Role of Environmental Social and Governance (ESG) in Economic Growth and Sustainable Development (EG & SD)

Er. Somashekara M S
M/s Shekar Consultancy Services
#57/1, Third Cross, Jayanagar,
Shimoga
mssomashekara@yahoo.co.in

Introduction

About three decades ago worldwide implementation of the LPG (Liberalization, Privatization and Globalization) started with the intention of more employment generation, better social life, clean environment, efficient governance, national and international harmony & peace etc., But if one looks back and compare the scenarios before and after the LPG in India, since 1991, the year of movement of LPG in India, we can clearly find that many negative developments like Corporate frauds, Corporate concern only for profit and growth motives, negligence on social concern & values, unethical governance, unhealthy merger & acquisitions, big fish eating small fishes, negligence of ESG, concern only for shareholders interest rather than all stake holders etc., etc., have taken place. This scenario is the same in other countries also.

Among all the negative developments mentioned above, the most important negative development is failure of corporate, barring few corporate, in achieving ESG implementation which in turn affected on the EG & SD (Economic Growth and Sustainable Development). ESG contribution to the Economic Growth and Sustainable Development (EG&SD) is very much considerable. ESG's failure increased the pain and suffering exponentially in society which in turn created the suffering of human beings.

In recent days there has been a massive shift in how corporate are viewing ESG as a core component of corporate strategy, and not as an supplemental feature. A study in India has revealed that 54 percent of corporate (and 69 percent globally) have fully embedded ESG into their business as a means to value creation. And 38 percent of the corporate (global about more than 35 percent) are prioritizing addressing environmental challenges such as achieving net zero. Among these corporate, about 26 percent corporate opine that their corporate importance to ESG greatly helps in customer relationship improvement.

Probably the main reasons for the non-achievement of the ESG by the corporate may be ESG is not easy to quantifiable, measurable, comparable, and accountable. Policy makers and administrators also find this as hurdle to make proper policies, rules & regulations. Because of this problem may be in USA many Mutual Fund Schemes (MFS) which are floated based on ESG concept are getting closed. This scenario may also appear shortly in India.

So, to make ESG easily applicable and adaptable by corporate and policy makers, ESG must be quantifiable, measurable, comparable, and accountable.

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Economic Growth (EG), Economic Development (ED) and Sustainable Development (SD

Economic Growth (EG) and Economic Development (ED)

The term economic growth is defined as the process whereby the country's real national and per capita income increases over a long period of time. This definition of Economic Growth consists of the following features.

EG implies a process of increase in National Income and Per-Capita Income. The increase in Per-Capita income is the better measure of EG since it reflects an increase in the improvement of living standards of masses.

EG is measured by an increase in real National Income and not just the increase in money income or the nominal national income. In other words, the increase should be in terms of an increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.

The increase in Real Income should be Over a Long Period. The increase of real national income and per-capita income should be sustained over a long period of time. The short-run seasonal or temporary increases in income should not be confused with economic growth.

Increase in income should be based on Increase in Productive Capacity. Increase in Income can be sustained only when this increase results from some durable increase in productive capacity of the economy like modernization or use of new technology in production, strengthening of infrastructure like transport network, improved electricity generation etc.,

Economic Development (ED) is defined as a sustained improvement in material well being of society. ED is a wider concept than EG. Apart from growth of national income, it includes changes – social, cultural, political as well as economic which contribute to material progress. It contains changes in resource supplies, in the rate of capital formation, in size and composition of population, in technology, skills and efficiency, in institutional and organizational set-up. These changes fulfill the wider objectives of ensuring more equitable income distribution, greater employment and poverty alleviation. In short, ED is a process consisting of a long chain of interrelated changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run.

Thus, Economic Growth and Economic Development of corporate leads to the Sustainable Development (SD) of the both corporate and the whole society.

Sustainable Development (SD)

Sustainable development (SD) is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. SD includes the protection of future Economic Growth (EG) and Economic Development (ED). In other words, it means a better quality of life for everyone, now and for generations to come. SD includes the protection of future EG and future ED. Growth is essential, but SD requires it to be different. It must become more concerned about the physical environment not only to present generation, but to the future generation also. It means that the current consumption cannot be financed for long by increasing economic debt and ecological imbalance which future generation will pay. SD constantly seeks to achieve social and economic progress in ways that will not exhaust the earth's finite natural resources. SD is a process of development in which economic and

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other policies are designed to bring about development which is economically, socially and ecologically sustainable. The concept thus is pro-people, pro-job and pro-nature. It gives highest priority to poverty reduction, productive employment, social integration and environmental regeneration.

It is necessary to list out the cascading effects of the failure of SD at all levels viz., corporate, institutions, govt, state etc., For example the failure of SD of a corporate is not just affecting the corporate itself but the failure of SD of corporate reverberate among the stake holders of the corporate.

Let us analyze one example about how the failure of ESG. EG and SD of a corporate affected the dependent and related stakeholders of that corporate:
Vedanta group's Sterlite Copper Industry (SCI) is a Copper manufacturing company in India, located at Thoothukudi of Tamilnadu state. It had an installed capacity of 4 Lakh ton of Copper with a work force of 1,500. From the year 1998 SCI was meeting the demand of Indian Copper requirement up to 40%. Because of SCI the burden of importing of Copper reduced drastically and thereby savings in India's foreign exchange achieved. SCI had employed many Organized Workers (OW} and Un Organized Workers (UOW). Problem started in SCI as they failed in meeting the environmental standards especially the quality of water disposal from SCI. Water used by SCI for the manufacturing of Copper was not treated at the time of water disposal as per the norms fixed by the Central Pollution Control Board (CPCB). In spite of several reminders sent by CPCB to SCI, the polluted water used allowed to the river, which was opposed by the nearby farmers whose land affected and fishing activity became stand still. One fine day the angry farmers entered in to the factory premises of SCI and started agitating. In this process of agitation, firing by police took place and about 9 farmers died. The situation became worse and immediately National Green Tribunal (NGT) issued the order for closure of SCI which eventually closed in the year March 2018. NGT is empowered with taking suitable stern actions against erring corporate which do not meet the environmental standards. Even today SCI has not started the functioning and decided to sell the unit. **Thus, this episode of Sterlite Copper Industry which is a unit of well known Vedanta group is a clear example of failure of corporate in Sustainable Development.**

Following are the cascading negative effects due to failure of SD of SCI on the various stake holders of the SCI.

Indigenously availability of Copper declined by 40%.
To meet the demand of Indian Copper, India had to depend on imports which eventually burdened on India's foreign exchange.
Nine farmers killed whose families burden fallen on state.
Employees about 1,500 became jobless which in turn affected their families.
Land and water polluted to the great extent which in turn affected the agriculture, fishing and other livelihood activities of surrounded villagers and farmers.

History of Environmental Social and Governance (ESG)

About 90 years back the young professor Adolf Berle from the Business School of Columbia University, who today considered as the Father of the ESG concept, saw major state owned corporations as the most powerful entities capable of initiating social change.

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ESG as a term was coined in the 2006 United Nations Principles for Responsible Investment (PRI) report and has grown to be the overarching way for investors and business leaders to discuss the message behind each of these standards.
ESG's momentum continued to build in 2015 when at the United Nations Frame Work Convention, When the Paris Climate Agreement (PCA) was signed, and the United Nation's Sustainable Development Goals (SDG) were created. Coming out of the PCA, ESG continues to become more widely known. In 2019 over 180 corporate signed the Business Round Table's (BRT) statement Concept of ESG is not new to India. From 1960s we can find that many corporate and institutions are observing ESG practices in India. But it was not in a systematic manner and without any particular goal and it was based on need based. The scenario of LPG made the creation of mandatory ESG concept at all fields and areas. **Now the time has come to recognize the ESG (of course along with CSR – Corporate Social Responsibility) as valuable contribution to the EG & SD.**

It is not that the concept of protecting environment, keeping society clean & peace, having good governance is new to India or any other countries. By default most of the countries have passed through the phase of problems of not meeting the ESG. In the earlier days by some corporate and now by almost all corporate felt the role of ESG is predominantly important as because ESG is the only concept which is going to keep move the corporate and the whole world in happy & peaceful manner.

But the scenario of LPG made the creation of situation of neglecting ESG by many corporate at all fields and areas of the business. In today's economy, the role, style, designation of the ESG either changed or modified to suit to the culture of the business. For example: maintaining environmental parameters, following ISO 14000 standards, providing welfare measures to the employees, responding to the societal needs etc., No one can imagine the India's EG & SD without the active participation of ESG.

During earlier years ESG used to be just need based and there was no importance for quantifying the ESG, because work force was much uneducated, illiterate, unaware about his/her rights for minimum wage/welfare measures/social security provisions/professional hazards etc., In those years ESG main concern was to just to take care that the corporate should function without any hindrance. If any ESG activity could not be taken up by any corporate, in earlier days there was no mandatory rules to question the corporate. Corporate did not bother to consider the ESG as an asset to their business. Instead, exploitation of ESG by one and all was rampant as ESG involved the expenditure of money, men and material.. This type of exploitation, ill treatment of ESG was more visible to the society during the Covid19 pandemic. The non compliance of ESG by both corporate and Govt got exposed to the public through negative impact on society, but some corporate complied with the ESG even when it was not mandatory.

Purpose of ESG

The purpose of creation of ESG concept and to encourage the corporate to adopt it by United Nation is to create the Safe, Clean, Happy & Peaceful Society throughout worldwide.

The Economic Growth (EG) and Sustainable Development (SD) are depending on the factors which keep positively moving the business, economy, development, good governance etc., these factors are:

E (Environmental)
S (Social) and
G (Governance)

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To keep ESG always active, fund and investment is needed. The required fund is with the corporate both private & government. So, to make know the corporate about the interdependence of ESG and EG & SD United Nation took the steps of defining, stating, elaborating about the ESG so that the investment in to the corporate following ESG will lead to the Pollution free environment, happy & peaceful society. The main purpose of encouraging the investment in to the ESG practices is to discourage the corporate which are harmful to the society and in turn to bring the happiness in the society. Also, to encourage the corporate to follow the practice of ESG thereby creating the safe, happy & peaceful society.

The planning, development and maintaining of the E, S and G should be at the top level of the corporate to yield desired EG and SD of the corporate.

E (Environmental)

Today the world is serious and cautious about the Environmental Disasters (ED) like climate change, improper raining, rising of global temperature, changing in geographical structures, unnoticed floods & drought, rising sea level, depletion of Ozone layer, depleting soil fertility, air & water pollution etc., Majority of these ED are manmade from the day of Industrialization. So, corporate top responsibility is to not to spoil the environment. If corporate do not bother about eliminating these ED aspects, then they may have to heftily pay for S (Social) and G (Governance) aspects. Neglecting ED by any corporation may have to spend more money, time & other resources to upkeep the healthy condition of their employees & their families along with the whole society. Other resources of the corporate viz., machine, material, end products etc., are also affected by the negligence of ED. This aspect profoundly revealed & exposed during and after Covid19 pandemic.

To overcome the negative effects of the corporate business on the environment huge amounts of money is required. Corporate to keep in mind that whatever they spend on eliminating ED will pay back to them in the form of good S and G which in turn increases the corporate image and acceptance by the society.

S (Social)

All corporations do their business to make profit by fulfilling the needs & wants of the society. But, if the business of a corporation destroys society's happiness / welfare / peacefulness etc., then society rejects such corporate and such corporate can no longer sustain in the business. Responding to society's requirements and desires by corporate is one of the prime missions of the corporate and they should never forget that happy society is the backbone of prosperous corporate.

G (Governance)

Although the focus on environmental and social factors is understandable given the increasingly pressing, complex and interwoven issues organizations are facing in both areas, understanding governance risks and opportunities in organizational decision making and policies is critical to securing sustainable growth. The *"G"* in ESG addresses these corporate governance factors, including an organization's business integrity, its alignment with shareholder rights and values, board independence, expertise and executive pay, and policies and practices relating to transparency and accountability.

Corporate governance Is by no means new, but its inclusion as one of the pillars in ESG recognizes the fact that it is key to an organization's ability to actually establish and effect its social and environmental policies. Research has shown that companies that "rank well below their respective industries' average on good governance characteristics are particularly prone to mismanagement and risk their ability to capitalize on business opportunities over time." Corporate governance is significantly interwoven with social and environmental policies – a failure to effectively promote good corporate governance has knock-on effects on an organization's ability to put in place and comply with environmental or social policies.

Despite its foundational importance to any ESG efforts, there are often challenges associated with defining exactly what the "G" in ESG should encompass. Some Institutes simply describes "governance" as the "standards for running a company", stating further that "there is not a standardized approach to the calculation or presentation of different ESG metrics". It is necessary for this definition to be broad, as it is recognized that encompassing governance factors in ESG-related practices can manifest in a number of forms and can vary based on a multitude of factors, including the nature and size of the applicable organization.

At its broadest, governance deals with decision-making and how rights and responsibilities are allocated among the various groups that form an organization (including its board of directors, executive, shareholders and stakeholders). In the context of ESG specifically, governance can generally be divided in to two categories: (1) Corporate governance, including board policies, board remuneration, ownership structures and corporate structure, and (2) corporate behavior, including anti-competitive practices, transparency and anti-corruption. As noted, at a practical level, incorporating the "G" in ESG-driven policies will look different between industries and organizations. The key to achieving good governance in the context of ESG is not for companies to review or seek to apply each principle or set of standards in a uniform manner, but instead to conduct an inward evaluation of items applicable and relevant to the organization, to recognize which risks are within the organization's control, and to manage them accordingly.

ESG Concept and Investment

After the evolution of the concept of ESG by United Nation many corporate in the business world took initiative to create ESG fund by way of Institutional Investors (II), Private Investors (PI), Corporate Bonds (CB), Mutual Fund Schemes (MFS) etc., with the sole intention of encouraging the corporate who are following ESG concept. But the worldwide ESG investment scenario did not perform well as desired by the united Nation. But the steam for ESG encouraging did not cool off. ESG investment importance again gained momentum after Covid19. Because the situations during and after the Covid19 made the corporate realize the inevitability of embracing the ESG in to their corporate arms.

Why ESG not performed well as forecasted by the United Nation

The concept of ESG not performed well up to the forecasted level of the United Nation. Some of the main reasons in Indian context for this may be listed as:
Each corporate drawn their own norms to define whether their corporate falls under ESG or not.
ESG funds collected money from various means to invest in ESG corporate. But there was no clarity on categorization of corporate on ESG basis. So, confusion erupted among investment agencies.

MCA (Ministry of Corporate Affairs), SEBI (Securities and Exchange Board of India) did not framed the definition, criteria, rules & regulations, measurable parameters, comparison style, reporting methods etc., to declare a corporate as ESG or not.

Many Rating Agencies (RA) are approaching SEBI very lately to get the ESG Rating certification authority, so that they can certify the ESG corporate.

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Although a corporate is following ESG in all manners, there is no standard method to publish it or to print on the letter head of the corporate. For example: if a corporate is following environmental norms & standards as prescribed by the Global Standards that corporate can declare themselves as an ISO 14000 company. But such facility is not available in case of ESG corporate.

Among the three parameters E, S, G the defining of parameter E (Environmental) is very difficult and not easy. Whether E is to be defined based on global standards or national standards or local standards is a tricky situation.

Among the three parameters only parameter E (Environmental) is tangible whereas S and G are intangible. There are norms and physically measurable parameters for E but not for S and G.

Status of ESG in India

As the Indian business and economy growing, the situation of ESG efficiency is not up to the level of satisfactory. It may be because of following factors:

- There is a need to evolve a clarity on ESG norms. Government has informed to go for ESG and to support the ESG funding. But clarity on how to decide a corpofrate as ESG or non ESG yet to be framed.
- Funds raised for ESG corporate funding by many financial institutions like Mutual Funds AMCs, Private lenders etc., But lack of clarity on the ESG norms and less returns by investing in to ESG corporate, financial institutions gone back from investment in ESG corporate. Same scenario also exists in USA and other countries.
- In spite of above, the Indian corporate are showing interest in making their corporate as ESG corporate.

Interconnection between ESG, EG and SD

In all countries EG and SD is the responsibility of all entities viz., publics, government, corporate, departments, etc.,. The purpose of EG & SD is to attain the society's happiness and well being. In Indian context also it is true. But in India, the ESG corporate has not got the eligible support. in spite of hardship facing by the ESG corporate who are contributing to the qualitative EG & SD. Such contribution cannot be neglected by the central & state governments, economists, policy makers, financial planners, human resource analysts etc.,.

SD needs continuous planned ESG execution which needs continuous un-hindrance investment. This investment may be in the form of policies, decisions, men, material, machinery & money. Till Covid19 pandemic, this aspect of bondage was not considered seriously. Better late than never now Govt. of India has taken this issue very seriously and has formulated many corrective measures to uphold the importance of ESG which inturn leads to EG & SD.

Happiness And Well Being (HAWB) should be the measuring yardstick for successful EG & SD which can be achieved only by the ESG.

Influence of ESG on EG and SD and quantification

It is highly impossible to imagine the EG & SD of India without ESG contributing to it. In any corporate the ESG influence starts from the point of board level to the point of implementation level. The final say in

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the efficient EG & SD is based on the public’s satisfaction. Citizens in their daily routine life feel the impact of EG & SD and decides whether these are worsened or improved.

In our daily life we come across the services rendering by corporate ESG from the time we get up in the morning till we sleep in the night. To list some of such services are pollution free water & air, in time delivery of goods / products / services, price stability, employment generation, health services, education etc., At the level of our professions we feel the impact of EG & SD by way of proper following of policies / rules / regulations, timely & properly responding by the corporate to the society’s need etc.,

At the level of national development also EG & SD influencing in many ways as employment generation, price balancing of commodities, controlling inflation, infrastructure development, national defense, public health care, social security norms, etc.,

In a nut shell it can be said that compliance of ESG by corporate leads to EG & SD which in turn leads to national development in all manner. In future days a situation may come to boycott & discourage the products and services of non ESG compliance corporate

Quantifying the influence of ESG on EG & SD: Among the E S and G it is not easy for S and G to quantify in the measurable parameters. But only E can be quantified, as because the parameters are set by the pollution control boards, health organizations etc., The effect of E on S and G can be felt in the intangible manner like happy and healthy society, decisions & policies by corporate to improve & uplift the society in all manner etc.,

Case studies about ESG and EG & SD

In one way or the other all of us are responsible for a successful ESG. Although it is too late, at government level several measures are taken to propagate the importance of planning, deciding and execution of ESG. Two live cases are narrated below, one is ESG compliance approach and other one is ESG neglecting approach. These cases clearly make the understanding of ESG, EG, SD, its interrelated actions & reactions, effect on society etc.,

Positive ESG approach: During the 1990s a corporate wanted to install a Paper Mill in Andhra Pradesh state. Since the paper industry is a highly water polluted industry, local village people strongly opposed the paper mill at their village. After long internal discussion and discussion with the local villagers, corporate management took a decision not to install the paper mill in that village till the locals are convinced to have the paper mill. Then, a team of executives of the corporate stayed in the village to address all the concerns and doubts of the villagers. To convince the locals by clarifying all their doubts and fears it took nearly two years’ time. Because of this the paper mill project got delayed by about two years which has been commented & objected to by the internal & external auditors. But the corporate management strongly defended their steps because after starting of the project there will not be any hindrance to the project. In this case corporate had money, material, machinery, and right decision to install the paper mill. But local citizens who used to stay in the vicinity of the paper mill were opposing the project because of their limited knowledge. Corporate made all effort to convince the locals before starting of the project. **This is a god example for proper implementation of ESG having positive impact on EG & SD.**

Negative ESG approach: Vedanta group’s Sterlite Copper Industry (SCI) is a Copper manufacturing company in India, located at Thoothukudi of Tamilnadu state. It had an installed capacity of 4 Lakh ton of copper with a work force of 1,500. From the year 1998 SCI was meeting the demand of Indian Copper requirement up to 40%. Because of SCI the burden of importing of copper reduced drastically and thereby

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savings in India's foreign exchange achieved. SCI had employed many Organized Workers and Un Organized Workers. Problem started in SCI as they failed in meeting the E of ESG, i.e., environmental standards, especially the quality of used water disposal from SCI. Water used by SCI for the manufacturing of copper was not treated at the time of water disposal to the river as per the norms fixed by the Central Pollution Control Board (CPCB). Despite several reminders sent by CPCB to SCI, polluted water used to be allowed to the river which was also opposed by the nearby farmers whose land affected and fishing activity became stand still. One fine day the angry farmers entered the factory premises of SCI and started agitating. In this process of agitation, firing by police took place and about 9 farmers died. The situation became worse and immediately the south zone's National Green Tribunal (NGT) issued the order for closure of SCI which eventually closed in the year March 2018. NGT is empowered with taking suitable stern actions against erring corporate which do not meet the environmental standards. Even today SCI has not started functioning and decided to sell the unit. **This is a bad example for improper implementation of ESG having negative impact on EG & SD.**

11 Conclusion:

The government has taken steps to create the ESG corporate for the wellbeing of the all the stakeholders viz., citizen, lenders, shareholders, society, nation etc., keepingan eye on the EG & SD. But these steps are not sufficient and not up to the mark. The immediate requirement is to formulate the norms and policies to clearly define a corporate whether it is an ESG corporate or not because more delay in this aspect may force the ESG investing funding institutions may go back.

Time has come to not to neglect the ESG anymore, with the fast changing in business scenario and job market in the world the contribution of ESG implementation towards the enhancement of EG & SD of a nation is highly appreciable.

Citizens are also responsible in making the corporation follow the ESG for the purpose of EG & SD.