for other sustainability leaders average including China, Germany, South Africa, Türkiye, UK, and US).

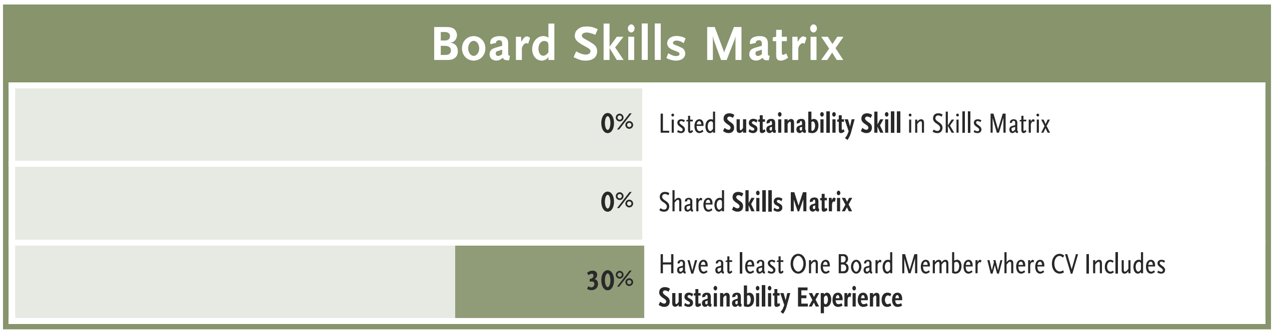
Board Skills & Diversity

Board members need to have the **right skills** to provide guidance and oversight to the sustainability plans of the corporation. The Board needs to have enough **expertise** to understand the decision-making processes of key stakeholders, have members who are familiar with evolving sustainability standards and practices, and sufficient **diversity** to adequately evaluate different dimensions, perspectives and risks of sustainability issues.

A skills matrix identifies the skills, knowledge, experience, and capabilities desired of a board to enable it to meet both its current and future challenges and realize its opportunities. Disclosing a skills matrix is good governance and offers an opportunity for considered reflection on whether the board has the right skills and diversity for providing guidance and oversight on sustainability.

Our research reveals that the assessment of functional skills and the use of skill matrices is still not widespread in Indian companies.

We find that none of the Indian companies reported a board skills matrix.[5] Only 30% of Indian companies analyzed have at least 'one' board member where CV includes 'sustainability' experience.



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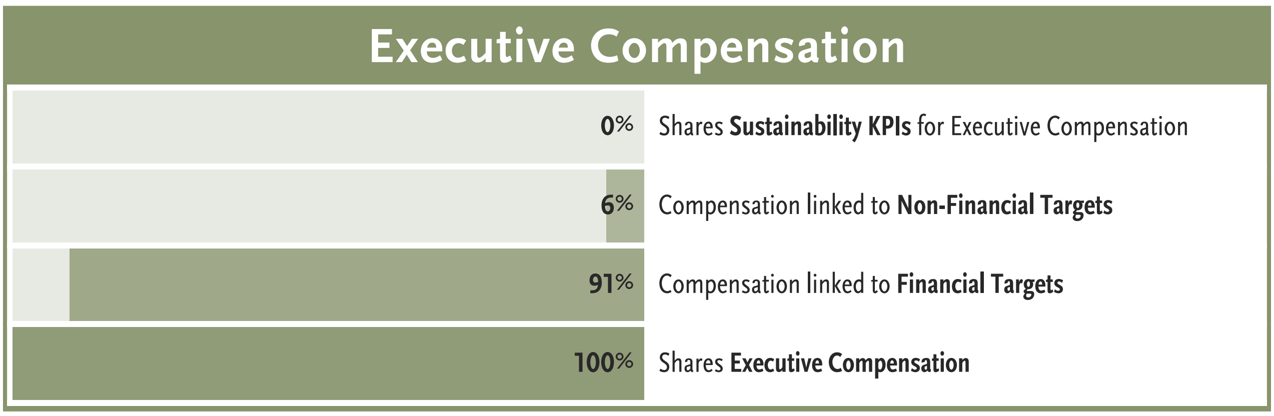
Executive Compensation

In order to focus management behavior on **capturing opportunities from sustainability** and ensure that **sustainability practices are adopted** as everyday practice in decision making, Boards need to make management explicitly accountable for the company's environmental and social impact. By aligning executive compensation with strategic sustainability targets and tying performance payouts to non-financial sustainability metrics, boards can sharpen management's focus on sustainability issues.

In India, compensation and diversity reporting seem to be driven by regulatory mandates rather than companies taking the initiative to improve reporting transparency to converge to global best practices.

We find that only 6% of Indian companies analyzed linked compensation to non-financial targets, and none provide linkages with Sustainability KPIs.



Based on Argüden Governance Academy research for Sustainability Governance Scorecard©

5 For more information and good examples about board skills matrix and diversity, please refer to Sustainability Governance Scorecard Publication.

Clearly, there is significant room for improvement for Indian companies to align their executive remuneration plans with sustainability goals. Without this link, it is unlikely that sustainability will receive the attention and priority that it deserves.

Link to SDGs

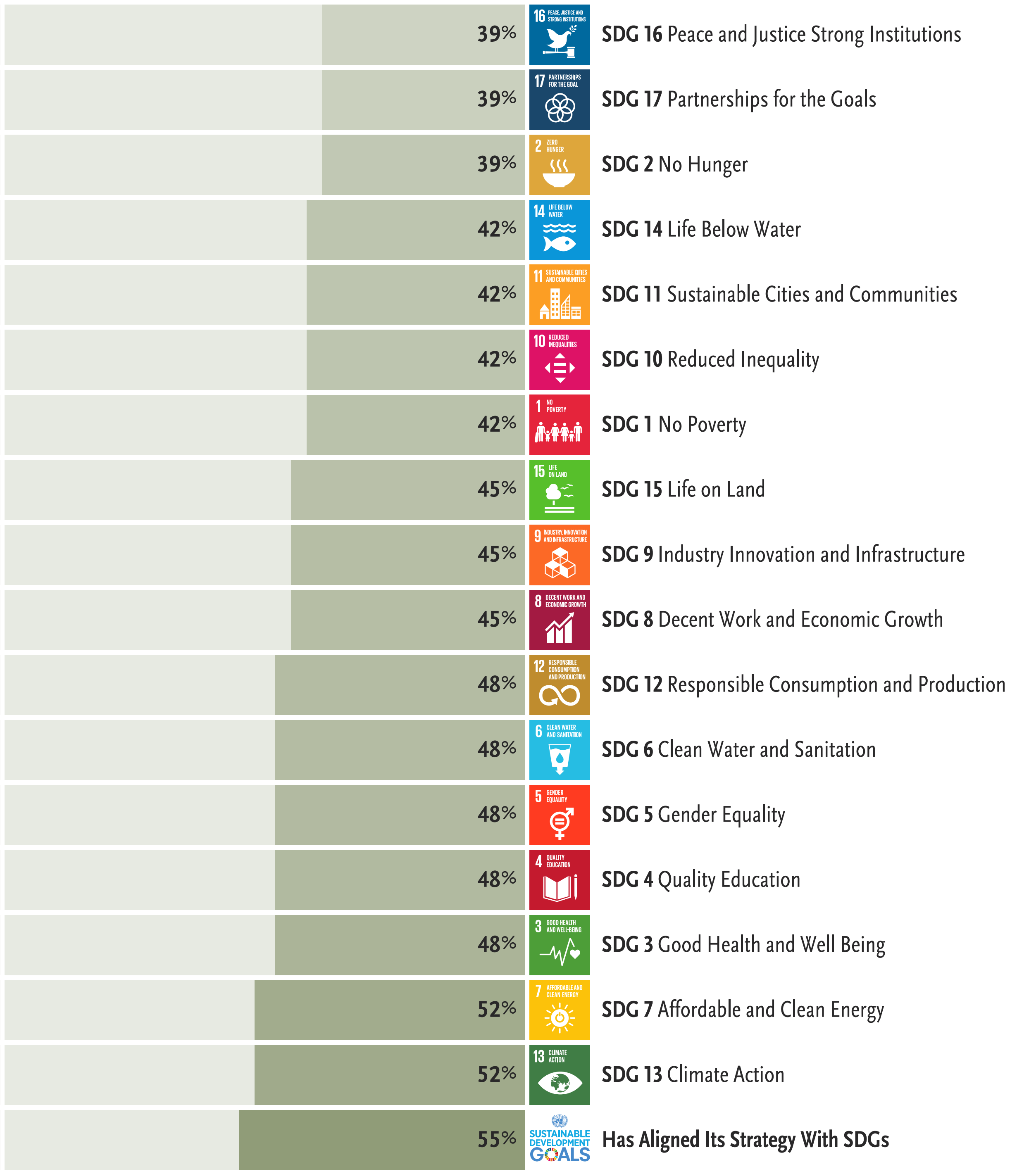
The **Sustainable Development Goals** (**SDGs**) define global sustainable development priorities and aspirations for 2030 and seek to mobilize global efforts around a common set of goals and targets. The SDGs present an opportunity for business-led solutions and technologies to be developed and implemented to address the challenges.

The SDGs can help to connect business strategies with global priorities, and leadership is required from **Global Sustainability Leaders** (**GSLs**) to drive action.

Currently, only 55% of Indian companies in our sample link their strategy to SDGs.

This is below the average of other countries in our sample. (China, Germany, South Africa, Türkiye, UK and US).

Alignment with SDGs



Based on Argüden Governance Academy research for Sustainability Governance Scorecard©

Implementation

Implementation covers whether the policies and guidelines are **materialized**, as well as disclosed performance cover all areas including **environment**, **social** and **anti-corruption**, all operations including **emerging markets**, all **organizational levels**, **supply chain**, and the **product life cycle**. To assess implementation coverage, we looked for evidence in comprehensive reporting of sustainability performance across **key performance indicators**.

"What gets measured, gets improved"

Transparency on the material environmental, social, and governance performance results signals that it is monitoring progress toward sustainability goals and increases confidence in the company's ability to create **sustainable value for all its stakeholders**. Furthermore, sharing results creates an opportunity for benchmarking for others to follow, thereby increasing the speed of learning.

Sustainability Performance

	Environmental	Social	Governance
Evaluates Results	70%	67%	88%
Shares Results of KPIs	79%	94%	91%
Sets KPIs	79%	97%	97%

Based on Argüden Governance Academy research for Sustainability Governance Scorecard©

Our research indicates that results sharing is high for social and governance KPIs (94% share social results, 91% share governance results), but there is potential for improvement in **setting KPIs** and sharing results on **environmental performance**. Furthermore, we find that there is potential for improvement in evaluation of results across ESG (70%, 67% and 88% share results respectively).

Transparency creates **accountability**, not just for the company but also for its stakeholders. Better transparency in reporting ESG outcomes can restore trust in business by showing that it is taking action on sustainability. It can also mobilize stakeholders to contribute towards **progress for sustainability goals**. Addressing sustainability challenges such as climate change that requires collaboration between multiple stakeholder groups in a long time-horizon and **trust** is essential for that collaboration to be impactful and long-lasting.

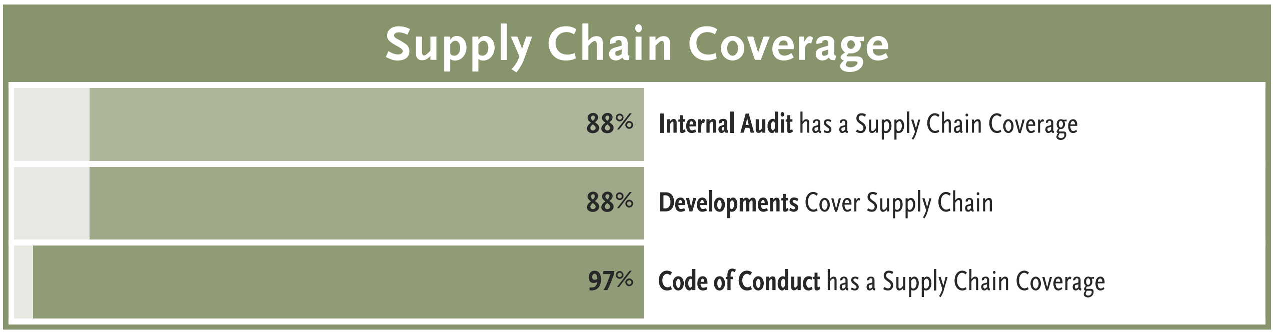
Supply Chain Coverage

Supply chains are critical links that connect an organization's inputs to its outputs. Many companies' greatest **sustainability risks and opportunities** are in the supply chain. However, sustainability efforts of many companies are limited to measuring the sustainability of their own business operations and do not extend these efforts to their suppliers and customers. Encouraging companies to measure and report more details about suppliers can lead to **improved performance**.

Leading companies in sustainability accept responsibility throughout their value chains and work with their suppliers to implement sustainability initiatives on a wider playing field. This may involve utilizing their purchasing power to encourage, audit, collaborate with, and provide benchmarking and learning opportunities with its suppliers on key sustainability issues.

Business Responsibility Reporting (**BRR**) requirement is a key section in the sustainability reporting of corporations in India. This section may refer to a number of necessary ESG related data even if they are omitted in other sections. For example, most of the Indian companies have neglected to issue a supplier code of conduct. However, the BRR sections will cover some key questions related to suppliers, including whether the corporation's code of conduct is also applicable to suppliers or there is a control and internal audit mechanism that oversees suppliers. Therefore, despite some lapses in reporting, this half voluntary/half obligatory framework is currently forcing the Indian companies to adopt **better governance**.

We find that none of the Indian companies reported a Code of Conduct. However, 97% of them have covered issues related to the code of conduct in their reports.



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A good example on supply chain coverage is presented by **Mahindra** sharing its sustainability roadmap, which classifies different dealers, suppliers, dealerships and communities. In addition to classifying different stakeholders across the supply chain, Mahindra also shares the future targets and yearly basis performance in those areas.

Sustainability Roadmap

Presents sustainability roadmap demonstrating the corporation's **influence** and **impact** on their suppliers, dealerships, and communities with current status, future targets and information on past years' performance.

Mahindra Rise.

SUSTAINABILITY ROADMAP 2019 | STAKEHOLDER ENGAGEMENT - AD DEALERS

Commitment	Metrics	2016-17	F18 Target (2017-18)	Status F18	Responsibilities*
SUSTAINABILITY AWARENESS TRAINING	Nos.	Training through E-learning (40 dealerships)	Refresher training (40 dealerships)	• Dealers Sustainability Quiz. More than 300 Dealers participated • Training and awareness material shared with all dealerships	Dealership Manpower Training
CO_2 & WATER FOOTPRINT MAPPING AND REDUCTION	Nos.	Implementation of projects (40 dealerships)	Reduction by 3% (40 dealerships)	• More than 200 dealerships have implemented LED, energy efficient appliance and capacitor panes in showrooms and workshop which resulted in reduction of more than 3%. • ETP installed for water recycle commitment	Zonal Heads
WASTE MANAGEMENT INCLUSIVE OF OIL	Nos.	Initiatives for waste management (40 dealerships)	Initiatives for waste management (40 dealerships)	• More than 300 dealerships are disposing their hazardous waste (oil) with authorised vendor. • Recycling of corrugated cartons and reuse of wooden waste is implemented as per MDEP survey	Zonal Heads
GREEN DEALER AWARD	Nos.	Assessment & Decl. of Green dealers	Assessment & Decl. of Green dealers	• Green Dealership award will be given based on all sustainability parameters in the month of July 2018	Sales Strategy

Source: Mahindra & Mahindra Limited 2017-18 Sustainability Report, p. 15

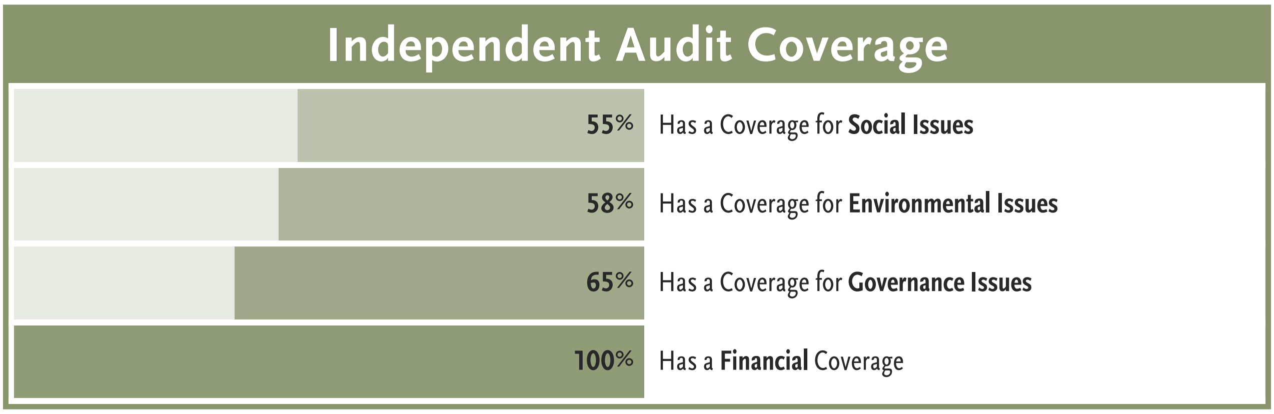
There is also evidence of an uptake in adherence of **GRI** (**Global Reporting Initiative**) **Guidelines**. The Indian companies studied use the GRI framework to measure and report the ESG data they provide. A possible reason for this broader uptake is that the standards can also be used to comply with the Business Responsibility Reporting (BRR) requirements mandated by the **Securities Exchange Board of India** (**SEBI**). GRI later released a linkage document in collaboration with the **Bombay Stock Exchange** (**BSE**) to provide guidance on linking the disclosures under these two frameworks.[6]

6 Linking the GRI Standards and the SEBI BRR Framework. GRI and Bombay Stock Exchange. Retrieved from: https://www.bseindia.com/downloads1/Linkage_Doc_of_GRI_and_BSE.pdf

Oversight

In order to exercise their oversight responsibilities, boards should receive findings and recommendations from any investigation or audit by internal audit department, external auditors, regulatory agencies, corporation's insurance companies, or third-party consultants concerning the corporation's sustainability matters on a timely basis.

We find that all the Indian companies analyzed have an independent audit for financial results, but independent audit coverage for ESG issues are 58%, 55%, 64% respectively.



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Clearly, there is significant room for improvement in independent audit coverage of ESG issues, which would enable the board to expand its oversight responsibilities to **sustainability performance**.

Learning

Integrating sustainability into the organization's processes and culture requires a **continuous learning climate**. Having created the opportunity to learn by analyzing and evaluating results from the oversight process, lessons learned need to be utilized to improve-decision making processes. Skills gaps and required mindset changes need to be addressed through trainings and sustainability practices need to be integrated into the company's culture.

Therefore, the board needs to take action to ensure that the sustainability agenda of the corporation is an integral part of its culture and systems to assure learning and continuous improvement. For this purpose, the key sustainability issues need to be identified and incorporated into strategies, policies, objectives, and associated management systems with a particular view towards **value creation opportunities**.

To assess whether the learning culture is sustained throughout the cycle, we seek any evidence of learning and improvements in the performance of sustainability efforts.

Examples of such evidence to reach targets through actions to implement lesson learned are:

- **Organizational development** (incorporating lessons learned into orientation, education, promotion, compensation processes);
- **Training programs** to address skill-gap (e.g. compliance, unconscious bias);
- Changes in **incentive mechanisms**;
- **Resource allocation** for improvement;
- **Mobilizing collective action** in areas where the company's resources would fall short (esp. with respect to SDGs),
- Improving **stakeholder engagement**.

Conclusion

Various regulatory and voluntary frameworks have accelerated the adoption of sustainability reporting practices by leading companies in India, but there is still significant room for improvement in the **effectiveness of execution and accountability of the sustainability programs** in Indian companies.

Compared to other countries in our research (China, Germany, South Africa, Türkiye, UK, and US), sustainability leaders in India have scored higher in including external stakeholders in their value proposition, setting an example for other countries to follow. However, they present significant room for improvement in **board and executive leadership on sustainability** (e.g. publishing a board skills matrix, evaluating sustainability as a key board-member skill, and tying executive compensation to sustainability metrics).

At the same time, sustainability leaders in India are lagging behind in **taking a leadership role regarding SDGs** compared to other companies in our sample. Going forward, Indian companies can **move beyond regulatory requirements** and **leverage the best-practices shared in our Sustainability Governance Scorecard Report** to take their sustainability leadership to the next level.