Clean can deliver green

Sustainable business practices – The need of the hour

India, as the fifth-largest economy and home to a significant portion of the global population, plays a vital role in combatting climate change. The country experiences severe climate events that disrupt agriculture and infrastructure. In response, corporate India is ramping up sustainability efforts, recognising it as a vital business differentiator for driving profits and building trust.

A 2024 Deloitte study of 157 Indian CXOs found that 81 percent feel pressure to adopt climate initiatives, with 91 percent increasing sustainability investments in the past year. The focus on sustainable practices is further driven by the rise of environmentally aware Gen Z customers. Additionally, 78 percent of CXOs are concerned about climate change's impact on their operations within the next three years.[1]

"For ESG commitments to translate into meaningful action, strong governance is essential. Businesses can strengthen their sustainability efforts by establishing clear oversight mechanisms, aligning ESG goals with compliance structures and fostering accountability at every level. A well-governed ESG strategy not only helps mitigate legal and reputational risks but also fosters trust among investors, employees and consumers."

**– Ritesh Sanyal,
Managing President -
Trust & Compliance and RRL,
Deloitte India**

[1]https://www2.deloitte.com/in/en/pages/about-deloitte/articles/91-percent-of-indian-businesses-increased-their-sustainability-investments-over-the-last-year.html

During Coalesce 2024, Deloitte conducted a quiz that gathered insights from over 20 senior leaders across industries regarding the expected impact of climate change on their companies, their perceptions of ESG and their views on the key drivers for adopting ESG practices in their businesses. The key findings are as follows:

Brand reputation, government regulation and building competitive advantage are the top three drivers for incorporating ESG in business.

Customers held the highest priority as a stakeholder group, for respondents when setting corporate ESG commitments.

Carbon neutrality, net-zero commitments, climate risk management and value chain sustainability are the top three ESG trends that are expected to impact the respondents' companies or industries in the next five years.

About 50 percent of respondents believed that a well-defined ESG strategy has only been partially integrated into their company's operations, whereas one-third believed that it is fully integrated.

Companies use either internal KPIs or ESG ratings to track their ESG performance. However, few companies continue to operate without a formal ESG measurement system in place.

Fostering stakeholder trust through ESG initiatives

Companies benefit from stakeholder trust when their sustainability initiatives are transparent and impactful. Maintaining strong ESG policies and communicating efforts can enhance market value, especially as 73 percent of global consumers are willing to pay more for sustainable brands, particularly among Millennials and Gen Z.

Additionally, trust leads to improved customer loyalty, brand value and investor confidence, which boosts financial performance. Deloitte's Global Enterprise Trust Framework helps organisations measure and enhance their ESG agenda, resulting in measurable benefits such as increased customer loyalty and brand resilience. Trustworthy companies can outperform competitors by up to 4x, with 88 percent of highly trusting customers returning to the brand.

A 2024 study by Deloitte and the Fletcher School at Tufts revealed that about 78 percent of Indian institutional investors allocate up to 30 percent of funds to organisations with clear ESG objectives. Furthermore, 80 percent have sustainable investment policies, and over 90 percent seek sustainability information during due diligence. Thus, a trust-led approach to sustainability helps organisations stand out and make a significant impact.[2]

[2] https://www2.deloitte.com/in/en/pages/about-deloitte/articles/investor-trust-in-sustainability-data.html

Sustainability as a tool for generating business value

Sustainability is increasingly a competitive advantage for companies, leading to new business lines, green products and cost savings through carbon markets and tax incentives. Achieving this requires leadership support and financing, often linked to a healthy return on investment.

This concern can be addressed by developing a model that links capital investment in sustainable initiatives to long-term financial benefits, such as increased equity valuation. Companies are increasingly using sophisticated methods to understand shareholder value drivers. By connecting "clean" investments to revenue generation or cost reduction, they can secure leadership support for sustainable practices. Therefore, it is essential for companies to create a financially sound business case to seek funding for new or existing sustainability programmes.

Deloitte's Sustainable Value Map framework helps companies transition from focusing solely on shareholder value to embracing comprehensive sustainable business value. This approach generates not only shareholder returns but also benefits for the environment, employees, customers and society. These benefits can be categorised into revenue generation, cost reduction and risk avoidance. Leadership can activate specific levers in finance, technology, sales, operations or HR to maximise value, which should be communicated to stakeholders to build trust and align with ESG goals.

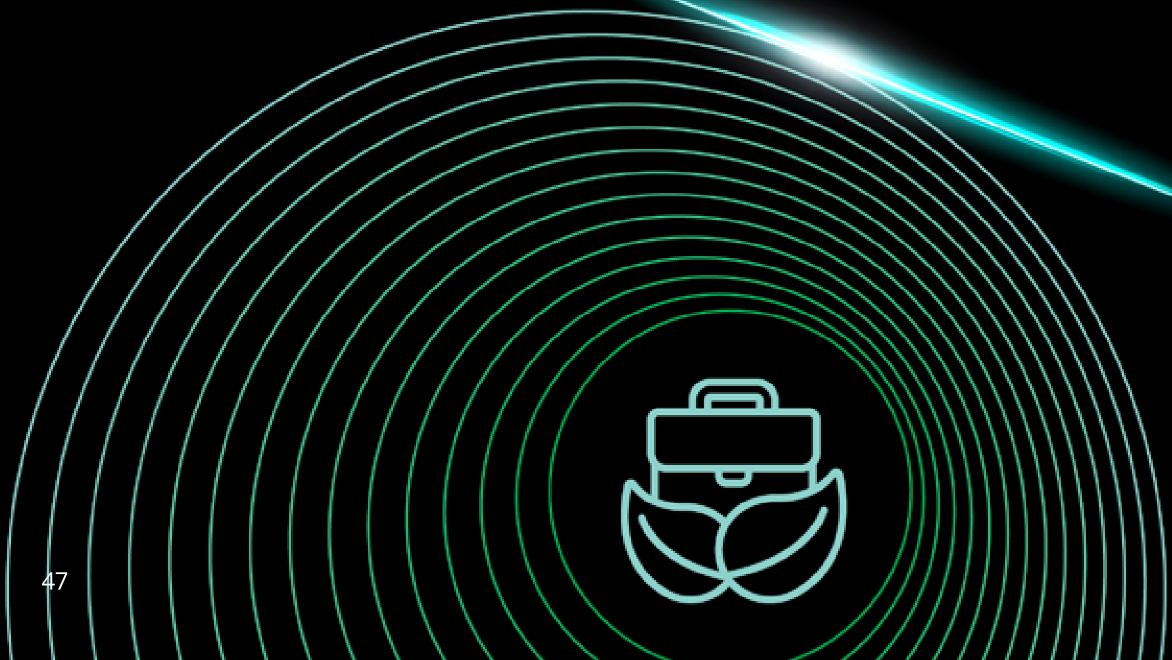
Indian companies face challenges in the current ecosystem. Some of these challenges (as listed below) may be mitigated by intervention from sustainability-led initiatives. To deploy such measures and drive top-down adoption, CXOs can use the value map framework to quantify and communicate its benefits to stakeholders.

- Increased emissions leading to adverse ESG rating
  As companies scale their business, it is natural for their energy consumption to increase. Considering India's competitive business landscape, companies strive to reduce operational expenses while simultaneously pushing for increased topline and scale. CXOs can use the sustainable value map to create a business case for investment in renewable energy sources (e.g., solar energy) by highlighting the return on shareholder value (by improving companies' ESG performance) and return on environmental value (due to reduced GHG emissions). Indirect benefits may include increased revenue as companies are looking for alliances, suppliers or distributors that employ eco-friendly business practices. This is gaining prominence as select companies have begun to introduce criteria for vendors to have positive ESG ratings or scores as part of any bidding, evaluation and selection process. Large companies may also reduce their overall carbon footprint by diversifying and investing in low-emission industries, such as the finance sector and fund sustainability projects.

"ESG performance is becoming a key determinant of corporate success, shaping access to capital, stakeholder trust, and competitive positioning. Businesses that prioritise transparent ESG reporting, align sustainability goals with financial outcomes, and integrate circularity into their value chains will be best positioned to attract investment, retain talent and drive long-term profitability."

**– Viral Thakker,
Partner and Leader,
Sustainability and Climate,
Deloitte South Asia**

- Rising costs of raw materials
  Companies can adopt circular business practices to optimise resource use, reduce waste and extend product lifespans. By incorporating resource recovery techniques and circularity principles in manufacturing, they can lower costs and generate savings for employees. CXOs can use a sustainable value map to link investments in these initiatives to improved operational margins and asset efficiency, enhancing employee, shareholder and environmental value. Examples include reducing Scope 1 emissions by eliminating single-use plastics, optimising paper and ink usage and using natural fertilisers and climate-resilient seeds in agriculture, along with drone technology for crop monitoring.



- Stakeholder pressure on ESG reporting and disclosures
  There is increasing demand for accurate ESG performance reporting from various stakeholders, including regulators and investors. However, access to high-quality real-time ESG data poses challenges. To meet this demand, companies may need to collaborate with third-party tech providers for data harmonisation or invest in in-house reporting solutions. CXOs can use the sustainable value map framework to demonstrate the benefits of such investments, such as improved compliance and brand image. With evolving regulations, such as the 2023 BRSR core guidelines by SEBI, Indian companies are seeking customisable and scalable ESG reporting solutions.

- Lack of talent, awareness or expertise in sustainability
  Indian companies face challenges in integrating sustainable practices into their business models, as employees may resist without understanding the benefits or lacking the necessary skills. This resistance can widen the gap between the company's ESG aspirations and its actual performance, even with increased investment. To address this, project managers can use the sustainable value map framework to demonstrate the value of upskilling employees. Building awareness and expertise boosts employee retention and helps maximise the impact of sustainability investments.

- Price-sensitiveness of Indian consumers
  Companies face challenges in justifying the higher costs of sustainable manufacturing when consumers resist paying more. This dilemma complicates CXOs' efforts to balance ESG goals with competitive pricing. By using the sustainable value map, business leaders can emphasize environmental benefits, helping consumers appreciate and be willing to pay a premium for sustainable products. This approach could enhance returns on sustainability investments and encourage companies to pursue "greener" practices.

Key takeaways and insights

- Value creation through sustainability
  New business models that are anchored to sustainability (renewable energy, biofuels, circularity) can unlock new sources of value.

- ESG and trust
  Sustainability earns trust, and trust drives behaviour. Organisations can improve their approach to sustainability by strengthening trust with stakeholders and using Deloitte's Global Enterprise Trust framework.

- External stakeholders matter
  ESG policies may be influenced to a greater degree by external stakeholders such as customers and the community, compared with internal stakeholders.

- Need for standardised ESG reporting frameworks
  Rating methodologies in India are not uniform across agencies. They do not provide easy comparability or transparency in ranking companies on their ESG performance.

- ESG and capital valuation
  Debt valuation benefits from the company's ESG maturity; however, there is a need for a predictive model that estimates the long-term benefits of ESG on equity valuation.

- Key ESG drivers
  Brand reputation and competitive advantage are top motivators or drivers for ESG adoption within companies.

- ESG pricing gap in India
  Pricing for products within India does not currently incorporate any premium adjustments for above-industry-average compliance with ESG guidelines.

- Need for regulatory push
  Strong, mandatory regulations from the Indian government could drive broader ESG compliance, similar to the EU standards.

FROM DATA DUNE TO DATA TUNE