Welcome to the HCLTech trends and insights podcast.

Hello and welcome. This week's discussion is from our Tech2Sustain series and we will focus on the role of governance, risk and compliance in operationalizing ESG. My name is Aoife Walsh and I lead sustainability marketing and comms here at HCLTech. Today I'm joined by Pader Duffy, who's the global ESG practice lead at Archer and Santhosh Jayaram, Global Head of Sustainability at HCLTech.

We'll hear from both of them in a moment, but let's begin by setting the context and then picking the reasons why environmental, social and governance risk has become such a major focus for organizations.

Back in 2019, we had the first company filing for bankruptcy due to the impact of climate change in what the Wall Street Journal dubbed the first climate change bankruptcy. We all know that's not going to be the last. The risk is evident everywhere. Just look at the damage caused by that heavy rain in New York City recently.

The unprecedented activism we're seeing from investors and indeed CEOs losing their jobs on account of greenwashing overstating their sustainability performance. In the past decade, the top risks identified by the World Economic Forum are now environmental and social risks rather than economic risks.

They occupy Wall Street, Black Lives Matter, focus on modern slavery all of these are pushing companies to consider risk in social and governance dimensions. While regulation is being introduced around the world to protect investments, companies need to fully understand how to incorporate ESG [environmental, social and governance] into the very heart of their organizational strategies.

By focusing on the interdependency between corporate governance policies, enterprise risk management programs, regulatory and company compliance, GRC professionals can help organizations achieve their business goals by reducing inefficiencies, miscommunication and many of the other pearls of a siloed approach.

In this podcast, we will see how governance, risk and compliance professionals are examining ESG risk, how companies integrate ESG into their GRC function and how tools can help.

So, Pader, if I can come to you in the context of what I just outlined in your position at Archer, what do you see as the role of GRC professionals in integrating ESG into organizational strategy?

Thank you, Aoife, thank you HCLTech, for the opportunity to share some thoughts on this really broad and interesting topic.

If we think about the, the global regulatory drive across Europe with CSRD, the rest of the world in the form of ISB and hopefully this month of October, the SEC. We see that these global regulations and the standards that describe how you're meant to do and how you're meant to fulfill your obligations, all of one, true north star, TCFD. The TCFD speaks to four pillars, governance, strategy, risk management, metrics and targets.

In that respect, you know, ESG can be said truthfully to be old risk management wine in a new bottle. The fundamentals haven't changed. There's lots of new terminology, in fact, across the E, the S and the G domains. There are different taxonomies, all with different units of measure and all of these data need to be aggregated and transformed into decision useful information.

A lot of these disclosures that are required are narrative in nature. They're not metrics, not numbers. And you know, the GRC professional is used to that very kind of fuzzy, risk domain ranging from, business conduct through to, cyber risk and so forth, where not everything as in financial risk can be put to a concise number or measured concisely in terms of risk appetite, understanding capacity and tolerance and so forth.

So, it certainly is a new frontier, but the fundamentals haven't changed. It is the territory for the forward-looking risk professional is a tremendous opportunity. The particular change, it's only one change, it's a nuance, but it is mission critical that is understood.

Governance risk and compliance is driven largely in terms of corporate perspective, sadly, driven largely out of the compliance function. Demonstrate that you are in full compliance. Largely telling organizations, providing them with yesterday's news today.

The ESG demand for information, which is largely influenced by investors. They're looking for. Insights, they're using ESG as a proxy, using it as a proxy for the likelihood of performance.

The resiliency of the business model is looking forward. They want evidence that your physical assets are going to be adversely impacted against, let's say, physical climate risk. And if they are, that you've got, you've thought it through, you've got the remediations, you understand CAPEX and OPEX.

They want the assurance that you have talked through the potential transition risks, regulatory effects, costs and so forth. So, they're using these ESG data to form an opinion as to viability of your business model, your operating model looking forward. So, it's very much, truthfully, an old risk management mind in a new bottle.

Well, it's more forward looking than backward looking. That's the difference. That's a very interesting insight. I particularly like the concept of looking at it from the perspective of old wine in a new bottle. I think that any one of us can understand that.

And in that context, Santosh, thinking about that resilience that has to be built in the, the forward-looking aspect, as opposed to looking backwards and as you said, Peadar, yesterday's news today, how can organizations, bring about a structured approach to that ESG integration to GRC?

Thanks for that question. Thanks, Peadar, for setting that context in a nice manner and for me it’s ESG and GRC. I think the best way to approach is through the common thread, the ‘G’ for example, recently I wrote an article titled, ‘The Purpose of Governance is the Governance of Purpose’.

Many companies are reorienting their purpose as we speak and because of many of the reasons that Peadar has mentioned in terms of the investors outlook, the whole value that an organization brings is kind of changing and you spoke about some of the reasons why E and S are becoming critical elements in your opening remarks.

We have entered a kind of a new phase of business, where ESG has walked into the boardroom like an elephant about two, three years back and the whole of the board as well as the governance setup inside the organization is looking at ways as to how we kind of bring this into the normal governance process.

ESG is not something which is going to sit in a vertical. It needs to be integrated into everything what an organization does. From that context, for an example, even at the board level, when we are looking into, although there are many companies, including at HCLTech, we have an ESG committee of the board but we also have to ensure that the other committees of the board, like the risk management committee or the audit committee, the nomination and reputation committee of the board, all of them have integrated ESG as part of their performance. It's beginning, yes! It’s kind of bringing a kind of whole new dimension of risks and opportunities. And hence that integration needs to be as part of the enterprise risk management as well.

Risks like climate risks, water risks, human rights risks, D&I related risks have become universal now. They are no longer sector oriented or geography oriented. So, this global exposure and the dynamics resulting from that is resulting in regulations what better come to. As mentioned in your opening remark, I think GRC is the way to bring all this in an integrated manner. The structured approach is not something out of the blue, it is just a logical approach.

So first you need to know where you are and where you want to be and by what time as an organization. The second is combined with the first, that is you need the right competent team, you need to select the right kind of technology foundations and then bring the journey into steps. You need to establish a monitoring and relief mechanism to ensure that the journey is. I think these would be the simple steps as to how you integrate ESG as part of your GRC.

Santosh, it just as part of the third point that you made there around the technology foundations and the steps on that to smooth out the journey, what are you seeing from your client's perspectives? What are our clients saying to us about the role of GRC?

What we are seeing is that there is a sudden rise in awareness. Now if you ask me whether that awareness in the GRC roughly is enough? I wouldn't say that it can still improve, but there is a sudden increase in awareness of ESG around the GRC for the requirement of new set of regulations that are emerging.

But most of these regulations are ESG reporting requirements and this is a big shift from the era of voluntary reporting to the regulatory. Because the accountability of the board, the leadership and the resulting liabilities are high in a regulatory regime compared to the earlier voluntary reporting regime and these regulations are also insisting on independent third-party assurance on all these disclosures.

I think that's where the GRC function competence steps in and that's where the organizations and the clients are kind of realizing. Although regulations like the CSRD steps in next year, which steps in this year, reporting next year, it should be recognized that it is not just a one-off reporting.

It's going to be a continuous process. The organization will have the pressure to show an improvement trend in most of these reported metrics. This would mean that it is not just a reporting exercise, but an exercise for a systemic change.

We are seeing some of the clients recognizing this, so they not only want to ensure that they have a system by which they report accurately and reliably, but also want a system in place that can help them identify the Improvement opportunities and help them to drive the activities and monitor progress.

You might have heard about the new California regulation now seeking disclosures on scope regulations. Now this dimension requires companies to establish a system that can integrate the supply chain to monitor and report on this initiative. Even in the so-called Conventional Deals, which HCLTech does in terms of the, the IT services deals. We are seeing the clients asking us to integrate sustainability requirements now as part of the SLA.

So, on one side, yes, the whole set of new set of regulations which are about to step in is kind of something what we hear from the clients. But I think some of the clients are also recognizing that it is just not a one-off requirement and they need a systemic change as well.

And just on that view, I think just going back over what you said, you know, ESG has walked into the boardroom, it's made itself heard, there's no going back. It's not just voluntary reporting now. It's ready to be reporting.

There's that need that we're certainly seeing within our business, for companies to utterly change. It's about organizational change and that systematic change and systemic change in actual fact that you spoke about it, integrating sustainability across everything that we do and that our clients do. I think that something else you said was relevant is that data is absolutely key and in fact key in here, can you see ways in which we can evaluate ESG risk and how some tech solutions can actually help organizations in these scenarios as they're setting up to report?

Sure, so let’s take an example of an ESG risk and that's a broad term because your risk can be in the ‘S’, or it can be the ‘E’ or the ‘G’ for example. But let's just take an example of an ESG risk arising from the past and an ESG risk arising from the future.

So, in terms of an ESG risk arising from the past, let's imagine an organization has been disclosing voluntarily in its corporate social responsibility report and probably doing it with reference or alignment with GRI and maybe submitting the reporting on CDP. So, let's just imagine that our organization has presented itself to the world voluntarily and saying we are rather green.

So, it's got green CSR reports in the past. I'm aware of multiple organizations today that are now somewhat troubled about the depth of the greenness that they've portrayed in the past. Relative to, the disclosures that they'll be required to make going forward. Because of those disclosures, those obligations they need to fulfill the obligations and the particular disclosures are pointier than they've made voluntarily in the past. Number one!

But now also, they're very conscious that they need to submit their disclosures to independent third-party assurance. And even just limited assurance, the whole controls posture required around your data. The fact that all this data ultimately comes down to drilling down to primary sources.

So, I would be recommending to an organization, any senior risk function in particular, to look at the greenness of the reports in the past. having a conversation or conversations with their ESG colleagues, their EHS environmental colleagues in particular and saying, how green do you think we're going to be disclosing looking forward? And to begin to introduce some measures, if there's going to be any kind of steep stepping down of the greenness or change in color tone as relating to the past.

Now let's Talk about a little bit about the future. Let's imagine an organization, a large global organization that has already established its carbon footprint. Let's imagine that our organization has declared publicly and some of them are regretting it now, the commitment to net zero by 2050 or whatever. So, whether or not they've registered with the SBTI, the science-based target initiative, they probably have adopted science-based targets.

They have identified given where they are today, because of a salvage or footprint. Where they need to be in 10 years' time because having plugged in their numbers to SBT, SBTI, they get this trajectory that they need to follow.

Okay. So, let's imagine that you are gathering all of this data, which is not easy. Imagine going across multiple hundreds of facilities and your water bills, your energy bills, your waste bills are all in different languages. All formatted differently across the globe, even within the U. S., across different states, different providers and so forth. You've got two challenges.

The first challenge is that it is now an established fact, given the recent IAASB, you know, their proposed standard, that all of this data needs to be assurance ready for them. So, the idea and the notion that you could estimate your emissions based on spend estimates is now gone.

You have to get down to the actual emissions numbers in documents, primary source documents. So that's going to present a problem for organizations because they're probably going to find this for some organizations particularly, a delta, a gap between the spend estimates and the actual emissions.

But let's imagine there isn't a gap, from a tooling perspective, you need a platform that can take all of these. Let's just keep it very simple to scope two of our purchased emissions. And let's just imagine that we are taking all of this data in, probably from a myriad of point solutions. But all these data have to land in one place, because all of these data have to be aggregated. It has to be structured. It has to be transformed so that it's efficient and useful.

What you're going to want from a tooling perspective is saying, right. We establish our baseline, so we know where we are. We're gathering this data on a monthly basis. We have identified targets for the future. You're absolutely going to want automated alerting if the trending towards your future intended target is deviating depending on your tolerances and your appetites and in different, in different, in different geographies beyond, let's say, 5%.

Such that there is a process intervention where people make decisions. You might find that the target you're going to get to at a corporate level is one thing. But, again, keeping it very simple to just climb it, you might find that in certain jurisdictions the infrastructure is not there for you to do what you need to do, corporately, you've got perhaps considerable scope in other jurisdictions.

So, you're going to find yourself trending in different, you'll be following different directories, quite frankly, in different geographies, given the infrastructure, also given your own operations, because you might be carbon, you might be locked into a position that you made an investment some five, 10, 15 years ago and you can't get out of that investment.

You can't just disband that investment. You've got to stick with that investment for the foreseeable future. So, there's an awful lot of stuff that has to be done offline, but then programmatically it has to be set up in your ESG risk management system, which by the way is not a separate system from your overall risk management system that you have.

You need one true, effectively your ESG management system is essentially now becoming. And certainly so in the case of Archer, a non-financial accounting management system of record, because ultimately what's happening is all of these non-financial data, we call sustainability related, non-financial data.

All of these data have to be related to financial data because the investors want to be able to relate, compare and contrast all of these non-financial activities with financial performance and get this. You know, using this ESG as a proxy for the likelihood of the viability of your business model looking forward.

So, it's quite a heavy lift, but you know something, it's just organized common sense. People who are familiar with Sarbanes Oxley when it came out in 2002, that was a heavy lift. That was tough. But believe me when I say this to you now, Sarbanes Oxley Socks was a walk in the park compared to ESG because ESG thinks of all the ‘E’ topics, all of the ‘S’ topics and all of the ‘G’ topics.

These effectively touch most of the operational activities in every organization today. All of these operational activities are non-financial in nature, but they drive out financial performance. So, Sock was just about the financial controls and reporting posture and that administrative structure that was there.

ESG is about everything. So, it's a heavy, heavy lift. You need three or four things. You need a central repository that can bring all of this data on a journey. That's number one. Number two, you need all these point solutions that do particular jobs, but the output from these point solutions becomes input to your central repository.

And number three, finally, you need to be able to, you need to know with a high degree of confidence that you can do all of these aggregations, such that when the auditors come in, they will see, your data governance posture, because this is all about data. We've got a basis for confidence in your data governance framework.

The efficacy of the underpinning data. If you've got bad data coming in, you're going to fail before you start. So, people can just rest assured that, that this is organized common sense. It's not rocket science, but just understand those three big and basic postures. Your single platform of record like Archer that can integrate with anything.

The point solutions, the outputs of which have to land back into your, into your central repository. And then finally, that all of this data has been brought on a journey whereby, uh, your auditors can be satisfied with your overall data governance posture. Hope that helps.

Pader, that was incredibly detailed and an incredibly elaborate view into the entire enormous challenge. I think that every organization that anyone, one of us deals with and indeed our own organizations deal with. And you've almost answered the last question that I want to pose to Santosh, because when you talked about regulatory risk and the compliance risk and the necessity to do that, you then also pointed to the fact that in many cases, this exercise is unearthing, as you put it, stranded assets or assets that are sitting out there locked away and unearthing problems right across, in fact, an organization.

And as you put it, an organization's ability to be viable as it goes forward and that its business strategy is resilient enough for the future, which was my final question to Santosh. Is this just a regularly tick the box exercise? And we'd love your view on that. I think we definitely had Pader’s view on it.

Although it might, I mean, people might start thinking because of the quantum of regulations, which are suddenly erupting. People have a kind of a perceived notion saying that whether it is going to be a tick box exercise, but I'm confident that it is bound to bring a big change as some of the reasons for what kind of mentioned as well.

The first reason is that he kind of went to elaborate to say that there is a mock in terms of the accuracy and reliability of the data, which is demand, which was a big question in the past. Right! We did not have accurate and reliable ESG data. And even if we had, the quantum of the data was very limited.

But now we are talking about the very next year itself. Once the EU regulations come in, we are talking about almost about 12, 000 companies coming under that. And by 2029, we are looking at almost about 50, 000 companies. And add to that the other regulation requirement in the other parts of the world. Which is a big quantum jump in terms of the data and information and it can be reliable as well.

So, this is bound to bring in a lot of analytics and research, which will fuel many discussions and industry trends. And I kind of explained to you that many companies get it now that it's more than a tick box because the moment they put out this information, they do not know exactly how that data would be used by the people.

It can be used for creating comparisons. It can be used in kind of research studies as I said. So, the companies do get it that once this data is put out there they also have to kind of have the systems in place to continually improve on that and even if the companies are jumping into this as a regulatory compliance, If they are, I doubt but even if they are, I think within a year or so, they would realize that this is much beyond the size.

Couldn't agree more. And I think that, uh, we would unanimously, uh, agree on that point. sI thank you both enormously for the insights that you have brought to us. We've talked extensively about risk. I would conclude that the greatest risk of all here is the risk of ignoring environmental, social, and governance.

So, thank you both and I look forward to the next conversation.