

Mainstreaming ESG: A Fireside Chat with Mr. Sanjeev Krishan, Chairperson, PwC in India

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ABSTRACT

On Dec. 19, 2022, IIMA, in collaboration with PwC, India announced the establishment of the ‘PwC ESG Research and Innovation Forum at IIMA’. The MoU signing carried out by the IIMA Endowment Fund was followed by a lively interaction where students got a chance to engage with Mr. Sanjeev Krishan (Chairperson, PwC in India) and talk about mainstreaming ESG frameworks and reporting, ESG opportunities for Indian corporates, the role of private businesses in ESG adoption in India, and emerging career opportunities in the ESG space.

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Salient Points Discussed

The S and the G agendas of the ESG narrative are something that we think the least about. There is a need for us to look around and realize how S (social) and G (governance) are even bigger challenges than E (environment).

Making things (referring to ESG reporting here) mandatory is just the starting point. Whatever gets mandated eventually becomes a tick in the box. Whatever is mandated effectively, it is equivalent to somebody putting a gun on your head, and when a gun is put on your head, you would obviously act to save your life. So, currently the adoption of the practice of ESG reporting is to save the life, so to speak. Everybody needs to act in a particular manner for the practice of ESG reporting to become mainstream.

When large companies start thinking about adopting ESG reporting, they will make sure that their supply chain is also aligned with them because if and when they are to report back, they not only have to report back about them, but about their entire ecosystem.

The input resource pool to contribute and work in the ESG space is common for everybody and therefore, the question that arises is: What is the local need in every particular geography?

The BSE Sensex of May 2022 tells us that ESG compliant businesses had 11-17% higher market cap than their respective competitors who scored less on the ESG index.

It would appear that the market is valuing the ESG compliant businesses more.

Sustainability by itself is one thing and transformation by itself is one thing, but the biggest opportunity at this point in time lies where we can actually intersect the two.

In Conversation with Mr. Sanjeev Krishan:



Q: In everyday conversations, ESG is associated more with environment (E of ESG) and not so much with Social (S of ESG) and Governance (G of ESG). Please share some of your thoughts on that with us. What does PwC plan to do in regard to the S and the G dimensions?

A: Let me narrate an incident from the early 2000s. I used to lead the transactions team at PwC and one of our team leaders (who was leading the transactions business at the time) was encouraging me to bring a lot more gender diversity. Stereotypically, transactions practice is a hard business, and we lost a lot of our women employees mid-career. I was asked the reason for losing so many women employees and what I was doing to bring them back. I was made to believe that the reason for them leaving was related to more pressing challenges in their personal lives, or otherwise.

I wasn't doing anything to bring them back. That was my first brush with the broader S agenda, and the first time that I had really thought of it. I now believe that the S agenda of ESG narrative is something that we think the least about.

A few years later was my second brush with the S component of ESG. It was during a conversation with a glass manufacturing business in Pune who at the time had a lot of issues in terms of their contractual labour relationships. We were working with a multinational client then and when the findings were presented to them as to what component of contractual laborers they had in the total workforce and how that labour was being treated, they just clamped down the transaction and said there was no point discussing it any further.

The third brush with the S was much later on. I was to represent a business before a private equity firm and the business had

recently lost a contract with a global retailer. Much to my surprise, I discovered that the global retailer withdrew the contract after finding out that 77% of the business's workforce consisted of underage employees.

These three encounters, along with many other possible manifestations to them, describe the S to me.

As far as the Governance (G) agenda is concerned, it is pivotal as it necessarily forms the bedrock for trust in the industry that is filled with a lot of corporate scandals and challenges. For instance, the lawsuit filed in the Delhi High Court by Bain Capital and TPG Capital accusing Lilliput Kidswear of accounting fraud (in 2014) was a very evident failure of governance, so much so that private investors did not invest in retail businesses for a long time long after the incident.

These examples really stand out for me when I talk about the S and the G. For me, it is the manifestations of the S and the G that are more important because that is how you bring them to life. The mitigation of some of these manifestations is extremely important, even more so than the E that we often seem to understand really well. We have to look all around us and see how the S and the G are even bigger challenges than the E.

Q: As per the recent mandate from the financial year 2022-23, ESG auditing reporting has been made a mandatory activity. In the long run, how could a paradigm shift occur wherein firms take this activity as a voluntary practice instead of taking it as a mandatory obligation?

A: This is just the tip of the iceberg. Whatever

gets mandated eventually becomes a tick in the box. When a practice gets mandated effectively, it is equivalent to somebody putting a gun on my head, and when a gun is put on my head, I obviously have to act to save my life. So, currently the practice of ESG auditing reporting is to save the life, so to speak.

I think the moment of truth for us is observed when we make the choice of either treating it as an obligation, or looking at it as a value enabler. Coming to the previous example I gave, the global retailer had stopped working with the manufacturing business because the manufacturer wasn't compliant. It is one thing for that particular global retailer to do that, but when all the buyers (global retailers) follow suit and stop buying from that manufacturer for reason of employing child labour, it will lead to something. Everybody needs to act in a particular manner for this to become mainstream.

Making things mandatory is just the starting point. Hopefully, it gets the attention of people. Moreover, firms should also realize the benefits that it is causing them even when they embrace it as a tick in the box.

Unfortunately, voluntary adoption of such things is not 70:30, or 80:20, it is still 95:5. It doesn't apply to every company at the moment since the requirement is only for the top 1000 companies, but this will actually force businesses to start thinking about it. When the larger companies start thinking about it, they will make sure that their supply chain is also in alignment since they will be required to report back about their entire ecosystem.

Q: What has been PwC's main vision when it comes to the ESG space in India? The global strategy and the Indian strategy might not be as similar as you would have thought initially. Encompassing the diversity that India has presently, and the global conditions, how do you think PwC's strategy is different from the global strategy?

A: On something like ESG, I think, the pace at which we deliver it may be very different. I don't think it's very different globally.

The amount of hiring that we have done on the ESG side over the last three years in particular, includes people who have done deep climate work for numerous years. The idea is to simply be thought leaders and make those conversations in a way that leads to internal adoption. Unless each of my 21000 people are able to talk and first become ambassadors of this, how will I say that I have made a difference?

Keeping the dynamics of the developed and the developing world aside, I would just say that the levels of maturity and need that each country has are different.

The most important thing right now is to make the ESG context mainstream and to bring it up in every conversation whenever we are able to. Whatever your target may be, be it 2027, be it 2032, or be it 2070, the fact that it's brought out in every conversation, will be helpful. Every metric/index that we look at will tell us that we, as a society, are behind on every measurable metric at this point in time. There could be certain companies and corporations which may be ahead of time, but as a society, we are behind on each one of those metrics.

From my standpoint, the need could be different because of the stage of maturity.

Look at some of the global industries them-

selves and they will tell you who is emitting the maximum amount of carbon. The United States of America is still the worst culprit with almost 25% emissions. We are much lower in that ranking. Considering the ecosystem, one should be able to gauge what it is that they can do better. The way each country delivers it could be different, and the path that each one of us may take could be different, but there is no denying that it is a global focus.

Q: As per COP26, India is targeting net zero carbon by 2070, whereas many countries in America and Europe are targeting carbon zero by 2040. How does PwC India plan to work with their global team to achieve the same objective but in different milestones?

A: Let me just start off by saying that many of those aspirations were set out before the war erupted. Whether those countries are still holding those targets or not is in itself a very big question. As far as we are concerned, we look at this as something which we can incubate as a global focus. There will also be learnings from our global counterparts that we will experience.

It has been proven that, at times, countries like us are able to take a bit of a quantum jump because of the way we approach a particular problem. So, it is always about doing things together.

The backend and the input resource pool are common for everybody and therefore, the question that arises is, "What is the local need in a particular geography?"

The other thing is that most of the clients are actually connected. The learning that a firm experiences from helping one of their client companies with an expeditious need achieve their goals, can be used to persuade

another client to achieve their goals before the set target year as well, since it will be value creation for them. For me, that's a benefit of a global organization.

Q: Is there any actual value creation (benefit) that you might have seen happening for companies which are taking up initiatives under the entire exercise of ESG?

A: There is no immediate gratification when it comes to some of these areas. In fact, there could be a near term cost present. If you want to green your business, there may be some short term costs which might actually reduce your Profit Before Tax (PBT) by a few percentage points rather than increasing it.

Here, value can be perceived from two angles. First one is an obvious shift that could be made with adoption of funds which can help decarbonize a facility (E.g. steel or cement plants). The other way where you can immediately make a correlation is through the market cap of listed businesses. If you look at the BSE Sensex of May 2022, I think ESG compliant businesses had 11-17% higher market cap than their respective competitors who scored less on the ESG index. Hence, it would appear that the market is valuing the ESG compliant businesses more. The reason could be that most of the institutional buyers have been advised to buy more ESG friendly stocks. That is how, I believe, the push will come.

Q: Speaking of the opportunities in the ESG space, what do you think are some of the major career opportunities that, especially business school students can expect in the near future?

A: The starting point, I believe, is to ask, "How can we create those discussions with our clients? How can we think of something that nobody has thought about? Apart from the regular conversations about net zero on water, plastic, carbon, etc., what is it that we can do with dovetailing the impact of climate change on various parts of the country, or on insurance premiums for instance? Can somebody help us do that?"

Sustainability by itself is one thing and transformation by itself is one thing, but can we actually intersect the two? That is where, I think, the biggest opportunity lies at this point in time. We would need people who understand the impact of climate change on businesses. It could just be a process of the business. It does not have to be necessarily at the top level. It could simply be that you are looking for people who will deliver on the social aspects of the business, the education side of the business and of course, the governance side of it.

The most deeply valued will be those who enable some out-of-the-box thinking, and work with our think tanks and our global network on what can be taken next to the clients. Unless we are thought leaders, we are only selling what is already being sold. We might be able to sell it at scale, but can we be thought leaders so that we can create some fresh demand for ourselves?

Acknowledgements

We would like to extend our sincere gratitude to:



Mr. Sanjeev Krishan is the Chairperson of PwC in India. He has been with PwC for 29 years, having joined in 1991 as an articled trainee. He became a partner in 2006 and has successfully led the firm's Transactions, Private Equity and Deals business over the years, getting the firm to a pre-eminent position amongst its Private Equity clients and their investee companies.

Yash Choudhary is an MBA graduate from IIM Ahmedabad of Co'23 & also a graduate engineer from NIT Bhopal of Co'16. He had 5.5 years of diverse experience across various roles in Operations Transformation, Supply Chain Optimization and Sales & Marketing in India's largest Fortune 500 Public Sector Undertaking (PSU) - Indian Oil (IOCL). He worked on many projects in the CSR domain also at IOCL.



Vijyaditya Singh Dhakare is a first-year PGP student at IIM Ahmedabad. He has served as a Gazetted Forest Officer in Madhya Pradesh before joining IIM Ahmedabad. He was a Master Trainer for the All India Tiger Census 2022 and has ground-level experience working with flora, fauna, and tribal communities across India.

Sucharitha Melarkode is a first-year PGP student at IIM Ahmedabad. She is a qualified Chartered Accountant with prior work experience in the field of financial planning and audit assurance. She has a keen interest in sustainability and is currently exploring the impact investing space.



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