

# Significance of Sustainable Business Practices for a Sustainable World

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“A sustainable business is one that is fit for purpose in a rapidly changing world. This means understanding that there are factors that affect our survival that are beyond our control and that by planning for them, we can prosper –today and in future.” (source: Sustainable business report of Aditya Birla Group)”.

With the changing global trends and increasing social expectations, it has now become very imperative for the Companies to look beyond its financial performances to drive businesses and rather also be accountable to the society and environment in which they operate. Hence adoption of responsible business practices in the interest of social set-up and the environment are as vital as the Company's operational and financial performance.

Specifically this calls for Corporates to be thoroughly aware and conscious of their *environment, social and governance (ESG) responsibilities* and balance these different considerations with their financial goal in an ethical way.

## Environment:

It is expected that the Companies use the resources in an optimal manner and ensure sustainability by reducing, reusing, recycling and managing waste. Also adopt ways and measures to keep a check on the pollution and environmental damage. They should continuously seek to adopting cleaner production methods, promote usage of environment friendly technologies and usage of renewable energy. Not just this, the corporates should also encourage their value chain to adopt these practices.

The Volkswagen case represents an absolute failure in terms of its responsibility towards environment protection. Volkswagen decided that it didn't matter if its cars poisoned the planet by emitting 40

times the legal limit of nitrogen oxide, as long as doing so allowed it to become the world's leading car maker. (source: *forbes.com*)

## Social:

Companies should maintain equal employment opportunities irrespective of caste, creed, gender, race, religion or sexual orientation. They should strive to promote employees well-being by promoting healthy work-life balance, preventing use of child labour, forced labour, ensure timely payment of wages and make provision of healthy facilities and amenities, promote harassment free workplace and make provision for upgrading the knowledge base of employees.

Not just employees, corporates should also be responsive towards its all stakeholders by disclosing through labelling or other means, including highlighting of risks from usage of products to individual and to the society, so that the customers can exercise their freedom to use the products in a responsible manner and also provide ways to responsibly dispose the used products. Corporates should also make efforts to rehabilitate the communities who have been displaced owing to their business operations. Innovation and investment in products, technologies and processes to promote the wellbeing of society is equally important.

## Governance:

Corporate should not engage in practices which are anti-competitive, corrupt or abusive and also recognize and respect the rights of people who may be owners of traditional knowledge and other forms of intellectual property. They should adopt structures which ensure ethical conduct at all levels.

Corporates should adhere to laws applicable to them in letter and spirit and truthfully discharge their responsibility on financial and other mandatory disclosures. Also provisions should be made for adequate grievance handling mechanisms to address customer concerns and feedback. The Corporates should work towards ensuring that all the goods and services are procured, manufactured and delivered through a system embedding its policies in terms of labour practices, human rights, ethics, occupational health, safety and environment.

Corporate Sustainability has become an integral part of a company's functioning and today it has become indispensable that a firm

demonstrates such responsibility. Although, earlier it was not a legal compulsion, but following it was considered as a good practice for taking into account social and environmental issues. However, post enactment of the Companies Act, 2013, the newly introduced Section 135 mandated companies to establish a corporate social responsibility (CSR) committee of the board, develop CSR policies, spend 2% of profits on these policies and report on these activities. Companies are suggested to focus their CSR activities on eradicating poverty, hunger and malnutrition, improving education, promoting gender equality and female empowerment, as well as environmental sustainability.

In addition, the top 500 listed companies by market capitalisation are required to produce Business Responsibility (BR) Reports, which are to be included in their annual reports. The regulations require the public companies to disclose a wide and diverse set of sustainability criteria – from greenhouse gas emissions and sexual harassment to stakeholder engagement. The decision by the Securities and Exchange Board of India (SEBI) in 2017 to ask top 500 listed companies to voluntarily adopt the integrated reporting framework is a positive recent development that should encourage the disclosure of non-financial information alongside financial information. Publishing such ESG information and data in the mainstream report brings it to the attention of investors and shareholders and allows a wider, more sustainable conception of value to foster.

The Ministry of Corporate Affairs (MCA), Government of India, had released a set of guidelines in 2011 called the National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs) which was expected to provide guidance to businesses on what constitutes responsible business conduct. However, in order to align the NVGs with the Sustainable Development Goals (SDGs) and the 'Respect' pillar of the United Nations Guiding Principles (UNGP) the process of revision of NVGs was started in 2015. After, revision and updation, the new principles are called the National Guidelines on Responsible Business Conduct (NGRBC). As with the NVGs, the NGRBC has been designed to assist businesses to perform above and beyond the requirements of regulatory compliance. These guidelines are currently recommendatory in nature. Some of the key drivers of NGBRC are as follows:

#### 1. The UN Guiding Principles for Business and Human Rights (UNGPs):

One of the UNGP's guiding principle is to enforce upon the business enterprises, the need to respect human rights and also to ensure easy access to effective remedy to those who are affected by the adverse business-related human rights impacts or abuse. The UN working group has also encourage all States to develop National Action Plan as part of State's responsibility to implement UNGPs.

#### 2. UN Sustainable Development Goals:

In 2015, the UN general assembly adopted the 2030 Agenda for Sustainable Development which established 17 Sustainable Development Goals (SDGs) which recognises the role of businesses as key driver for economic growth whilst explicitly calling businesses to adhere with UNGP's.

#### 3. Paris Agreement on Climate change

This is the Agreement in which countries have committed to take

steps to combat climate change and adapt to its effects. India ratified this agreement on 2<sup>nd</sup> October, 2016 and its commitments are called the National Determined Contributions (NDC's).

#### 4. Core Conventions 138 and 182 on Child Labour by International Labour Organization (ILO):

In June, 2017, India ratified ILO Core Conventions 138 (minimum age of employment of children) and 182 (worst forms of child labor).

#### 5. Annual Business Responsibility Reports & Companies Act, 2013

As dealt with previously in this article, SEBI's listing agreement mandates top 500 listed companies to submit annually the Business Responsibility Reports. Further, Companies Act, 2013 mandates companies to undertake CSR activities in areas and target groups in consistency with national socio-economic priorities.

The 9 Principles of the NGRBC are as follows:

#### Principle 1: Businesses should conduct and govern themselves with integrity and in a manner that is ethical, transparent and accountable:

This principle primarily focuses on following aspects:

- development and implementation of corporate policies and procedures which promote ethical and transparent business practices;
- ensure full disclosures of financial and non-financial performance of the company to its stakeholders,
- requires companies to follow the applicable laws in letter and spirit,
- promotes fair competition,
- addresses conflict of interest,
- addresses illegal and abusive business practices, bribery and corruption and
- ensures companies make timely and complete payment of all applicable taxes in letter and spirit of laws.

#### Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe:

This primarily requires the Companies that:

- resource efficient and low carbon processes and technology are deployed to minimize adverse environmental and social impact
- they ensure safe collection, reuse, recycling and disposal of their products

#### Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chain:

The corporate should ensure:

- equal employment opportunities at the time of recruitment, during employment and at the time of separation.
- No use of child labour, forced labour or any form of involuntary labour
- Work-life balance for all its employees
- Right to freedom of association and collective bargaining of all employees
- Fair and timely payment of statutory wages

- Workplace environment is safe, hygienic and upholds the dignity of employees
- Continuous upgradation of skill and competence of all employees
- Humane workplace free from violence and harassment and also provide secure and adequate redressal mechanism.

**Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders:**

**Corporates should :-**

- Develop systems and processes to identify its stakeholders, understand their expectations and concerns and commit to resolve any difference and redressing grievances in a just and fair manner
- Ensure that all stakeholders benefit fairly from the value generated by the businesses.

**Principle 5: Businesses should respect and promote human rights:**

**Corporates should :-**

- Make the employees aware of their rights under constitution of India, relevant national laws and should further ensure that the responsibility for addressing any violation of such rights is assigned to an appropriate level
- Ensure that its policies demonstrate respect of human rights of all its stakeholders impacted by its business
- Ensure that if its business is creating adverse human rights impacts, corrective actions to address the same are in place
- Ensure adequate grievance redressal mechanism to address human rights violations, if any.

**Principle 6: Businesses should respect and make efforts to protect and restore the environment:**

**Corporates should:**

- Formulate policies and structures to assess and address all the adverse impacts on the environment at all its locations and special care be taken in eco-sensitive areas
- Develop strategies for sustainable use of natural resources and manufactured materials
- Define KPI's and targets to monitor its performance on environmental aspects such as water, air, land-use, forest, energy, materials, waste, biodiversity and so on
- Focus on addressing climate change through both mitigation and adaptation measures
- Focus on adopting innovative, resource-efficient and low carbon technologies and solutions resulting in lower resource footprint and more positive impact on environment, economy and society.

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in manner that is responsible and transparent:

**Corporates should:**

- Undertake policy advocacy through trade and industry

chambers and associations

- Ensure that its policy advocacy promote fair competition and respect for human rights

Principle 8: Businesses should promote inclusive growth and equitable development:

**Corporates should :**

- Ensure that it takes appropriate actions to minimize any adverse impacts that it has on social, cultural and economic aspects of society including arising from land acquisition or construction of facilities/operations
- Invest in technologies, products and processes that promote well being of all segments of society
- Respond to local and national development priorities and understand concerns of local communities that are underdeveloped while implementing CSR policies
- Make efforts to minimize negative impacts of displacement of people and disruption of livelihoods through their business operations, operations should be conducted in humane, participative and informed manner
- Respect intellectual property and traditional knowledge

Principle 9: Businesses should engage with and provide value to their customers in a responsible manner:

**Corporates should:**

- Manage consumer data in a way that doesn't infringe upon their right to privacy
- Ensure freedom of choice and free competition
- Mitigate any adverse impact of its goods and services on consumers, environment and society at large
- Disclose all information accurately about use of its products including risks, if any
- Guide on safe and responsible usage and disposal of their products
- Provide adequate grievance redressal mechanism to address customer concerns and feedback
- Corporates which provide essential services should enable universal and responsible access at all times

**Challenges in Sustainability Reporting:**

India has seen unprecedented economic development in recent past resulting in growing demand for natural resources and exploitation of the environment as well. It has become impossible to have business success and economic growth without environmental sustainability. This is a major challenge for fast-growing emerging economies such as India.

British Telecommunications revealed that the overall performance of Indian Corporate Reporting is not satisfactory when compared with companies from European Union, China and Japan. According to their findings, although Indian companies are proactive towards sustainable issues, there are still many issues – inclusive employment, education, employment creation, health, corporate/government collaboration, land and displacement, natural resource management, climate change, corporate governance, solid waste and water – to be addressed by them. In fact, Indian companies are failing to come out with innovative

approaches for addressing sustainable issues. The progress of sustainability reporting in India is slow, but a significant and sound start has been made.

One of the main hindrances that stand in the way of effective enforcement of social responsibilities by Indian corporates is finding credible projects that the corporates can support. According to KPMG Report, corporates prefer to fund the projects which are closer to where these firms are based which results in industrialised areas getting preference over the poorer areas which truly need financial aid or development. Reports have also proven time and again that the expenditure of the Company have mainly gone to the set priorities than to the determined priorities which continue to remain a challenge for the Country as a whole.

Also, because of the absence of any proper authority, the needs of the rural people often gets unnoticed and there remains no proper authority to assess and identify the needs of the rural society.

As per data analysed by MCA, some of the major reasons reported for not/under-spending CSR prescribed amount were as follows:

- Suitable Project Not Found
- Delay in Project Identification
- Suitable Implementing Agencies Not Found
- Multi Year Projects
- Majority of the Projects were of Infrastructure Development in Rural Areas, which involve long implementation period
- Adoption of Long Gestation CSR Programmes/ Projects
- Inability of Company to formulate a well-conceived CSR Policy
- Lack of Prior Expertise

While some of the reasons may be reasonable but most others were untenable.

The detailed study carried out by MCA in the year 2019 on CSR expenditure by Indian corporates showed that for the year 2017-18,

42% of the total CSR spending was made on activities focusing education, support to differently abled and providing livelihood, followed by 26% on activities focusing on health, eradication of poverty, hunger and malnutrition including contribution towards Swachh Bharat initiative and 11% on activities focusing rural development.

A deeper dive into the types of CSR projects carried out by these companies throws up some interesting insights about their perspective towards sustainable development as a key component of CSR.

### Conclusion:

As rightly pointed out by Mr. Kumar Mangalam Birla, Chairman of Aditya Birla Group:-

“We have traditionally looked at sustainability from the perspective of compliance and good governance. In this new environment, we need to think strategically about how to create business value through sustainable initiatives. Sustainability is, therefore, not just good citizenship but also, good business.”

In light of above, it would not be wrong to say that most of the top performing companies have increased their focus on sustainability and also deepened current efforts around reduction of emissions, climate change, waste management, water and energy. This gradual shift towards a more responsible form of growth taking a long term view of sustainability and social responsibility will not only help in creating long term competitive advantages but also would positively impact the World 50 years from now.

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