Mr. Dipankar Ghosh

(Partner & Leader, Sustainability & ESG, BDO India)

Building Trust – Organisation’s Key Enabler in the Sustainability Journey

Building Trust – Organisation's Key Enabler in the Sustainability Journey

*By **Dipankar Ghosh**, Partner & Leader, Sustainability & ESG, **BDO India***
*with contributions from team members **Ishita Bhartia** and **Prachi Majumdar***

As the global community grapples with issues of rapid urbanisation, resource constraints, climate change, the COVID-19 pandemic and more, sustainability is no longer just a topic of hypothetical consideration, but a necessity for the sustenance of the human race on planet Earth. It is imperative that sustainability be practiced by everyone today - as an individual, a community, a country or an organisation. Several decades back, the 'polluter pays principle' emphasised the responsibility of companies or communities to compensate for the environmental degradation resulting from the unrelenting pursuit of economic growth without due care for sustainability.

Climate crisis is among the top sustainability issues in current times. With the Paris Agreement of 2015 and the Conference of Parties' (COP) broader agenda, the onus falls upon not just the governments of the nations, but also on the private and public entities to work towards a sustainable future for all. As organisations pursue their sustainability journey, trust-building has become a critical component. Whether it is top organisations being accused of greenwashing or critique on emissions data at a city or country level, the credibility of a sustainability journey is indeed important. In order to limit global warming to 1.5 degrees Celsius, which is believed to be a reasonable and optimal trade-off between prosperity and sustenance, the sustainability actions of every organisation need to be earnest. Simultaneously, it is of immense importance for an organisation to win the trust of its multiple and diverse stakeholders, who often have conflicting expectations. Trust building is therefore not just important to an organisation's sustainability journey, but is an integral component.

Trusted partner in sustainable development

The sustainability crisis crosses boundaries of race, culture and region. A climate disaster in one country can lead to disruptions in the value chain of an organisation located in a different region. For example, the 2011 Tohuku earthquake and tsunami in Japan, led to disruptions in the supply chain of automobile manufacturers not only in Japan but worldwide. Such global disruptions are becoming more and more commonplace due to the increased frequency of climate-related disasters. An organisation's sustainability journey, which focuses not just on mitigation, but also adaptation, helps in minimising the impact in such situations, continues value creation in adverse situations, and in turn, aides in developing confidence amongst stakeholders.

The key ingredient of trust is to seek multi-stakeholder (employees, investors, supply chain, customers, etc.) inputs in developing ESG-related strategies, that ensure its own system of

checks and balances. Such sustainability strategies not only meet the need of a diverse set of stakeholders but also manages organisations' risks most effectively and creates opportunities for the organisation in the long term. And such trust empowers the organisational leaders to ensure the embedding of sustainability considerations in decision-making processes across functions.

The Environment, Social, Governance (ESG) approach to sustainability promotes behavioral change not just within the organisation, but also across its entire value chain. This sequentially contributes towards change on a larger scale, across industry sectors as well as regional levels eventually contributing towards a global sustainability agenda. Going beyond the regulatory requirements, such actions build up trust and confidence among the stakeholder groups, including the investors. Aligning organisational sustainability goals with that of region or nation effectively ensures that the company's efforts are not in a silo, but rather in sync with the bigger picture of transformational shift. In recent times, we see multiple instances where organisations disclose their attempt at such alignments of endeavours, strategies, targets and contributions towards the Global Goals, i.e. the UN Sustainable Development Goals (SDGs).

With the growing global concern over climate change, as well as countries striving for green recovery post the pandemic, consumer awareness is at an all-time high. As organisations aggressively push forth the sustainability agenda within their respective development strategies, building the trust of such customers is important like never before. ESG targets play a critical role in developing consumer trust, as they act as a yardstick against which progress can be measured. On climate action, for instance, an effective way of target setting is through alignment with global initiatives and institutions such as the Science Based Targets initiative (SBTi). For example, a prominent German automobile manufacturer has set a target of an 80% reduction of Scope 1 and 2 emissions per automobile in its manufacturing process, from its 2019 levels by 2030. Organisations can also align their targets with sectoral targets, such as the Net-Zero target for the cement and concrete sector by the Global Cement and Concrete Association (GCCA). Such an alignment gives a scientific foundation to the targets, as well as aligns them with similar organisations in the sector across the globe.

Increased transparency through quality sustainability disclosure

Along with setting targets and aligning with relevant local and global institutions, sustainability disclosures are an effective way of trust building for an organisation. For several decades, since GRI and other sustainability disclosure frameworks have gradually taken shape, there has been a rapid rise of voluntary disclosures across the world and India has been no exception. Such disclosures effectively bring out the non-financial performance of a company, which supplements the financial performance that typically is disclosed to the shareholders and regulators.

Capital markets all over the world consistently recognise the value of sustainability or ESG disclosures in pursuance of responsible investment. Such recognition has gradually motivated companies to participate in disclosures across multiple platforms. For instance, disclosing carbon emissions and water at Carbon Disclosure Project (CDP) or responding to sustainability indices, such as DJSI, MSCI and others. On many occasions, non-disclosure or inappropriate disclosure fail to attract investment for business growth due to a lack of investor trust. Such disclosures, though still voluntary, are therefore becoming a compulsion for organisations in some way.

In addition to this, non-financial disclosure is also driven by regulation in many regions or countries. A recent example is a requirement of BRSR (Business Responsibility & Sustainability Reporting), mandated in India from reporting cycle FY22-2023 for the top 1,000 Indian companies by market cap. It is encouraging to see that BRSR draws elements from multiple global frameworks and standards, that not only encourage companies to disclose based on materiality, buts also provide nudges for acting on appropriate climate action as well as considering ESG in the value chain.

In the US and Europe, in recognition of the growing share of climate concerns among sustainability issues, regulatory directives on corporations for more climate-related disclosure are under active consideration, which is expected to inevitably influence the disclosure requirements in regions where the value chains of these companies are extended.

The sustainability disclosure practice can be seen as a loop between the public mandates and regulatory frameworks, the business of the organisation itself and society. All these factors influence each other and hence keep this loop moving and evolving. The BRSR from the Securities and Exchange Board of India (SEBI) in India is one example of a new framework. The recent setting up of the International Sustainability Standards Board (ISSB) under the IFRS Foundation is an example of an attempt towards integration of multiple frameworks of sustainability disclosure.

The sustainability disclosure landscape is dynamic and fast-moving. While this helps in the transition to an increased degree of robustness over time, sometimes it leads to a sense of overwhelm for organisations on their sustainability journey. Organisations tend to face a capacity crunch either in terms of knowledge or technical skills in producing high-quality disclosures, building internal capacity and working closely with sectoral peers - locally and globally, through aligning knowledge, skill and capacity resources which can all help build an effective ecosystem for sustainability disclosures at a sectoral level.

Enhancing trust and confidence in sustainability information

Sustainability targets and disclosures are critical for trust building. The credibility of the same tends to contribute significantly towards validating an organisation's sustainability progress. Assurance, both internal and external, are an effective way of enhancing the credibility of an organisation's sustainability information. Sustainability reporting frameworks such as GRI, also lay emphasis on the need for assurance, especially third-party assurance for the information being disclosed by the organisation. Over years, several standards are used by professionals for the assurance of non-financial information, ISAE3000 and AA1000AS being the most adopted globally as well as in India.

The legitimacy of sustainability data adds more credibility to an organisation's performance when its impact is visible across the different facets of the business.

The emphasis on Integrated Reporting is gaining strength over the years; this is an attempt being made to address the intertwined nature of the financial and non-financial performance of a company in creating enterprise value, further enhancing trust building.

End note

An organisation's sustainability journey cannot be de-linked from the core strategy of its business. Managing risk and leveraging on opportunities need to be looked at from both a financial and non-financial perspective in an integrated manner. The viability of a business model needs to be assessed by its sustainability impact along with the economic and financial impacts.

As organisations take their sustainability journey forward and work towards inspiring trust amongst their stakeholders in their ESG endeavors, professionals and experts from multiple disciplines, such as process & technology, finance, accounting, business management and sustainability, play an important role to ensure that sustainability becomes an integral part on an organisation's business imperative. The ability to interpret the interplay between sustainability actions and business performance is becoming one of the fastest key business priorities, and the collaborations between accounting professionals with business leaders and ESG practitioners will facilitate an organisation's business success in a significant way.

[Views expressed are personal]