

ESG and the Role of the Board

Shailesh Haribhakti speaks about the current state of ESG and what a board should do to ensure ESG goals are met

As part of the Directors Development Program, Egon Zehnder held a session on “ESG and the Role of the Board” for board directors of India’s top public sector banks. Speaker Shailesh Haribhakti engaged attendees in a discussion of the current state of ESG in the global business community and steps a board must take to ensure the vital goals of ESG are met. Shailesh Haribhakti is a veteran of multiple company boards and is the author of two books, “The Digital Professional” and “Audit Renaissance.”

Why ESG Now?

“Leaders must find ways to ingrain ESG into day-to-day guiding principles”

ESG has been a topic of wide discussion in the global business community for many years, but Haribhakti opened the discussion with a reminder of how vital the topic is in today’s times. The top risks facing any company today can be categorized as ESG risks, he said. From heat waves in India to flooding in Pakistan to the gas crisis that may be looming as Russia and Europe face off over the fate of Ukraine. Leaders must

find ways to transform ESG from a simple acronym into guiding principles that will be ingrained in our everyday experience.

What is ESG?

Haribhakti walked leaders through a robust explanation of the three letters in the acronym.

“E” is for environmental stewardship – a process that should resonate with all of us in a profound way, he said. Of course it is about reducing emissions and decarbonizing. But it is more broadly about biodiversity preservation and therefore, about all living things. “In some way or form, we are actually all connected. If we don’t realize it and operate from a realization that we are all connected, we will continue a destruction of biodiversity,” he said.

“S” is understood as social responsibility, encompassing the work of DEI, human rights and workplace neutrality. Already, we can see examples of this in action, he said. At Amazon.com, for example, corporate leadership has put power into the hands of individual teams to decide how much work must be done physically and how much can be done virtually. “They are empowering teams everywhere in the world to make the call on how to balance work/life and where to work from.”

“G” must stand for purposeful governance. Haribhakti said the core theme of this principle is accountability – a state that will be increasingly measured not by human reporting, but by technology. “All accounting will someday be blockchain. You can’t change it. It’s fully traceable. All auditing will be AI driven.” It will take a lot of digital effort – an Internet of Things capturing data that will allow for traceability, trackability, and identification.

But ultimately, this process of digitalization will prevent “greenwashing.”

What Is Happening in ESG Now?

“Earlier we used to think in terms of only fixed cost and variable cost. But today we have to think of lifetime cost”

There are many places in the world that have embraced ESG principles and are making strong progress, said Haribhakti. Norway, for example, is on a concrete

path to Net Zero status. There are ships and railroads that are hydrogen based and fully green. The sale of EV cars are on pace to exceed the sales of ICE (Internal Combustion Engine) cars in the next three years. The pace of change is astounding but true, he said.

Even more impactful, ESG is changing the way businesses think about their fundamental processes. The whole notion of cost is being redefined, he said. “Earlier we used to think in terms of only two kinds of costs – fixed cost and variable cost. But today we have to think of lifetime cost. And that’s where every large infrastructure project in the world is not assessed on the basis only of the capital cost and the variable cost. It is assessed on the basis of the effect of that cost on how things will transform over the life of the implementation.” That is a new way of thinking that embraces ESG as a critical force.

To more fully realize ESG, business leaders must energize and elevate the discussion around ESG topics. The resources and skills to implement ESG concepts exist, he said. The will to make it happen must be coaxed and cheered on. “The unfortunate, sad and not known fact is that there are enough affordable resources to do energy transitions completely and comprehensively, much faster than what we believe we can do today. Resources are available, they are abundant. It’s just that we need these debates to generate the action which will make it happen.”

Companies need to include communication as part of the process when they operationalize ESG efforts. Once you’ve done the work of going green, ramp up the way you talk about it. Emphasize communication around ESG – push for more communication, TEDx talks, make it part of ERP and procurement discussions. “You need a Netflix of outcomes to express what you have done and what is the result of it,” he said.

What Boards Must Do

“Boards have a foundational role to play in creating the framework that will allow more to follow ESG guidelines”

Haribhakti said boards must commit to five key actions:

- **Specify a Net Zero Target.** What’s more, work to ensure that everything your company does is matched by business partners and customers. “All your

borrowers also must be included. Your whole ecosystem should get to net zero,” he said.

- **Adopt Science-Based Targets.** These are the principles that will be the scaffolding of your ESG actions.
- **Hierarchical Drawdowns.** Said Haribhakti: “Today there is enough literature available to know what causes maximal drawdown. And you can look at it in descending order of importance. You choose based on your situation as to how you will prioritize your actions.”
- **Establish Risk Guardrails.** Said Haribhakti. “Everybody is now thinking of how to shift the risk when assets are likely to get stranded. This is something that we are all thinking about. How do we deal with these stranded assets? Can you do circularity with it? Can you do alternative views with it? Can you put it to other valuable ways of extracting value? We’ll have to think of everything. Is there a fund that somebody can set up to manage stranded assets? All of this will have to happen. But we’ll need to determine guardrails for everything in the process.
- **Embrace Framework-based Reporting.** The financial press is full of stories about fraud, audit failures and director failures. It has created a substantial trust deficit. Directors must proactively tackle this trust deficit in the context of ESG. Boards must support the creation of global standards so that the way companies report ESG efforts does not bring discredit to the company or create distrust in the minds of the readers.

Ultimately, boards must embrace their role in ESG work, amplifying the call for more companies to be involved. This is not just a corporate mandate, but a human one. Boards have a foundational role to play in creating the framework that will allow more to follow ESG guidelines. “We have to save the way we live,” said Haribhakti. “We have to continue to exist as the human race. And if you want to do that, then risk has to be mitigated. That is the realization that is coming.”

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