

Doing Business with Social Responsibility



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Profit should not be the sole motivator for any business enterprise. Equally important is to adopt responsible business practices that are in the interest of society and the environment. The push to do this might come either internally or from regulation – and in India, the tone was set a few years ago by the National Voluntary Guidelines (NVG) for Corporate Governance, which were based on the Global Reporting Initiative Guidelines. Focusing on sustainability, the NVG urged businesses to ‘give something back’ to society; to be responsible and accountable for their actions; and to be sustainable, not only in themselves, but also in relation to the environment in which they operate.

Taking this agenda forward, SEBI has now mandated the preparation of an annual Business Responsibility Report (BRR) by India’s top 500 listed companies, as defined by market capitalisation as of the financial year ending March 31st, 2017. With this one step, the age-old imperative of shareholder wealth-maximisation has been widened to include the discharge of social responsibility towards all stakeholders.

What is ‘Business Responsibility’?

In general, companies carry on their work with the primary motive of earning profit. Increasingly, however, businesses worldwide are also looking to be more ‘sustainable’ from a longer-term perspective. In this scheme of things, environmental protection ranks as a top priority, followed closely by the interests of general stakeholders who are directly or indirectly associated with and/or affected by the business, or its products and services.

Some issues that deserve urgent attention from corporates include a serious shortage, bordering on crisis levels, of fresh water; the development and use of alternate sources of energy, including solar power; the needs, including in terms of nutrition, of a growing population; deteriorating air quality; and global climate change. Considering that these issues pose a major threat to society at large, organisations should play a bigger role here, shifting their paradigm from mere philanthropy towards sustainability and responsibility.

The BRR framework

Envisaged as a disclosure statement, companies are meant to use the BRR to report on how, effectively, they contribute to the economy and the betterment of local communities and the environment. They are required



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to report their performance under five broad heads:

1. General information about the company, including data on its operations
2. Financial details such as paid-up capital, turnover, profit, CSR expenditure
3. Other details, including information about subsidiary companies and companies with which company does business
4. Information on Directors who are associated with the firm, and principle-wise qualitative disclosures in terms of compliance
5. Principle-wise performance with respect to policies, the design of products and services, and other social and environmental concerns

Principles underpinning the BRR

Nine key principles have been identified, with specified core elements related to each, and clear 'dos' and 'don'ts' have been specified. In brief, these are:

Principle 1 – Ethics, Transparency, Accountability: Businesses should conduct themselves ethically, and with transparency and accountability

Principle 2 – Safeguard and Sustainability: Providing goods and services that are safe, and which contribute to sustainability throughout their life cycle.

Principle 3 – Employees Welfare: Promoting the wellbeing of all employees; respecting the right to freedom of association and participation; maintaining equal opportunities; and ensuring a harassment-free workplace.

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Principle 4 – Responsibility towards Stakeholders: Respecting the interests of, and being responsive towards all stakeholders, especially the disadvantaged, the vulnerable, and the marginalised.

Principle 5 – Protection of Human Rights: Businesses should integrate and promote the respect for, and awareness and realisation of human rights across their value chain.

Principle 6 – Environmental Protection: Respecting, protecting, and making efforts to restore the environment.

Principle 7 – Responsibility towards Regulators/Public: When engaged in influencing public policy or regulation, businesses should do so in a responsible manner, and should be consistent with the principles and core elements of these guidelines.

Principle 8 – Supporting Equitable Development and Growth: Businesses should support inclusive growth and equitable development, and understand their impact on social and economic development while remaining sensitive to local concerns.

Principle 9 – Providing Values to Consumers: Businesses should engage with and provide value to their customers and consumers in a responsible manner.

Framing a BR Policy

Companies should develop internal policies that adhere to all the principles listed in the BRR. Corporate governance rules take care of the mandatory disclosure of certain financial data, but at the same time, firms need to understand the need to avoid abusive and corrupt practices. Building an understanding with value-chain partners and third-party manufactures can help take care of product life-cycle sustainability and customer value. Involving employees and other stakeholders (creditors, people at the places of business/activities carried on, lenders, to name a few, for the protection of environment) meanwhile, would go some distance towards meeting the interest of a wider group, while also extending an arm towards environmental protection. While this is not a mandatory requirement, if sound policies are formulated internally, it would strengthen decision-making powers and drive accountability.

Conclusion

In 2017-18, an additional 400 companies will need to disclose their performance from an environmental, social and governance perspective, and demonstrate the steps they have taken to implement the 9 key principles highlighted above. This form of reporting will provide shareholders and interested stakeholders with relevant information, which might ultimately help them make sounder investment decisions, while also demonstrating concern towards the environment and society at large. ■