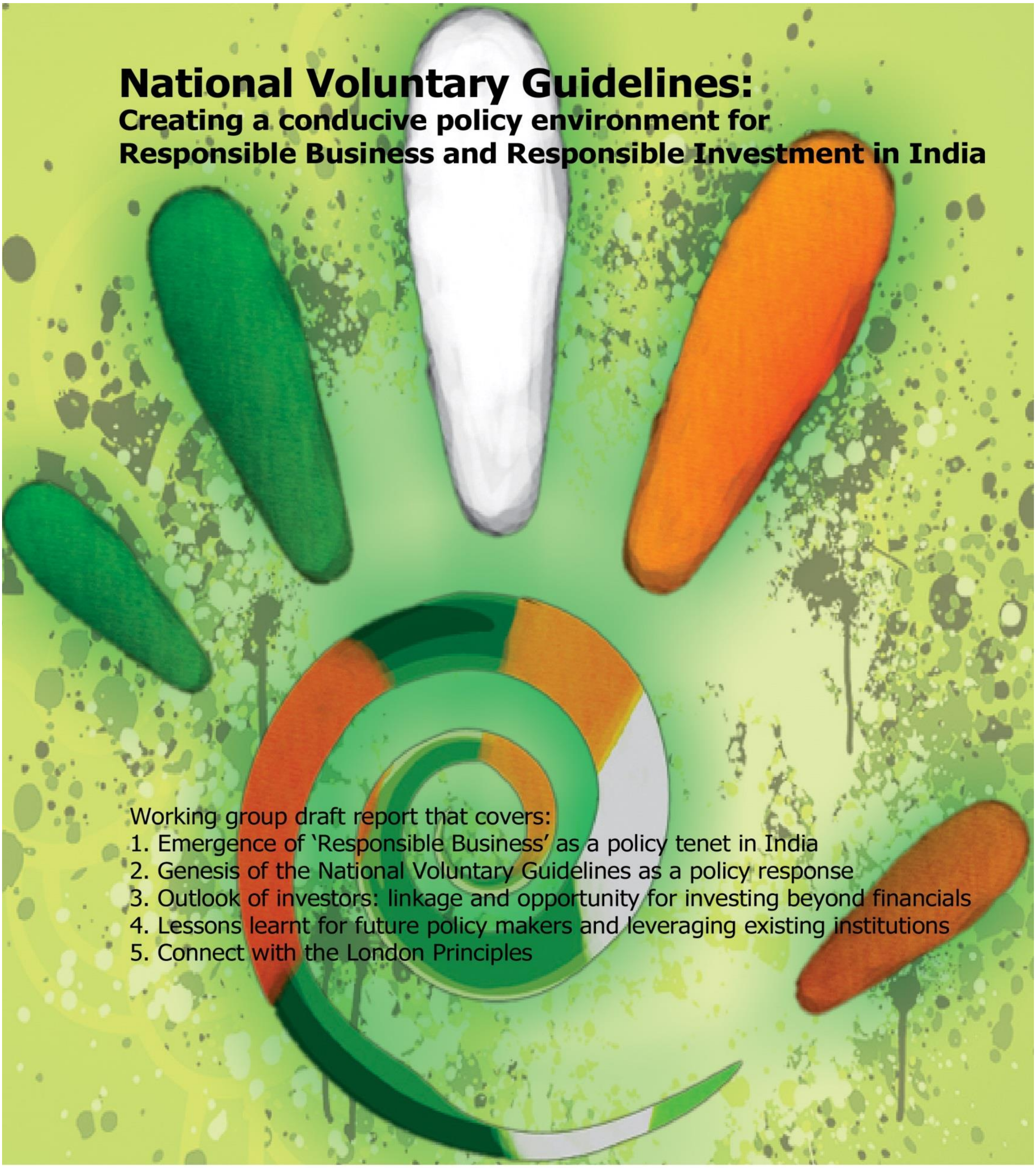
National Voluntary Guidelines:
Creating a conducive policy environment for Responsible Business and Responsible Investment in India



Working group draft report that covers:
1. Emergence of 'Responsible Business' as a policy tenet in India
2. Genesis of the National Voluntary Guidelines as a policy response
3. Outlook of investors: linkage and opportunity for investing beyond financials
4. Lessons learnt for future policy makers and leveraging existing institutions
5. Connect with the London Principles

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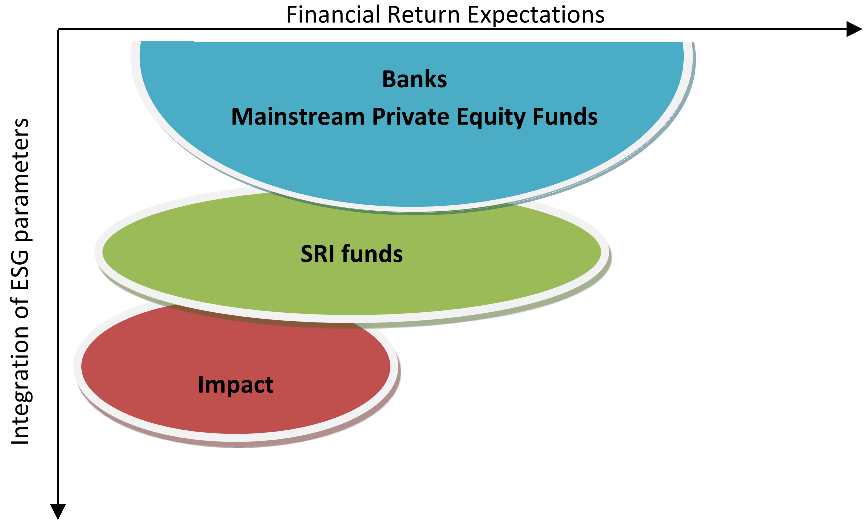
Context

Due to a confluence of several factors, global investors are beginning to move beyond measuring purely financial performance of their investments by increasingly taking non-financial metrics into consideration. Many groups of institutional investors have transitioned towards the inclusion of Environmental, Social and Governance (ESG) and sustainability considerations in their investment decisions. This has resulted in an increased demand for ESG information among investors; a trend which has brought global investors to the forefront of driving the non-financial disclosure agenda. According to the US SIF Foundation, 82 asset managers (representing $4.9 trillion Asset under Management) request ESG data from portfolio companies.[1] Deutsche Bank has, likewise, been vocal in its publication of several reports extolling the value of ESG data in evaluating investments; attributing low costs of capital to high ESG performance and contending that "portfolios of assets with high ESG ratings have been found to outperform their benchmarks in various contexts."[2]

Investors that are incorporating ESG information exist along a continuum of ESG impact and return which varies based on their appetite for environmental/social impact vs. financial return. Fig 1.1 details the nature of investors and extent to which they have integrated ESG investing in their decision making.

Figure 1: **Defining Finance+ Investors**



Source: *Cracking the Conundrum*, cKinetics

Collectively, cKinetics has coined these investors "Finance+ Investors" signifying their penchant for looking beyond pure profit. Research by cKinetics has found that these Finance+ Investors are distributed across 5 major groups which annually deploy $18 billion of capital in India: Development Finance Institutions, SRI Funds, Private Equity Asset Managers, Social Investors and Banks with Responsible Finance Initiatives.

The growth in the number of these investors, and resultantly the financial capital represented by them, has spurred demand on businesses for ESG information that is high quality, periodic, standardized and comparable--akin to financial disclosures disseminated through annual reports. While investors normally source ESG data in the course of their normal due-diligence processes, some have joined initiatives that

[1]Report; Sustainable and Responsible Investing Trends in the United States 2012: Executive Summary; US SIF Foundation; Pg. 15; http://www.ussif.org/files/Publications/12_Trends_Exec_Summary.pdf

[2] Report; Sustainable Investing: Establishing Long-Term Value and Performance, Environmental, social, and governance (ESG) data: Can it enhance returns and reduce risks?; Fulton et al. (2012) and Hoepner (2013); https://www.dbadvisors.com/content/_media/Sustainable_Investing_2012.pdf and https://www.dgfi.com/DGFI/White-Papers/Environmental-social-and-governance-(ESG)-data-Can-it-enhance-returns-and-reduce-risks

promote enhanced ESG disclosure / reporting and the adoption of standardized reporting frameworks. However, there are some inherent challenges to such initiatives, these are:

1. **Lack of Standardization:** The information used by different groups of investors is not standardized and there is no consistent way of conducting risk or impact assessment – a gap which affects all investors (from impact investors to larger institutional investors)
2. **Limited depth of market:** Only a handful of companies are currently disclosing ESG data, this increases the cost of collecting data in the screening and due-diligence processes for impact and equity investors evaluating firms' environmental/social performance.

However, despite these challenges, research in India has indicated investors are not only interested in ESG information, but they also accord a higher value to businesses with progressive levels of ESG disclosure / reporting. A recent report has found strong correlations between ESG disclosure / reporting of businesses and their "investability" (or the capital flows attracted by them).[3] The report also makes the case that incremental social and environmental disclosure / reporting will lead to an increase in investment capital flowing into India. Estimates indicate that incremental disclosure / reporting by Indian businesses could potentially lead to $80 billion increase in capital flowing into these firms over the next 10 years.

In parallel to the increasing interest from investors in ESG information, the landscape of ESG disclosure / reporting in India is undergoing rapid change on account of policy-level engagement. Over the past several years, Indian businesses have faced formidable challenges in remaining agile enough to formulate effective, timely, responses to a rapidly changing landscape of acute resource scarcity and mounting stakeholder demand for sustainability.

Against this background, the Indian Government has introduced in the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVGs) in August 2011, which contain:

- 9 broad principles to guide businesses towards more responsible operations
- A "uniquely Indian" approach to tackling country-specific challenges
- Metrics to measure the ESG risk, impact and performance of businesses[4]

It is worth noting that the definition of Business Responsibility, as interpreted by Indian policymakers (via the NVGs) includes the three core areas of sustainability (i.e., Environmental, Social and Governance).

The NVGs have created a relevant and comprehensive framework for business in India to measure, manage and disclose the ESG impact of their operations. Moreover, the NVGs have been augmented by the Business Responsibility Report framework (BRR), released in July 2012. The BRR is a principle-wise (see: NVGs' 9 principles) disclosure / reporting framework which details metrics businesses should disclose information on.[5] Research also indicates that the NVGs, paired with the BRR, constitute a robust set of tools and are amongst the most progressive policies globally for encouraging ESG impact measurement, management and disclosure / reporting.

In this context, it is the intention of this document to capture the i) genesis, evolution and future of the NVGs, ii) evolution of a dialogue focused on "Responsible Business" in India, and iii) how Guidelines create a powerful tool to meet the investor demand for ESG information.

[3] Report; Cracking the Conundrum: An investor and policy view to leverage standardization of environmental and social disclosure and reporting; Pg 7; www.ckinetics.com/crackingtheconundrum
[4] National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Businesses; http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf
[5] Business Responsibility Report; http://www.mca.gov.in/Ministry/pdf/Draft_Disclosure_Framework_Committee_Report.pdf

Key questions answered through this report

This report addresses the following questions:

- When and how did 'Responsible Business' emerge as a core policy tenet for India?
- What is the genesis of the NVGs - how was it conceived? what roles were played by various actors?
- What were challenges faced in the initial rollout? how they were mitigated?
- What is the future of the NVGs – what is the business and investor outlook on the future of the NVGs?
- What are the "lessons learned?" How can policymakers in other geographies replicate and / or improve upon the process?
- How do the NVGs align with the London Principles?

Audience for the Report

Global change-making Institutions	Policymakers and catalysts	Investor community
• The conversation on ESG measurement, management, disclosure and reporting does stand to gain from strategic partnerships with global institutions working on the issue as also those working on Responsible Investments, investing for impact etc.	• This document highlights the key policy lessons derived from the process of developing the NVGs – this analysis should prove particularly useful to policymakers in other emerging economies.	• Many investors, international and Indian, that are looking at ESG investing can benefit from understanding the NVGs and how the guidelines and the BRR framework support their information needs, and how they can use them to guide disclosure / reporting in their (potential) portfolio companies.

1 Introduction

In 2007, the Indian Prime Minister, Dr. Manmohan Singh addressed a gathering of eminent figures of the business community at the Confederation of Indian Industries (CII). In his speech, he stressed the need for businesses to adopt a holistic approach business responsibility and "rise to the challenge of making our [India's] growth processes both efficient and inclusive." In his 10 point social charter (see: Annexure 3), the Prime Minister outlined the economic, environmental, social responsibilities of businesses and defined the practices of good governance, signaling a paradigm shift in policy leadership's expectations for businesses.[6]

Dr. Manmohan Singh's 10 Point Social Charter

One: Responsibilities toward employees ***Have a healthy respect for your workers and invest in their welfare***
Two: Responsibilities toward businesses Corporate social responsibility must not be defined by tax planning strategies alone
Three: Responsibility as an equal opportunity employer ***Industry must be pro-active in offering employment to the less privileged, at all levels of the job ladder***
Four: Responsibility as an economic equalizer ***Resist excessive remuneration to promoters and senior executives and discourage conspicuous consumption***
Five: Responsibility toward skill development ***Invest in people and in their skills***
Six: Responsibility as a 'fair-competition' player ***Desist from non-competitive behavior***
Seven: Responsibilities toward the environment: ***Invest in environment-friendly technologies***
Eight: Responsibility toward social and market innovation ***Promote enterprise and innovation, within your firms and outside***
Nine: Responsibility toward anti-corruption agenda Fight corruption at all levels
Ten: Responsibility toward consumers ***Promote socially responsible media and finance socially responsible advertising***

This address was pivotal in setting the tone of a series of future policy conversations on promoting Responsible Business in India.

1.1 Emergence of Responsible Business as a core policy tenet

Dr. Manmohan Singh's landmark address was, decidedly, a turning point in the Indian policy landscape and the first in a series of signals by policy makers that they were not only interested in increasing business participation in nation building, but also making businesses accountable for the social and environmental impact of their operations.

Several directives and policy consultations followed in the wake of the Ten Point Social Charter, and they fed into development of the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Businesses (NVGs)[7]. Released in 2011, NVGs were formulated to encourage adoption of responsible business practices and mainstream disclosure / reporting on ESG metrics in India. NVGS were launched by the Ministry of Corporate Affairs (MCA) and it provides businesses a framework to enable them to

[6] Website; Press Information Bureau, Government of India, TEN POINT SOCIAL CHARTER FOR INCLUSIVE GROWTH OUTLINED; http://pib.nic.in/newsite/erelease.aspx?relid=28178
[7] National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Businesses; http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

move towards responsible operational decision making and urge them to adopt the “triple bottom-line” approach. The underlying disclosure / reporting framework of the NVG, which later became the Business Responsibility Report Framework[8] or the BRR Framework, is designed on the 'Apply-or-Explain' principle and encourages voluntary disclosure / reporting in businesses.

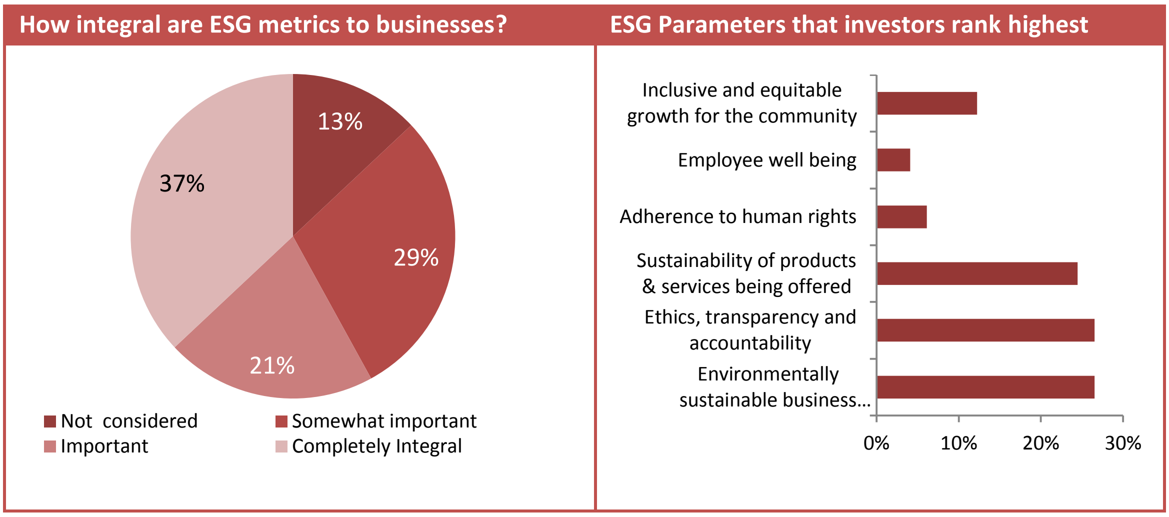
It is important to note that **all 3 tenets of ESG – Socially Sustainable Development, Environmental Sustainability, and Good Governance are contained within these guidelines and in the broad definition of business responsibility**, which has been adopted – businesses must become responsible actors in society in a way **“that their every action leads to sustainable growth and economic development”**[9]

1.2 Growing investor interest in ESG measurement, management and disclosure / reporting

In conjunction with the aforementioned evolution of policy outlook on the need for Responsible Business actions and disclosure / reporting, investors investing in India have increasingly been incorporating ESG metrics into their decision making. This is evident from the results of a recent investor survey conducted by cKinetics; the survey asked a diverse group of investors from Impact Investors to Banks to rate how integral ESG indicators are to them and the results revealed that an overwhelming 87% investors accorded varying degrees of importance to these parameters (Fig. 2.1). Additionally, investors were also asked “which specific parameters were most relevant to their investment, based on Financial Materiality,” based on the responses the study determined that core ESG principles and parameters, under the NVGs were ranked highest based on their relevance to investors.

This not only reflects the quantum nature of interest among investors taking exposures in India, it also demonstrates the distinct need, and market, for ESG information, which is readily accessible and comparable – a need which can be met through the widespread adoption of NVGs and the BRR framework. (Fig. 1.1)

Figure 1.1: How integral is ESG data to investors?



This concurrence of policy interest (push) and investor interest (pull) creates the opportune timing in India, for collaboration between investors and policy makers – a collaboration which would propel the business responsibility agenda, drive measurement, management and disclosure / reporting ESG metrics by businesses, and, in turn, create a more conducive and transparent investment climate for investors, both impact and mainstream.

[8] Business Responsibility Report; http://www.mca.gov.in/Ministry/pdf/Draft_Disclosure_Framework_Committee_Report.pdf
[9] http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

1.3 Opportunity for investors and policy makers to collaborate

The aforementioned background creates the ideal opportunity for investors to support the Government's initiative to drive Responsible Business action; investors can demand ESG management and disclosure / reporting from businesses and create the necessary push for businesses to follow suit. Not only will businesses benefit from the increased Finance+ investment capital that they will be able to attract, it will also help investors have access to a more transparent market which facilitates '*impact assessment'*.

This need for investor and policy maker collaboration is evident from the following:

1. In conversation, different members of the **"Guidelines Drafting Committee"** (GDC - the committee which drafted the NVGs; explained more in Chapter 4) concurred that **investors are amongst the most, if not the single most, important constituency in driving the adoption of NVGs.**
2. The Securities and Exchange Board of India (SEBI - the stock exchange regulator) – the voice of capital markets in India and the watch-dog of investors, has, soon after the release of the guidelines, adopted the BRR) framework (which is based on the NVGs)[10] and mandated the top 100 listed companies to report per it. The intent to roll – out this mandated to all listed companies has also been stated at the onset. This interest by SEBI shows that ESG information is considered important by investors.

In this background, this report looks at the issue of ESG measurement, management and disclosure from the perspective of policy makers (NVGs), businesses and investors to examine:

- How the NVGs were developed, how they fit in the existing landscape of ESG management, measurement and disclosure and what international policy makers can learn from it?
- How the NVGs aid in propagation of responsible investments?

In order to understand the aforementioned questions, it is important to also understand the landscape of ESG measurement, management and disclosure, which the NVGs operate in; this is explored in the next chapter.

[10] SEBI (the voice of capital markets in India and the watch-dog for investors)mandated that the top 100 largest businesses (by market cap) furnish BRR reports http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf

2 Landscape of Reporting Initiatives in which NVGs operate

There are a multitude of policy driven, investor driven and stakeholder initiatives, both globally and in India, that are focused on promoting Responsible Business action and ESG impact measurement and disclosure in India. These include a wide spectrum of initiatives including

- Global initiatives (investor initiatives (Areva), initiatives by catalysts (GRI, CDP, UNGC, IRIS), international standards and certification bodies (FairTrade, FSC, ISO, APEDA, etc.))
- Indian initiatives (policy level regulations and stock exchanges (BSE-GREENEX)

This section outlines some key initiatives that operate globally and in India; it is worth noting here that while globally, the conversation has progressed through voluntary initiatives (although there are a few mandatory policies at the level of nations).

2.1 Global initiatives

The following are the key global initiatives, which look at ESG measurement, management and disclosure / reporting:

Global Reporting Initiative and GRI Focal Point India

Established as one of 6 global focal points, GRI in India has been active since 2010. GRI Focal Point India has been active in its collaboration with the Indian Institute of Corporate Affairs (IICA) and the German International Corporation (GIZ) through the joint IICA-GIZ Business Responsibilities (BR) Initiative. GRI played an important advisory role in the early stage development of the NVGs and continues to engage with IICA-GIZ with the recent development of an NVG-BRR-GRI linkage Document charting overlaps between the three frameworks.[11]

Impact Reporting and Investment Standards (IRIS)

Developed in 2008 through collaboration of the Rockefeller Foundation, B Lab and Acumen Fund, IRIS has been driven by the Global Impact Investing Network (GIIN) since 2009 as a "common reporting language" for organizations to disclose their environment, social and financial "impact."[12] The standards have been developed from an initial framework for investors who required baseline data to create comparable valuations across a wide variety of investment opportunities generating environmental and social returns. IRIS metrics include both cross-sector and sector-specific indicators. The first IRIS Performance Data Report (2011) examined 2,394 organizations using the IRIS Standards, of which more than 350 small-to-midsized users were located in India.

Carbon Disclosure / reporting Project (CDP) India

CDP is an international organization whose signatories grew from 475 institutional investors (with AUM exceeding US$55 trillion) in 2009 to 722 investors representing US$87 trillion in assets by 2013.[13] CDP published its first survey report in 2009 examining emissions data from the top 200 largest listed firms in India. In recent years, the organization has begun collecting data on water consumption and conservation from CDP India 200 firms.

UNGC Investor Briefing Series

United Nations Global Compact (UNGC) and the United Nations Principles for Responsible Investments (UN PRI), in 2012, launched the ESG Investor Briefing series. The aim of the series is to initiate and improve communication between investors and businesses on ESG issues. The conversations are based on an ESG Value Driver Framework[14], which was developed in collaboration with Global Compact LEAD companies and PRI investors. Through the series, companies have a platform to present their ESG value drivers that are material

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[11] This document involved India-based stakeholder consultations and is set to be launched at the 2013 GRI Global Conference on Sustainability and Reporting (22-24 May)
12 See: http://iris.thegiin.org/history
13 See CDP India 200 Reports at: https://www.cdproject.net/EN-US/WHATWEDO/Pages/India.aspx
[14] Website, UNGC; http://www.unglobalcompact.org/docs/issues_doc/Financial_markets/ESGInvestorBriefingFramework.pdf

for their business to mainstream investors. In the first phase, from July 2012 to July 2013, the 10-15 briefings would be conducted.

UN Principles for Responsible Investment (UNPRI)

The United Nations Principles for Responsible Investment Initiative (PRI) is a voluntary investor initiative based on principles which provide investors a framework to incorporate ESG issues in their investment processes and ownership practices. Investors who are signatories to UNPRI are committed to promote sustainable ESG practices in their investee companies. UNPRI currently has 960 signatories which include a mix of asset owners, investment managers and professional service partners.

London Principles of Sustainable Finance

The London Principles for Sustainable for Sustainable Finance are a set of 7 principles, establishing a mechanism with which financial markets can serve to promote the financing of sustainable development, in particular environmental and social protection. They were initiated by the Corporation of London and Forum for the Future and released during the World Summit on Sustainable Development in Johannesburg.

2.2 Indian disclosure / reporting initiatives

In India, prior to the launch of the NVGs, the ESG measurement and reporting was primarily driven by various laws and acts implemented by a variety of ministries. These regulations, mandatory and otherwise, had and continue to have an important role to play – they provide for a regulatory infrastructure for implementing the NVGs. Additionally, they also provide a regulatory precedent which could potentially drive the transition from voluntary guidelines to mandatory guidelines for integrated reporting.

Timeline of Disclosure / Reporting Policy Frameworks

Table 2-1 below details some of these laws / acts in India and their timelines.

Table 2-1: Timeline of policy frameworks pertaining to ESG Measurement, Management and Reporting

Date	Policy	Institution(s)	Details
1989	Companies (Disclosure / reporting of Particulars in the Report of Board of Directors) Rules, 1988	Ministry of Corporate Affairs (MCA)	Mandatory disclosure / reporting in annual report on the following:[15] A) Conservation of Energy (“Form A”) *note: applicable to only 21 specified industries namely i)B) Technology Absorption and ii)C) Foreign exchange Note: this is usually presented in Annual Reports as Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure / reporting of Particulars in the Report of Directors) Rules
1994	Environmental Impact Assessments	Ministry of Environment and Forests (MoEF)	Indian Wildlife(Protection) Act, 1972[16] Water Act, 1974[17] Air (Prevention and Control of Pollution) Act, 1981[18] Environment (Protection) Act, 1986[19]
2006	Revised EIA notified	Central/State Pollution Control Boards Ministry of Environment and Forests (MoEF)	Includes 7 additional sectors (total = 39)
2000	Clause 49 of the Listing Agreement (modification)	Securities and Exchange Board of India (SEBI)	SEBI Clause 49 to incorporate recommendations of its Committee on Corporate Governance and public feedback:[20] This clause comprises a set of mandatory and recommendatory guidelines, helping companies align with global governance standards

[15] Website, Ministry of Corporate Affairs; Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 http://www.mca.gov.in/Ministry/actsbills/rules/CDoPitRoBoDR1988.pdf
[16] Website, Ministry of Environment and Forest; THE INDIAN WILDLIFE (PROTECTION) ACT, 1972; http://envfor.nic.in/legis/wildlife/wildlife1.html
[17] Website; Central Pollution Control Board; www.cpcb.nic.in/upload/NewItems/(1)%20Wateract1974%20.doc
[18] Website, Ministry of Environment and Forest; Air (Prevention and Control of Pollution) Act, 1981; http://envfor.nic.in/legis/air/air1.html
[19] Website, Ministry of Environment and Forest; Environment (Protection) Act, 1986; http://www.envfor.nic.in/legis/env/env1.html

Date	Policy	Institution(s)	Details
2003	Charter on Corporate Responsibility for Environmental Protection (CREP)	Ministry of Environment and Forests (MoEF), Central Pollution Control Boards	Sets targets concerning conservation of water, energy, recovery of chemicals, reduction in pollution, elimination of toxic pollutants, process & management of residues that are required to be disposed of in an environmentally sound manner"[21] targeted 17 categories of industries (heavy polluters)
2010	Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises (CPSEs)	Department of Public Enterprises	Stipulates how much CPSEs should invest in their CSR programs (mandates set from 0.5% to 5% of profit depending on net profit)[22]
2011	NVG	Ministry of Corporate Affairs (MCA)	9 principles to guide businesses in integrating responsibility into their core business operations
2011	Companies Bill, 2011 (introduced)	Ministry of Corporate Affairs (MCA)	*passed in 2012 by Lok Sabha (currently in Rajya Sabha)[23]
2012	Business Responsibility Report (framework released)	Securities and Exchange Board of India (SEBI)	SEBI officially mandates filing of BRR reports by top 100 firms (notified in Circular)[24]
2012	(Draft) Institutionalizing Corporate Environmental Responsibility	Ministry of Environment and Forests (MoEF)	Corporate Environmental Policy for corporate houses, public sector undertakings and companies[25]. Builds upon the National Voluntary Guidelines (NVGs)
2013	New "Guidelines on Corporate Social Responsibility and Sustainability for CPSEs"	Department of Public Enterprises	"...under the revised guidelines, CPSEs are expected to formulate their policies with a balanced emphasis on all aspects of CSR and Sustainability – equally with regard to their internal operations, activities and processes, as well as in their response to externalities."[26]

Adapted from: Unlocking business dynamism to promote green (sustainable and inclusive) growth: learning from innovation in emerging economies (Bauer, et al. 2013), Figure 3: The environmental apparatus in India (pp. 13)

Given some of these acts / rules / guidelines have existed for several years, it has been argued that businesses have had ample time for preparation and should, therefore, be capable of quickly adopting mandatory ESG disclosure / reporting.

2.3 India's NVG is amongst the most progressive policy on disclosure / reporting globally

NVGs, which were released in the above landscape has emerged amongst the most progressive policies globally. An analysis of global policy initiatives was conducted by cKinetics, based on their "potential for impact" and it revealed that India's emerging disclosure / reporting landscape (NVGs and SEBI mandated BRR) was among the highest impact and progressive policies globally.

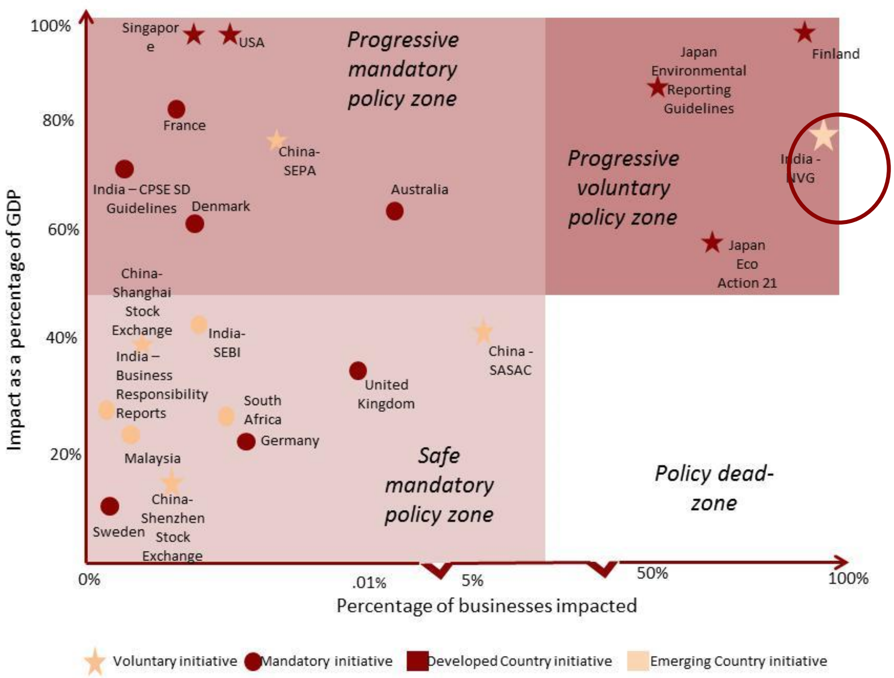
The overall "impact" of 20 global initiatives (drawn from both emerging and developed markets) was measured distributed across the following dimensions:

a. **Revenue of businesses affected as a percentage of GDP:** cumulative revenues of the businesses impacted by the individual policy, as a percentage of the GDP of the country where the regime is applicable.

[20] Website; Securities and Exchange Board of India; http://www.sebi.gov.in/commreport/clause49.html
[21] Website; Central Pollution Control Board; http://www.cpcb.nic.in/divisionsofheadoffice/pci3/Important_projects.pdf
[22] Website; Department of Public Enterprises; http://www.dpemou.nic.in/MOUFiles/Revised_CSR_Guidelines.pdf
[23] Website; Ministry of Corporate Affairs; http://www.mca.gov.in/Ministry/pdf/The_Companies_Bill_2011.pdf
[24] Website; Securities and Exchange Board of India; http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf
[25] Website; Ministry of Environment and Forests; http://moef.nic.in/downloads/public-information/notif-18052012-2a.pdf
[26] Website; Department of Public Enterprises; http://www.dpemou.nic.in/MOUFiles/Revised_CSR_Guidelines.pdf

b. **Percentage of businesses impacted: n**umber of businesses / enterprises that fall within the policy's purview as a percentage of total operating businesses in the country.

Figure 2.1: Framework for mapping '*Progressive*' and '*Safe*' policies



As reflected in Fig. 2.2 the NVGs lie within the progressive voluntary policy zone which contains voluntary policy that impacts a large percentage of the GDP and a large number of companies.

LEGEND

- Sweden: Guidelines for external reporting
- Malaysia: Malaysian Stock Exchange CR disclosure / reporting and reporting
- China: Shanghai Stock Exchange Guideline on Environmental Information Disclosure / reporting and reporting by Listed Companies
- China: Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies
- China: Shenzhen Stock Exchange Social contribution value per share
- China: State-Owned Assets Supervision and Administration Commission (SASAC) directive
- France: Nouvelles Régulations Économiques 2001
- Denmark: Law on CSR reporting
- UK: Companies Act 2006
- Finland: Finnish Accounting Standards
- Singapore: Singapore Stock Exchange Initiative sustainability policy disclosure / reporting and reporting
- India: SEBI directive on Business Responsibility reports by top 100 companies by Market Cap
- India: National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
- India: Sustainable Development Guidelines for CPSE's
- USA: SEC filing regulation
- Germany: Corporate Governance Code
- Australia: Corporate governance guidelines
- South Africa: King Report on Corporate Governance for South Africa (King III), 2009
- Japan: Environmental Reporting Guidelines (2007)
- Japan: Eco-Action 21

This background, where NVGs are amongst the most progressive globally, presents the opportunity for investors to work with policy makers to augment the flow of impact capital in India. It also surfaces the following question:

What lessons can the NVGs, their evolution and scope teach global policy makers looking at policies to drive business responsibility and attract investment capital looking beyond pure profits at non-financial returns?

In order to answer the above question, it is important to understand what the NVGs are, how they were developed and how they address the needs and challenges of Indian businesses: this is covered in Chapter 3.

3 The National Voluntary Guidelines for the Social, Environmental and Economic Responsibilities of Business (NVGs): An Overview

Released in July 2011, the NVGs are the product of an intensive multi-stakeholder collaboration spanning three years and involving contributions from a wide variety of actors. These guidelines constitute of 9 “Core Principles” which address different aspects of Business Responsibility and 48 “Core Elements”, which are included alongside the core principles to help guide businesses in adopting / integrating the NVGs into their operations. Fig 4.1 below outlines the nine core principles of the guidelines.

Figure 3.1: 9 Principles of NVGs

Governance	Environment	Social
•Ethics, Transparency and Accountability •Stakeholder Engagement •Policy Advocacy •Customer Value	•Products Life Cycle Sustainability •Environment	•Employees' well-being •Human Rights •Inclusive Growth

3.1 Background

Introduced by the Ministry of Corporate Affairs (MCA) and its think-tank, the Indian Institute of Corporate Affairs (IICA), the NVGs built on the Corporate Social Responsibility (CSR) Voluntary Guidelines (developed December 21, 2009) **with the aim of codifying a common language for discussing business responsibility.**[27]

At the time the CSR Guidelines were drafted, the MCA considered it prudent to incorporate a clause for “review of these Guidelines and further improvement after one year."[28] The Guidelines Drafting Committee (GDC) was constituted in April 2009, and subsequently notified in November 2009, thus initiating a process of “review and evaluation” which would become the eventual process of formulating the NVGs.[29]

The NVGs were conceived as a blueprint to guide Indian businesses on developing strategies to improve their ESG management systems. The document is explicitly “not prescriptive in nature,” rather it advocates that businesses adopt a holistic “triple bottom-line approach whereby...financial performance can be harmonized with the expectations of society, the environment and the many stakeholders it interfaces with in a sustainable manner.”[30]

In order to develop the Guidelines, it was key to establish an impartial GDC, which constitutes the different stakeholder groups. The process of establishing the GDC was undertaken by the IICA, which looked at selecting eminent individuals from a broad spectrum of stakeholder groups, including members of trade and industry groups, chambers of commerce, academicians, social leaders, labor/ human rights experts, financial sector professionals, development groups and government.

This committee operated with the aim of building consensus through engaging external stakeholder groups via formal consultations (held between March-September 2010 in Delhi, Bangalore, Mumbai and Calcutta).

[27] Website; Ministry of Corporate Affairs; Corporate Social Responsibility Voluntary Guidelines, 2009; http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf
[28] Ibid
[29] Website; Ministry of Corporate Affairs; National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business; http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf
[30] Ibid

3.2 Design, content and structure of the NVGs

The NVGs, in their final form, outline the answers to the following questions:

1. What the principles, which define a "Responsible Business"?
2. How Businesses need to adopt, i.e. formulate a strategy for business responsibility
3. What is the business case for adoption of each principle?
4. What are the performance indicators to measure performance on?

3.2.1 What the principles, which define a "Responsible Business"?

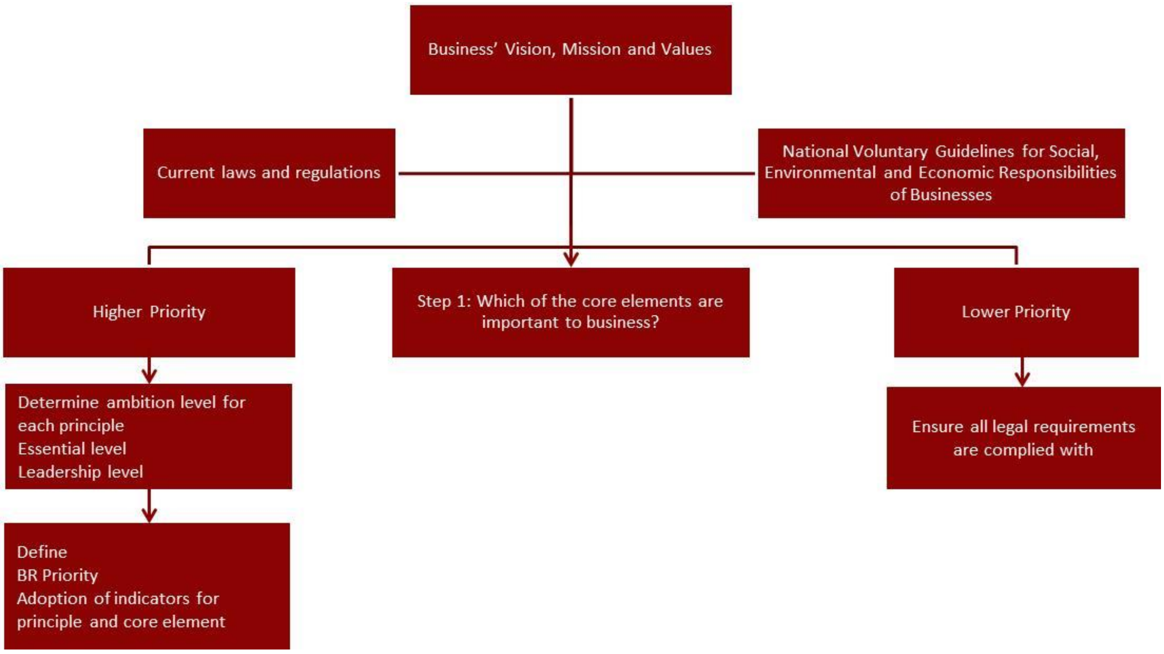
The 9 Principles of NVG address a wide spectrum of business operations, they include:

Principle 1	Businesses should conduct and govern themselves with Ethics, Transparency, and Accountability.
Principle 2	Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle.
Principle 3	Businesses should promote the wellbeing of all employees.
Principle 4	Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.
Principle 5	Businesses should respect and promote human rights.
Principle 6	Business should respect, protect, and make efforts to restore the environment.
Principle 7	Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.
Principle 8	Businesses should support inclusive growth and equitable development.
Principle 9	Businesses should engage with and provide value to their customers and consumers in a responsible manner.

3.2.2 How Businesses need to adopt, i.e. formulate a strategy for business responsibility?

The guideline document contains a step by step adoption process for businesses to adopt Responsible Business actions; the process walks the firms through the exercise of introspection, strategic planning, management strategies, monitoring and communication tools. (See Fig. 3.2).

Figure 3.2: Steps to formulate a strategy for business responsibility



Adapted from "Figure 1: adopting the guidelines: a suggested approach" pp. 28, NVGs

Conversations with representative groups of businesses, investors, members of the GDC, IICA and MCA, revealed that there is common desire that the adoption process needs to be an iterative one, involving both the core executive management and the stakeholders. This can be achieved through creation and maintenance of continual mechanisms for stakeholder engagement, which remains a significant challenge going forward.

3.2.3 What is the business case for adoption of each principle?

The business case for the adoption of each principle is expounded in the Guidelines, across the following broad areas of benefits:

- Revenue growth and market access
- Cost savings and productivity
- Access to capital
- Risk management / license to operate
- Human capital
- Brand value / reputation

Interestingly, investors see value in 8 out the 9 principles, which can lead businesses to increased access to finance!

3.2.4 What are the performance indicators to measure performance on?

Across the above 9 Principles, the GDC crafted 48 Core Elements or indicators on which to measure performance on. These indicators formed a part of the first reporting framework which was later developed as the BRR. In addition, the Guidelines also offers “guidance on developing management systems and processes”, which businesses can use to begin the process of designing internal management, measurement and reporting mechanisms.

3.3 NVGs are rooted in the Indian context

MCA and IICA initiated the Guidelines development process with a clear view that, while global best practices and frameworks should be considered in development of the NVGs, the final product should have “a distinctively ‘India’ approach,” in order to adequately address “the unique challenges of the Indian economy and the Indian nation.”31 Thus, the final guidelines have the following components, included to meet the needs of Indian businesses / stakeholders:

Focus on Micro, Medium and Small Enterprises

The document addresses capacity development challenges among Indian Micro, Small and Medium Enterprises (MSMEs) regarding adoption of responsible business practices and recommends the following broad actions on supporting MSMEs:

- Facilitating MSMEs to recognize the *business case* for adopting Responsible Business practices
- Preference by public agencies and large players in value chains to MSME suppliers that follow BR practices
- Handholding MSMEs during the adoption of the Guidelines

Apply or Explain – Flexibility in applicability

The NVGs adopt a broad-based definition of firms which should adopt the Guidelines, with language that clearly reflects a desire for universal adoption, indicating that “all businesses, irrespective of size, sector or location…would consciously work towards following the Guidelines.”[32] Moreover, they been developed embracing an “Apply-or-Explain” principle whereby organizations which *do not* currently have management and disclosure / reporting systems can describe their reasoning and / or intentions for developing said systems; likewise, firms which are currently providing disclosure / reporting through any other “nationally / internationally recognized framework” can map their efforts against the BRR.

[31] “NVGs are aligned globally, yet are very Indian in their character” Sustainability Outlook. September, 2011 (pp. 8-10): http://files.sustainabilityoutlook.in/Sept2011/Viraf_Vikas.pdf

32 Website; Ministry of Corporate Affairs; The National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business;http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

Prominent MCA personnel involved in the developing the Guidelines have clarified that the compliance mentality was viewed as detrimental to spirit and goals of the document; noting that disclosure / reporting made on business responsibility should be aimed at all stakeholders rather than solely at a government regulator.

Flexibility in adoption

The adoption process has focused strongly on engaging and achieving “buy-in” for Business Responsibility (BR) strategies from the highest levels of leadership in a firm; it is the intention that a business would adopt the NVGs into the its core philosophy. The document’s executive management focus has, likewise, emerged as a common change theory in conversations with key GDC figures. While the NVGs state all principles should be adopted, it affords firms a significant degree of discretion to when determining the materiality of the Core Elements.

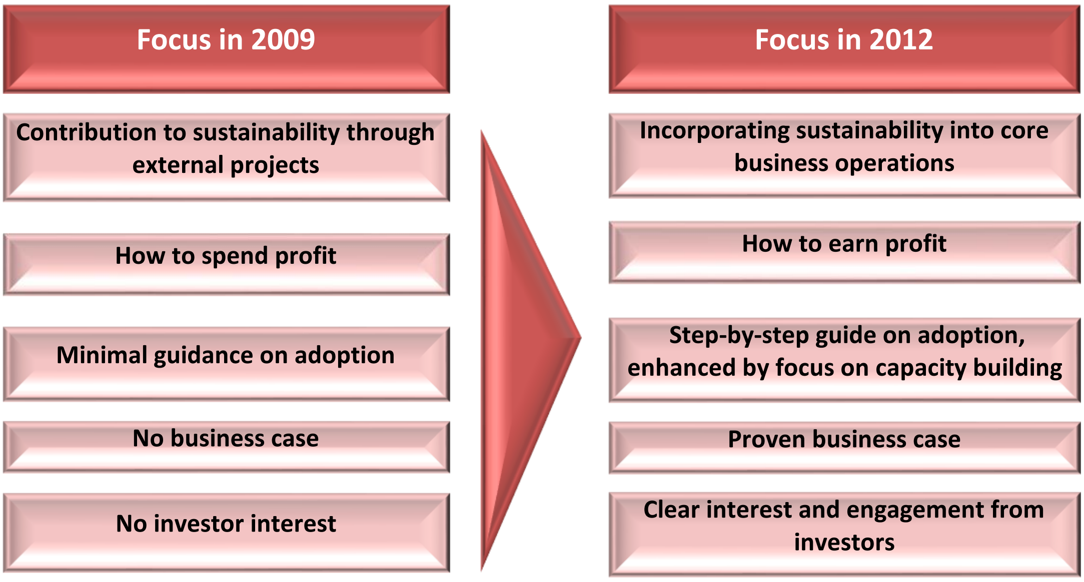
In order to arrive at an end result (the Guidelines) that managed to strike the right balance between i) being prescriptive vs. providing aiding tools and ii) having universal applicability for businesses along with lending them flexibility, an extensive Guidelines development process was followed.

The next Chapter examines this development process and how it evolved over time from the genesis to the final product.

4 Genesis and Development of the NVGs

As mentioned earlier, the NVGs and its predecessor, the CSR Guidelines originated with Dr. Manmohan Singh's 10 point social charter speech, which laid stress on defining business action on CSR. Through the years, as the process for developing the policy progressed, the need was felt for gradual broadening of the scope and content for guidelines from CSR to Sustainability.

Figure 4.1: Development of NVGs – transition from CSR to Sustainability



This broadening of focus also necessitated the need for extending a meaningful dialogue with the businesses and their key stakeholders including investors, government, civil society, NGOs, etc. (achieved through consultations).

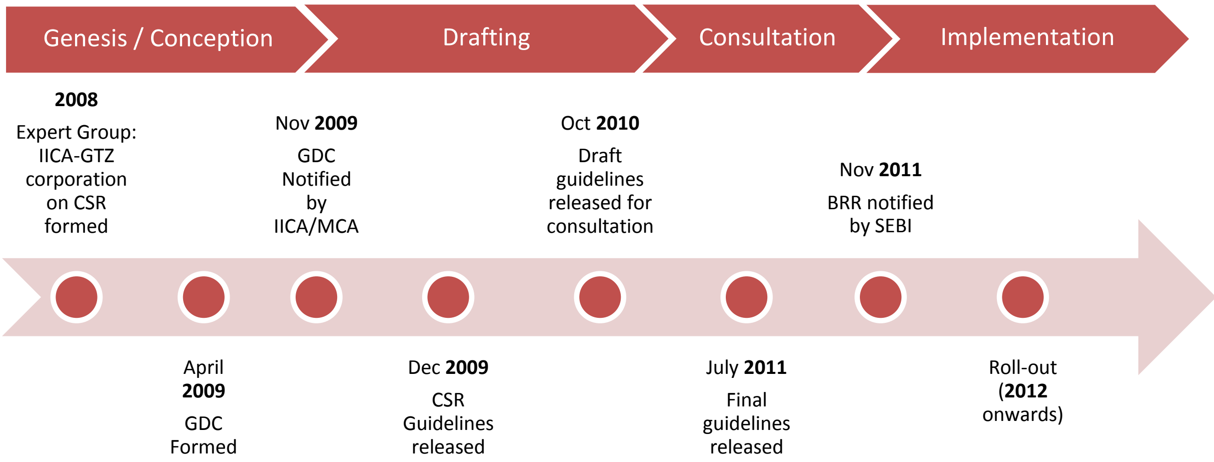
4.1 Guidelines development process and timelines

While the development of NVGs followed the normal course from genesis to drafting to consultations and now implementation, it is worth noting that the key element which was ingrained through the process and that emerged as crucial for getting acceptance was the **stress laid on consultations and consensus**. Throughout the guidelines development process, the focus remained on consensus building both within the GDC as well as with external stakeholders through extensive physical and online consultations.

Periodic consultations and the process of going back to the drawing board, to incorporate the feedback is one of the key reasons the guidelines have managed to generate a sense of ownership across a variety of stakeholder groups. While criticism does exist that certain stakeholder groups were not engaged as much as other (e.g. civil society), the process was designed to be as inclusive as possible.

Fig 4.2 below, broadly depicts the different elements of the process.

Figure 4.2: Timeline of the NVG development process



4.2 Genesis

The idea / need for a policy around Business Responsibility (which lead to the creation of the NVGs) originated in 2008-09, when the IICA initiated an engagement with GIZ to help them develop a common understanding of the concept / definition Business Responsibility in India. The project (which later came to be known as the IICA-GIZ-CSR project) commenced with formation with an Expert Group, to provide inputs on the impending CSR guidelines – the expert group later culminated in the GDC and the CSR Guidelines into the NVGs.

4.3 Drafting

Guiding principles for guidelines drafting

In drafting the NVG, the following “Guiding Principles”[33] were adopted by the GDC and were core to the drafting process:

1. **Inclusive and sustainable development**: ensure that the principles address the concerns of Inclusive Development and Sustainability.
2. **Maximization of shareholder and stakeholder value**: it was considered important that the stakeholders find the principles and the impact indicators useful – only then will the NVGs evolve into a self-governing mechanism where stakeholders keep businesses accountable.
3. **Business case and values based case**: focus was to bring out the inherent business case for business responsibility, as defined by the NVGs and understand how businesses / stakeholders can benefit and design principles / impact indicators.
4. **Principles based, indivisibility of principles**: All principles are, albeit in different magnitudes, important for all businesses.
5. **Supported by disclosure / reporting framework**: it was considered important to design a disclosure / reporting framework that lends to the NVG i) action-ability and ii) standardized parameters to measure, evaluate and benchmark performances on.
6. **Stakeholder engagement - as a principle and process**: Engaging all relevant stakeholders was key to the drafting of the guidelines.
7. **In sync with international norms and framework**: international norms and frameworks such as ISO 26000, UNGC, GRI, OECD Guidelines were looked at in detail and incorporated to the extent that they

[33] Presentation, NVGs and ABRR: Contextualizing Responsible Business Behavior; http://www.csopartners.org.in/uploads/resources/tb_10012013040527995.PDF

helped to address Indian particularities. National resources like the BIS standard 16000, PSU CSR Guidelines were also assimilated.

8. **Applicability to large and small businesses**: considering MSMEs formed 2/3rd of all Indian businesses it was important to have flexible guidelines which are applicable to businesses of all sizes.
9. **Indian priorities and context**: Equally important were keeping the ground realities of India as the core, which was achieved through thorough engaging stakeholders and mapping the NVGs to the existing policy landscape.

Consultations held during the drafting process

The process of consultations was fairly extensive and the intent, as mentioned before, was to engage / reach out to as many groups of stakeholders as possible. The following were the key highlights of the process:

Scope of consultations
Feedback was collected on technical and substantive aspects of the Guidelines as well as on the flow, clarity and usage of language.

Geography covered
In order to cover the length and breadth of the country, stakeholder consultations were held through the months of March 2010– September 2010 in Delhi, Bangalore, Mumbai and Calcutta with business and civil society in separate discussions with each constituency. Moreover, online ions were also conducted. Suggestions were also sought on the various strategies to stimulate the adoption of the Guidelines."

Iterative process
The first review process was structured around the feedback received in March 2010. The feedback pointed out the need to include a special section on MSMEs, broad level operational guidance for implementation of the principles and their core elements, greater specificity, consistency, clarity and value-neutrality in terms used in the Guidelines document.

To incorporate the feedback, the Guidelines Drafting Committee (GDC) formed eight Working Groups to review the eight principles, which met in plenary sessions where the GDC deliberated on each principle. Responsibilities for other sections/additions like Management processes, relevance for MSME were also divided amongst the members, and drafts were finalized in the GDC plenaries after long and intense deliberations. The revised draft contained an additional ninth principle. "In all, between April and July, the GDC met 10 times in plenary, while Working Groups met independently and fed into the GDC discussions. The Anchor Team coordinated the information flow to the GDC and to the Working Groups besides providing research inputs and creating guidance templates for the GDC."

4.4 Implementation

Following the release of the NVGs, they were notified by the SEBI for the top 100 listed companies by market capitalization.[34] The first consignment of BR reports by these top 100 listed companies are currently being prepared. Presently, with the objective of mainstreaming business responsibility reporting in Indian businesses, the focus of the rollout process is centered on the following twin approaches or strategies:

[34] Through SEBI's notification, the NVGs have been officially accepted by the regulator as a framework to be used by listed companies

Figure 4.3: Implementation phase of NVGs – focus on Advocacy and Capacity Development

Advocacy

- Engage with select multiplier institutions
- Implement pilot initiatives with multiplier institutions to scale up the adoption of NVGs
- Serve as a multi-stakeholder forum for dialogues and consultations
- Implement pilot initiatives with multiplier institutions to scale up the adoption of NVGs

Capacity Development

- Implement pilot initiatives with multiplier institutions to scale up the adoption of NVGs

From the perspective of IICA and GIZ (i.e. IICA – GIZ CSR project phase II), the focus is on driving the rollout of the NVGs and mainstreaming of BRR framework MCA has yet to notify the NVGs; there is an ongoing conversation on mandating 2% CSR spend as a part of the Company's bill 2011. This conversation has, albeit temporarily, derailed the overall BR agenda. However, the MCA is looking to integrate the BRR framework into the MCA-21 portal, which is an e-governance portal for the MCA, which looks to make corporate disclosure / reporting and information, paperless. In 2012, the MCA launched the second phase of the project (Jan 2013-Jul 2021), which will integrate the BRR framework and all subsequent ESG data it yields.[35]

4.5 NVGs: Challenges faced in the guidelines development process

In conversations with MCA and IICA personnel and other members of the GDC involved in the original stakeholder consultation process, the following primary challenges were identified:

Sensitization of stakeholders

The desire of the GDC was to develop a dialogue with stakeholders in which there was a common understanding around the importance of mainstreaming Business Responsibility. The MCA faced a distinct challenge in convincing corporates and various stakeholders of the value in developing the NVGs. GDC members took the view that Business Responsibility was imperative for encouraging companies to become more sustainable (environmentally, socially and financially). Numerous consultations with stakeholders involved conversations around the inherent business case for the NVGs and assuaging fears that this process represented a path to heightened regulation and a compliance culture. The Ministry was keen to create an incentivising and enabling environment to ensure stakeholders took ownership of the process at an early stage in order to build ample consensus around the final content of the NVGs.

Aggregation of stakeholder perspectives

As the GDC engaged various stakeholders, it received detailed comments from almost 2000 participants[36]. This resulted in a complex and labour intensive process of collating and integrating feedback into the Committee's drafting conversations. Several members of the GDC noted that this exercise in formally aggregating the numerous (approximately 2,000 public comments), diverse, perspectives (even within the Committee itself) was both considerably time consuming and challenging to manage.

[35] Economic Times; http://articles.economictimes.indiatimes.com/2013-01-16/news/36374173_1_mca21-mca-21-companies-and-public-access

[36] The National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business. Ministry of Corporate Affairs, Government of India. July, 2011. (feedback received from.. "enterprises, both large and from SME sectors, industry associations and chambers, government agencies, national and international NGOs active in the field of sustainability, responsible business and development…" (pp. 49-50)

Keeping it simple, yet relevant

One of the primary challenges faced, according to members of the GDC, was introducing accessible guidelines and reporting framework. This was essential to ensure the usability for businesses and stakeholders alike. This was achieved through:

1. Introducing overarching, indivisible principles with flexibility in the extent of adoption
2. Apply or explain – this principle serves as great tool for sensitizing businesses, while not introducing a heavy burden, regulatory or otherwise

Applicability to and flexibility for all

The intent was not to introduce another voluntary guideline to dilute the conversation, but rather an adaptation of all relevant existing global frameworks to the India context. To this end, the GDC spent a great deal of time understanding various global frameworks and mapping their materiality to the Indian context. This process ensured that the NVGs built off a solid evidence-based foundation.

4.6 Mapping the NVG development process to the London Principles

In essence, the NVG development process had adopted many of the core elements of the London Principles being developed and established by the Impact Investing Policy Collaborative (IIPC). While there are several gaps in the adaptation, both the approach adopted by the GDC and the gaps constitute interesting lessons for global policy makers looking at policies of a similar nature. Fig. 5.4 below represents how the core elements of the NVG development process maps to the essence of the London principles, the gaps, and the inherent learnings for developing policy.

Table 4-1: Comparing the NVGs to the London Principles

Principles	London Principle Language: Role of Government	How the NVG process operationalized it	Lessons for international policy makers (gaps and learnings)
Principle One: **Clarity of Purpose**	✓ *Clearly identify the social objective(s) that the impact investing strategy or policy is meant to target.* ✓ *Clearly identify why the impact investing strategy or policy might be an appropriate tool to meet those objectives, and how impact investing complements broader policy systems.* ✓ *Define realistic expectations for the results the impact investing strategy or policy might achieve and the time it might take to achieve them.*	✓ The objective of the Guidelines Drafting Committee (See Annexure 4) was clearly defined and included a specific focus on driving inclusive development ✓ The 9 Core Principles are were deliberately developed to focus on high priority development objectives ✓ The inclusion of a clause to encourage the development of specific metrics (Business Responsibility Report) works towards creating greater accountability over time	✓ While the purpose of the guidelines was clear, the policy makers (IICA/MCA) were fell short when defining how the guidelines would be incorporated into Indian legislation ✓ Currently, while notified by SEBI, the NGs have yet to be notified by the government
		Key takeaway: The policy makers need to not only clearly define the problem that the policy in question is looking to solve, but also plan for how it will get teeth through legislation	

Principle Two: **Stakeholder Engagement**	✓ *Identify, engage, and collaborate with key stakeholders, from concept to implementation to revision of strategies and policies.* ✓ *Support shared ownership of policy and a dynamic process of policy development and review.* ✓ *Guard against misaligned incentives or unequal power structures that work against effect impact investing strategy and policies.*	✓ GDC's engagement of stakeholders throughout the process was an effort to promote transparency ✓ Consultations were open to any organization and resulted in feedback being submitted from over 2000 individuals → resulted in significant changes to the guidelines post-consolations	✓ The process was transparent → although, criticism exists among certain stakeholders that certain groups were not as involved as others ✓ Amongst businesses, which will be the primary adopters, there is little clarity as to when and how will the guidelines transform into legislation
		Key takeaway: Openness in stakeholder engagement is, and will remain a key component of drafting a policy for all international stakeholders	
Principle Three: **Market Stewardship**	✓ *Identify the appropriate use of market interventions, including at which point they should be made, for how long, and by which agencies and institutions.* ✓ *Develop markets holistically, balancing capital supply, investment readiness, and support for enabling intermediary infrastructure.* ✓ *Support reliable and responsive policy, mindful of stakeholder priorities, incentives and limitations*	✓ The BRR Framework was developed as a guidance / tool for businesses to measure their performance on and realize the benefits of business responsibility through disclosure / reporting ✓ The inclusion of Clause 55 of the Listing Agreement (Business Responsibility Report) by SEBI (applicable to top 100 largest listed firms) creates a direct exchange-level intervention ✓ BR reports are proposed to be incorporated under MCA 21 portal (electronic filing system used by all businesses for financial disclosure)	✓ The incentive structure provided by the policy maker to drive business action was not made clear ✓ Enforcement mechanisms for non-compliance are weak ✓ Non-existent provisions for quality assurance of BRR disclosures
		Key takeaway: There is a need to collaborate with existing institutions (legislative and otherwise) to provide i) tools to aid adoption, ii) clarity on the incentives and iii) punitive structure (if any). This is true for both mandatory and voluntary policies	

Principle Four: **Institutional Capacity**	✓ *Identify, engage, and collaborate with key stakeholders, from concept to implementation to revision of strategies and policies.* ✓ *Support shared ownership of policy and a dynamic process of policy development and review.* ✓ *Guard against misaligned incentives or unequal power structures that work against effect impact investing strategy and policies.*	✓ The IICA-GIZ-CSR collaboration has displayed commitment by rolling out a Phase 2 of to promote adoption of the NVGs through provide training and capacity building ✓ SEBI's addition of Clause 55 to the Listing Agreement (thus mandating the Business Responsibility Report framework for the top 100 listed firms) was a strong indicator of support for enhanced disclosure	✓ Policies, especially voluntary ones, such as the NVGs have a long gestation period during which they need to be pushed to ensure adoption ✓ However, the MCA is still uncertain on what shape the policy will take and this casts doubt on who will be the incubating agency for the policy once the current IICA-GIZ-CSR project ends
		Key takeaway: International policy makers must be mindful of the fact that policies / guidelines will need to be housed in bodies, which will be able to drive them for medium to long term	
Principle Five: **Universal Transparency**	✓ *Identify, engage, and collaborate with key stakeholders, from concept to implementation to revision of strategies and policies.* ✓ *Support shared ownership of policy and a dynamic process of policy development and review.* ✓ *Guard against misaligned incentives or unequal power structures that work against effect impact investing strategy and policies.*	✓ Demonstration of case study and business case has been recognized as a key element to drive adoption[37] ✓ The partnership with SEBI is built on the principle of phased adoption and generation of evidence	✓ There is a need for building and disseminating case studies on how disclosure / reporting has benefitted companies and highlighting success stories from progressive businesses ✓ Various stakeholders have voiced a desire to see industry-specific guidelines incorporated into the BRR (Clause 55) → based on materiality assessments of various ESG challenges on an industry-to-industry basis
		Key takeaway: Demonstration is the key, especially in case of voluntary polices. Moreover, mandating a policy also is better achieved, if done in a phased manner.	

With a fairly extensive process for development of the Guidelines, the NVGs provide an ideal platform for driving businesses toward responsible actions / sustainability. Now, as mentioned, the focus is on roll-out through advocacy and capacity building. In this context, for efficient roll-out of the Guidelines it is important to understand the outlook of key stakeholders in the process- businesses, which will adopt the Guidelines and Investors, which need to help drive adoption.

In the next Chapter, the outlook of both investors and businesses is detailed with a view to answering the following question: How can responsible business construct evolve in India?

[37] http://www.csopartners.org.in/uploads/resources/tb_10012013040527995.PDF

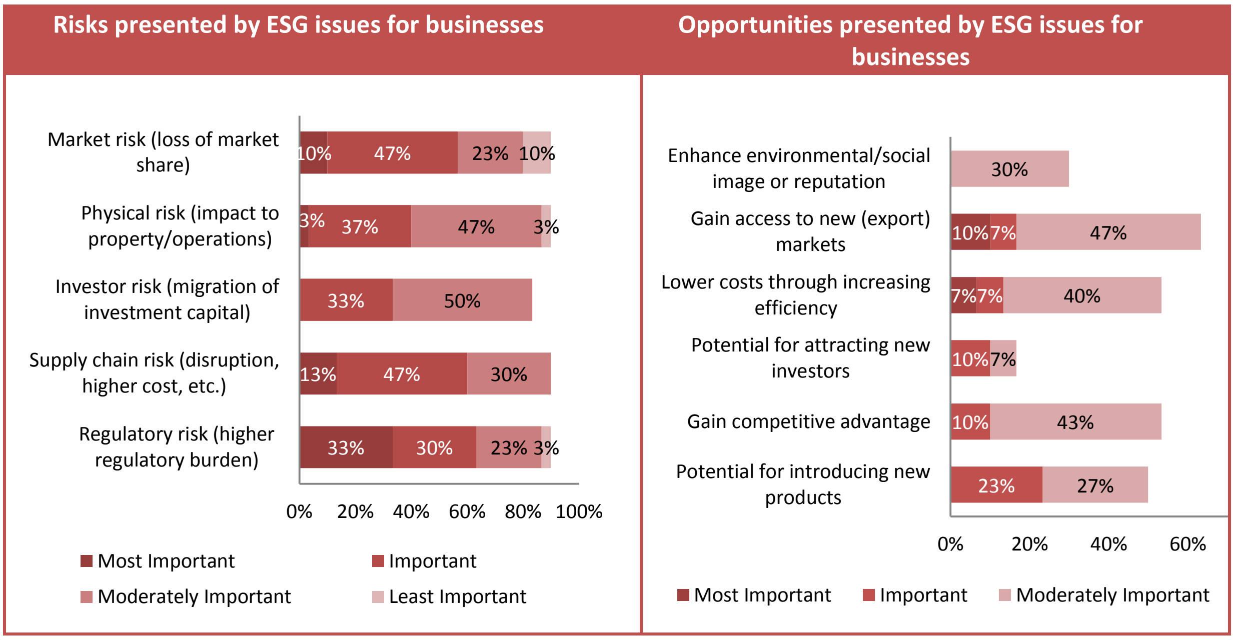
5 Business outlook toward disclosure / reporting: How can responsible business construct evolve in India

One key aspect on which the rapid adoption of the NVGs hinges, is the clear dissemination of the business case for adopting them - something, which has been outlined in the Guidelines document, but not calibrated, quantified and validated. Given this need, this chapter examines i) how businesses currently view the Guidelines and the its business case (as also the broader need for ESG impact measurement and reporting) and the ii) steps needed to address the gaps to drive adoption of NVGs in India.

5.1 Understanding business outlook on ESG measurement and disclosure / reporting

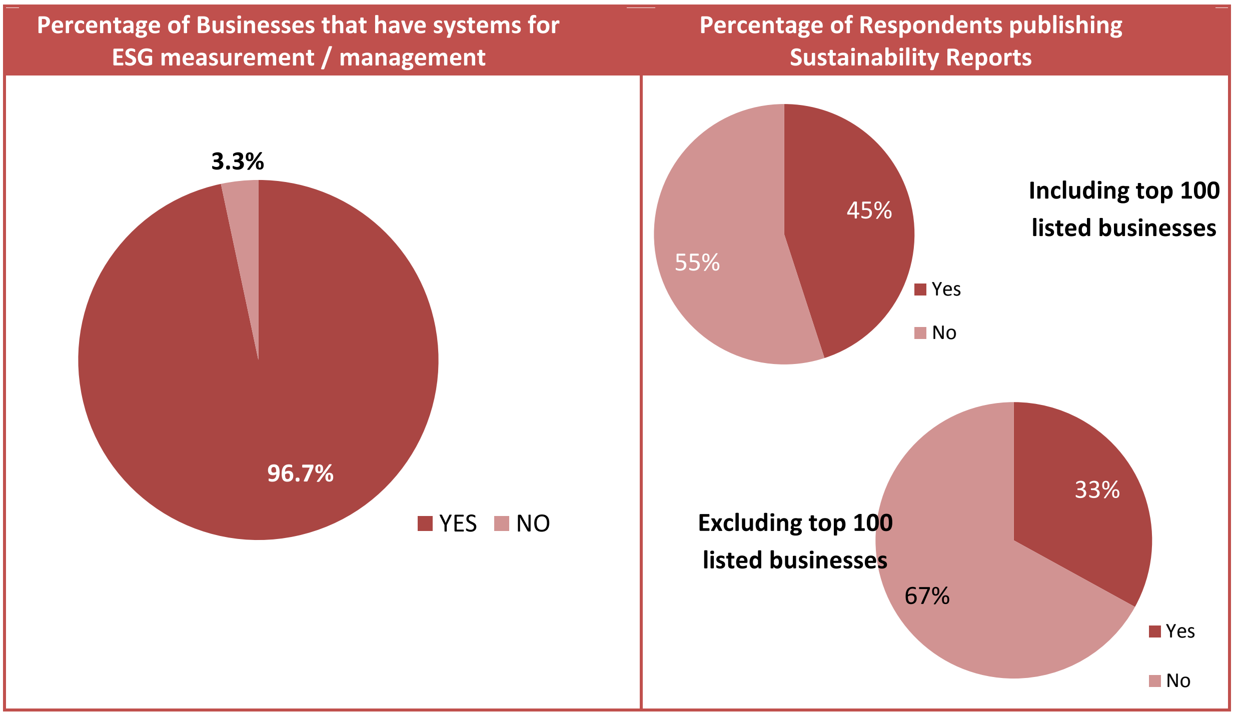
cKinetics surveyed businesses, across the value chain to understand how they *currently* perceive ESG measurement and disclosure / reporting, and what are the risks and the opportunities that they envisage from the same. While most businesses understand that not taking ESG metrics into account will lead to compliance issues and disruption in operations and supply chain, and doing so may lead to newer market opportunities, it is noteworthy that both investor and regulators are not ranked very highly as drivers. Moreover, although investors do present a risk to businesses, not many businesses view “access to capital” as a benefit of ESG measurement and disclosure / reporting. (Fig. 5.1) Considering that 89% of investors surveyed reported that ESG metrics are integral to their operations, and the need for information expressed by them (Fig. 5.1), this outlook of businesses represents an irony. Thus, there is a need to create and solidify channels of communication, so that businesses begin to see investors as an ally and as a driver.

Figure 5.1: Risks and Opportunities presented by ESG measurement, management and disclosure / reporting on businesses



Moreover, the survey also revealed that there is a gap between ESG measurement / management and disclosure / reporting. Although most organizations have built in some systems for measurement and management of ESG issues, disclosure / reporting on the data being reported / disclosed remains low. As can be seen in Fig. 5.2 below, although 97% of the businesses respondents have systems for ESG measurement in place, only 70% of them disclose this data. Moreover, outside of the 100 listed companies (for whom, disclosure / reporting is mandatory), this number falls to only 53%.

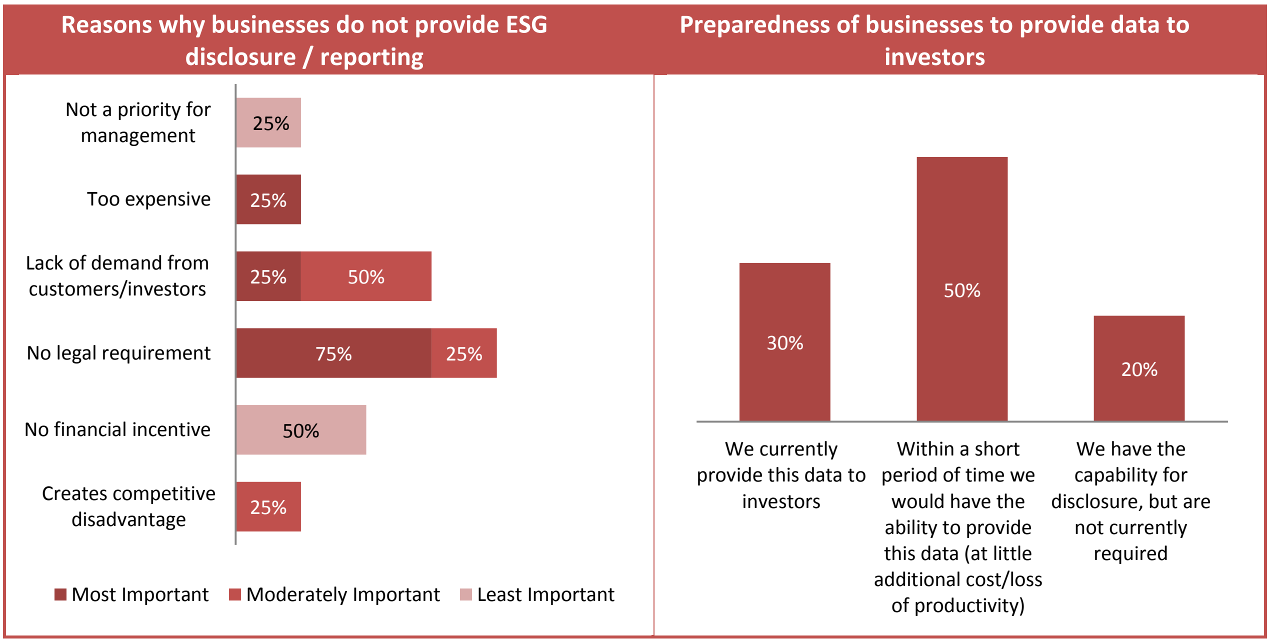
Figure 5.2: Gaps between ESG measurement / management and disclosure



5.1.1 Understanding the incentives needed by businesses

Businesses were also asked the most relevant reasons for them to *not* disclose data; with a view to designing / identifying incentives, which would meet these needs. Fig. 6.3 below reflects the most prevalent reasons for the same. Interesting, investor demand also ranks highly among the incentives that will drive business action, with most businesses agreeing that they are prepared to provide the data should *investors* ask. This data reflects the definite need for investors to begin to ask for this data in structured and consistent manner.

Figure 5.3: Understanding the reasons for a gap between ESG measurement and disclosure / reporting



The above reasons reflect a curious picture – it depicts that businesses in India are seemingly unaware of the business case for disclosure / reporting and the nature of investors demand that exists – this renders them ill equipped to capitalize on the opportunity. In this background, it becomes necessary to demonstrate and communicate this businesses case to create a pull for businesses.

5.2 How can responsible business construct evolve in India

Responsible business conduct is a factor of businesses seeing a clear business case for it. As data above shows, the business case is something which exists, but is not quantified and communicated. An absence of the same is why most businesses consider it a burden to report, as they don't know who is reading their report. In this background the business survey also asked businesses on what they consider to be the business case for disclosure / reporting – this helped evaluate if and to what extent do businesses recognize the true business case for disclosure / reporting as propagated by the NVGs.

It should be noted here, that the a large proportion of the respondents were the large listed companies and thus, they were already disclosing due to a confluence of compliance reasons as also the reputational benefits of doing so. (Thus, in businesses, that do not disclose – this realization of business case would be even lower!

Table 5-1: How businesses view the Business Case of the adoption of the NVGs

Driver	Business Case	Percentage of businesses that see value in it
Revenue growth and market access	Become a business of choice for all stakeholders - Employees - Buyers - Policy / government - Customers Find / develop new markets	64%
Cost savings and productivity	Reduced costs and efficiency due to lower - Resource costs - Litigation costs - Employee turnover rates - Potential to develop new models - Efficiency in value chain	64%
Access to capital	Lower risks for banks, investors and financial markets Attract new types of capital (such as impact investors)	43%
Risk management/ license to operate	Improved relationships with - Policy makers - Community - Labor unions	78%
Human capital	Attract / retain skilled labor as a responsible business Access newer resource pools	28%
Brand value/ reputation	Positively seen by all stakeholders	70%

This lack of understanding amongst businesses on the business is a clear hurdle in the mainstreaming of responsible business practices in India. cKinetics convened a workshop of investors, businesses and policy makers to deliberate on the above impasse and engage in a dialogue on the next steps required to drive adoption of NVGs in India. Through this dialogue, the following key recommendations emerged:

5.2.1 Need for inter-ministerial and inter- institutional linkages

Given that the NVG are a voluntary set of guidelines, which have yet to be formally notified by the government, and given the extensive landscape of existing national and international initiatives (pertaining to ESG measurement and disclosure / reporting) that already exists (See Fig. 2.1), there is definitely a need to create inter-institutional linkages to drive disclosure / reporting.

In particular, there is a need to:

1. Tie-in and communicate the incentives that exist that drive adoption of the NVGs
2. Understand the drivers that exist for businesses to progress toward disclosure / reporting and create incentives, through the existing institutional framework to propel the same.

Analysis by cKinetics reveals that there are several overlaps between the NVG principles and the existing frameworks / incentives – this creates the ideal foundation to establish these linkages and accelerate the adoption of NVGs. Table 5-1 below depicts some of these incentives / frameworks by private and government institutions.

Table 5-2: Inter institutional incentives that can be tied-in to the NVGs

Principles	Incentives / frameworks driven by institutions
Ethics, transparency, accountability	• Ministry of Corporate Affairs (Sections 252-323, Companies Act • SEBI- Clause 36 • RBI External Commercial borrowings application • Prevention of Corruption Act, 1988 • Right to Information Act, 2005 • Micro, Small and Medium Enterprises Development Act, 2006 • Land Acquisition (Amendment) Bill, 2007 • Equity Listing Agreement (SEBI) • Banks (loan eligibility documents need information on audited financial statements) • SMERA "Rating Methodology (Manufacturing)", "Green Rating"
Safe and sustainable goods and services	• Bureau of Indian Standards, 1986 • New Competition Act, 2002 • Consumer Protection Act, 1986 • Public Liability Insurance Act, 1991 • Micro, Small and Medium Enterprises Development Act, 2006
Well-being of employees	• Equal Remuneration Act, 1976 • The Factories Act, 1948 • The Contract Labour (Regulation and Abolition) Act, 1961 • National Commission for Backward Classes Act, 1993 • Persons with Disabilities (Equal Opportunities Protection of Rights and Full Participation) Act, 1995 • The Shops & Establishment Act • Trade Unions Act, 1926 • Industrial Disputes Act (IDA) 1947 • Loan Eligibility Documents • Juvenile Justice (Care and Protection of Children) Act, 2000 • Commission for Protection of Child Rights Act, 2005 • National Rural Employment Guarantee Act, 2005 • The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 • Protection of Human Rights (Amendment) Act, 2006 • Rehabilitation and Resttlement Bill, 2007 • Banks (loan eligibility documents need information on audited financial statements)
Responsiveness to all Stakeholders	• Bureau of Indian Standards, 1986 • New Competition Act, 2002 • Consumer Protection Act, 1986 • Public Liability Insurance Act, 1991 • The Factories Act, 1948 • The Contract Labour (Regulation and Abolition) Act, 1961 • National Commission for Backward Classes Act, 1993 • Persons with Disabilities (Equal Opportunities Protection of Rights and Full

	Participation) Act, 1995 • The Shops & Establishment Act • Trade Unions Act, 1926 • Industrial Disputes Act (IDA) 1947 • Commission for Protection of Child Rights Act, 2005 • National Rural Employment Guarantee Act, 2005 • The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 • Protection of Human Rights (Amendment) Act, 2006 • Rehabilitation and Resettlement Bill, 2007 • Land Acquisition (Amendment) Bill, 2007
Promoting Human right	• The Factories Act, 1948 • National Commission for Backward Classes Act, 1993 • Persons with Disabilities (Equal Opportunities Protection of Rights and Full Participation) Act, 1995 • The Shops & Establishment Act • Juvenile Justice (Care and Protection of Children) Act, 2000 • Commission for Protection of Child Rights Act, 2005 • National Rural Employment Guarantee Act, 2005 • The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 • Protection of Human Rights (Amendment) Act, 2006 • Rehabilitation and Resettlement Bill, 2007 • Land Acquisition (Amendment) Bill, 2007
Protecting the Environment	• Central Pollution Control Board: • Standards for Emission or Discharge of Environmental Pollutants, National Ambient Air Quality Standards, Schedule I: Form XIII, Schedule I: Form I, Schedule I: Form I, Form V (See rule 14) • Section 217(1)e, Companies Act" • Financing Energy Efficiency Projects in the MSME Sector • SIDBI: Financing Cleaner Production Measures in the MSME Sector and Clusters
Supporting inclusive development	• Companies Act 2012 (Pending) • Commission for Protection of Child Rights Act, 2005 • National Rural Employment Guarantee Act, 2005 • Micro, Small and Medium Enterprises Development Act, 2006 • The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 • Protection of Human Rights (Amendment) Act, 2006 • Rehabilitation and Resettlement Bill, 2007 • Land Acquisition (Amendment) Bill, 2007
Providing value to customer	• Bureau of Indian Standards, 1986 • New Competition Act, 2002 • Consumer Protection Act, 1986 • Public Liability Insurance Act, 1991

It is evident that there is a considerable amount of overlap between the existing legislation and the NVGs. However, the challenge is that businesses are neither aware of this overlap, nor are they convinced on the benefits of voluntary disclosure / reporting. Thus, there is a need to create inter institutional linkages to create an ecosystem of catalytic forces to drive business transition toward ESG impact measurement and disclosure / reporting. The working group, formed by IICA, GIZ, IIPC and cKinetics will continue to examine the institutional linkages required and initiate dialogues between the existing institutions, in order to drive this.

6 Lessons Learned from NVG development process

The Indian policymakers undertook several key steps and adopted several key design principles which would be relevant for future policies and policymakers across the globe. It should be noted here that almost all members of the GDC, in conversation stressed the following aspects, which formed the bedrock of the discussions.

Define framework and guiding principles upfront

The agenda for sustainability / business responsibility / responsible investment, globally, is both nascent and convoluted with vast number of elements which need to be taken into consideration. Not surprisingly, this landscape also presents a host of challenges for the different stakeholders involved (businesses, investors, business stakeholders etc.

In this background, policy makers need to be cognizant of the challenges that they want to address through their policies- in other words the objective of the proposed policy, its scope, coverage and priorities need to be clearly defined and aligned upon, upfront.

Design a process to build upon the work done *a priori*:

As briefly touched up on in Chapter 2, there are multitudes of global initiatives that exist and are focused on ESG measurement, management and disclosure / reporting. Thus it is imperative to learn from and incorporate the global best practices and thoughts– this is the reason why all the existing guidelines globally (including by governments, catalysts, and stock exchanges) were examined as an a priori to the NVG formulation.

Have an implementation focus:

Policies should be designed with the focus on how and with whom will they be implemented, who will oversee the implementation, what are the institutional infrastructure needed to drive effective implementation and what is the process of governance and efficacy of policy adoption. In the case of NVGs, the need to move beyond compliance and foster a 'self-regulating' ecosystem (of business disclosing and stakeholders keeping businesses accountable) was established.

It is with this intent the MCA has not yet clearly defined the need for compliance, process for data efficacy and punitive structure non-compliance – they want NVGs to be a tool for building a market (demand and supply) for ESG measurement and reporting.

Policy intrapreneurs are key to policy engagement

For policies to effectively follow through, there is a need to individual leaders to don the mantle of pushing them through in an effective and timely fashion. Several members of the GDC assumed this role to drive engagement in their own constituencies - Mr. Manoj Arora from MCA was key in driving the agenda through the corridors of the MCA.

Key institutional partnerships can multiply the impact

In the case of the development of the NVGs, the key partnership built with GIZ was helpful in establishing a consultative process with engagement of all the stakeholders for both defining business responsibility and drafting the guidelines. Likewise, the ensuing engagement with SEBI was critical in the implementation of the guidelines. Moreover, even in the current stage of roll-out, the MCA and the IICA have recognized the need for establishing partnerships with 'multiplier agencies to drive the rollout of the guidelines. In the present stage, the proposal is to come out with sector guidelines in association with the relevant line ministries to provide guidance for adoption of the NVGs by a particular sector.

Rapid implementation and clear definition of follow-on steps:

As mentioned earlier, the key step required for faster adoption of the NVGs, is that they get notified by the MCA. In the absence of legislation, arrived at through this notification, there is a clear need to leverage the institutions and legislations that exist to i) incentivize businesses to adopt the NVG and ii) lend punitive structures for non-compliance.

However, in India the conversation on the CSR spend in the Company's Bill 2012, is complicating the agenda; the members of the GDC were unanimous in the view that CSR is but a small subset of the NVG (principles). Overall, business responsibility is not about how you spend profits but how you do business! Global policy makers must ensure that the policies have clearly defined follow-on steps and requisite engagement to achieve the same, to ensure rapid rollout and implementation.

The uptake of NVGs by Indian businesses will define the impact it has on the level of ESG management, measurement and disclosure as also on aiding the investor need for ESG information. However, the Indian policy makers have not only defined a fairly useful policy tool for driving both business sustainability and responsible investments, but also provided an example of a policy intervention that can address the key challenge of transitioning markets toward impact measurement and sustainability.

To understand and build recommendations on how the adoption of NVGs / measurement, management and reporting of ESG issues can be progressed upon in India, by leveraging the existing institutional frameworks, the Impact Investment Policy Collaborative, cKinetics, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and Indian Institute of Corporate Affairs (Policy Lead) have convened a working group under the **Sustainable Business Leadership Forum**[38]**.** The research under the working group is ongoing and the findings will be released at the Annual Summit of the Sustainable Business Leadership Forum.

38 To know more about the Sustainable Business Leadership Forum visit http://sblf.sustainabilityoutlook.in/ or contact info@sustainabilityoutlook.in

7 Annexures

Annexure 1: Format of the Business Responsibility Report (Suggested Framework)

Section A: General Information about the Company
1. Corporate Identity Number (CIN) of the Company
2. Name of the Company
3. Registered address
4. Website
5. E-mail id
6. Financial Year reported
7. Sector(s) that the Company is engaged in (industrial activity code-wise)
8. List three key products/services that the Company manufactures/provides (as in balance sheet)
9. Total number of locations where business activity is undertaken by the Company
10. Markets served by the Company – Local/State/National/International
Section B: Financial Details of the Company
1. Paid up Capital (INR)
2. Total Turnover (INR)
3. Total profit after taxes (INR)
4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)
5. List of activities in which expenditure in 4 above has been incurred:-
Section C: Other Details
1. Does the Company have any Subsidiary Company/ Companies?
2. Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company? If yes, then indicate the number of such subsidiary company(s)
3. Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entities? [Less than 30%, 30-60%, More than 60%]
Section D: BR Information
1. Details of Director/Directors responsible for BR
a) Details of the Director/Director responsible for implementation of the BR policy/policies
b) Details of the BR head

1. Principle-wise (as per NVGs) BR Policy/policies (Reply in Y/N)

Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
Do you have a policy/policies for....									
Has the policy being formulated in consultation with the relevant stakeholders?									
Does the policy conform to any national/international standards? If yes, specify? (50 words)									
Has the policy being approved by the Board? Is yes, has it been signed by MD/owner/CEO/appropriate Board Director?									
Does the company have a specified committee of the Board/Director/Official to oversee the implementation of the policy?									
Indicate the link for the policy to be viewed online?									
Has the policy been formally communicated to all relevant internal and external stakeholders?									
Does the company have in-house structure to implement the policy/policies?									
Does the Company have a grievance									

redressal mechanism related to the policy/policies to address stakeholders' grievances related to the policy/policies?	
Has the company carried out independent audit/evaluation of the working of this policy by an internal or external agency?	

If answer to S. No. 1 against any principle, is 'No', please explain why: (Tick up to 2 options)

Questions	P1	P2	P3	P4	P5	P6	P7	P8	P9
The company has not understood the Principles									
The company is not at a stage where it finds itself in a position to formulate and implement the policies on specified principles									
The company does not have financial or manpower resources available for the task									
It is planned to be done within next 6 months									
It is planned to be done within the next 1 year									
Any other reason (please specify)									

3. Governance related to BR

1. Indicate the frequency with which the Board of Directors, Committee of the Board or CEO to assess the BR performance of the Company. Within 3 months, 3-6 months, Annually, More than 1 year
2. Does the Company publish a BR or a Sustainability Report? What is the hyperlink for viewing this report? How frequently it is published?

Section E: Principle-wise performance

Principle 1

1. Does the policy relating to ethics, bribery and corruption cover only the company? Yes/ No. Does it extend to the Group/Joint Ventures/Suppliers/Contractors/NGOs /Others?
2. How many stakeholder complaints have been received in the past financial year and what percentage was satisfactorily resolved by the management? If so, provide details thereof, in about 50 words or so.

Principle 2

1. List up to 3 of your products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.
2. For each such product, provide the following details in respect of resource use (energy, water, raw material etc.) per unit of product (optional):
i. Reduction during sourcing/production/ distribution achieved since the previous year throughout the value chain?
ii. Reduction during usage by consumers (energy, water) has been achieved since the previous year?
3. Does the company have procedures in place for sustainable sourcing (including transportation)?
i. If yes, what percentage of your inputs was sourced sustainably? Also, provide details thereof, in about 50 words or so.
4. Has the company taken any steps to procure goods and services from local & small producers, including communities surrounding their place of work?
i. If yes, what steps have been taken to improve their capacity and capability of local and small vendors?
5. Does the company have a mechanism to recycle products and waste? If yes what is the percentage of recycling of products and waste (separately as <5%, 5-10%, >10%)? Also, provide details thereof, in about 50 words or so.

Principle 3

1. Please indicate the Total number of employees.
2. Please indicate the Total number of employees hired on temporary/contractual/casual basis.
3. Please indicate the Number of permanent women employees.
4. Please indicate the Number of permanent employees with disabilities
5. Do you have an employee association that is recognized by management.
6. What percentage of your permanent employees is members of this recognized employee association?
7. Please indicate the Number of complaints relating to child labour, forced labour, involuntary labour, sexual harassment in the last financial year and pending, as on the end of the financial year.

S.No.	Category	No. of complaints filed during the financial year	No. of complaints pending as on end of the financial year
1.	Child labour/forced labour/involuntary labour		
2.	Sexual harassment		
3.	Discriminatory employment		

8. What percentage of your under mentioned employees were given safety & skill up-gradation training in the last year?

Principle 4

1. Has the company mapped its internal and external stakeholders? Yes/No
2. Out of the above, has the company identified the disadvantaged, vulnerable & marginalized stakeholders.
3. Are there any special initiatives taken by the company to engage with the disadvantaged, vulnerable and marginalized stakeholders. If so, provide details thereof, in about 50 words or so.

Principle 5

1. Does the policy of the company on human rights cover only the company or extend to the Group/Joint Ventures/Suppliers/Contractors/NGOs/Others?
2. How many stakeholder complaints have been received in the past financial year and what percent was satisfactorily resolved by the management?

Principle 6

1. Does the policy related to Principle 6 cover only the company or extends to the Group/Joint Ventures / Suppliers / Contractors / NGOs / others.
2. Does the company have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc? Y/N. If yes, please give hyperlink for webpage etc.
3. Does the company identify and assess potential environmental risks? Y/N
4. Does the company have any project related to Clean Development Mechanism? If so, provide details thereof, in about 50 words or so. Also, if Yes, whether any environmental compliance report is filed?
5. Has the company undertaken any other initiatives on – clean technology, energy efficiency, renewable energy, etc. Y/N. If yes, please give hyperlink for web page etc.
6. Are the Emissions/Waste generated by the company within the permissible limits given by CPCB/SPCB for the financial year being reported?
7. Number of show cause/ legal notices received from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on end of Financial Year.

Principle 7

1. Is your company a member of any trade and chamber or association? If Yes, Name only those major ones that your business deals with:
2. Have you advocated/lobbied through above associations for the advancement or improvement of public good? Yes/No; if yes specify the broad areas (drop box: Governance and Administration, Economic Reforms, Inclusive Development Policies, Energy security, Water, Food Security, Sustainable Business Principles, Others)

Principle 8

1. Does the company have specified programmes/initiatives/projects in pursuit of the policy related to Principle 8? If yes details thereof.
2. Are the programmes/projects undertaken through in-house team/own foundation/external NGO/government structures/any other organization?
3. Have you done any impact assessment of your initiative?
4. What is your company's direct contribution to community development projectsAmount in INR and the details of the projects undertaken?
5. Have you taken steps to ensure that this community development initiative is successfully adopted by the community? Please explain in 50 words, or so.

Principle 9

1. What percentage of customer complaints/consumer cases are pending as on the end of financial year.
2. Does the company display product information on the product label, over and above what is mandated as per local laws? Yes/No/N.A. /Remarks (additional information)
3. Is there any case filed by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year? If so, provide details thereof, in about 50 words or so

Annexure 2: Resources Used in Drafting the NVGs

1. Agenda for Affirmative Action by FICCI
2. Business and the Millennium Development Goals: A Framework of Action by IBLF
3. Constitution of India
4. Corporate Action Plan on Climate Change by TERI BCSD India
5. Corporate Responsibility: Private Initiatives and Public Goals by OECD
6. Draft Indian Standard on Guidance on Good Governance by Bureau of Indian Standards
7. Final Draft ISO 26000: International Standard
8. Global Reporting Initiative (GRI) G3 Guidelines
9. Guidelines on Corporate Governance for Central Public Sector Enterprises; 2007 by Government of India, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises
10. Guidelines on CSR for Public Sector Undertakings: March 2010
11. Indian Companies with Solutions that the World Needs: Sustainability as a Driver for Innovation and Profit by WWF and CII-ITC CESD
12. International Covenants on Civil & Political Rights and Economic, Social &Cultural Rights
13. Meeting Changing Expectations: Corporate Social Responsibility by WBCSD
14. National Action Plan on Climate Change
15. Prime Minister's 10 Point Charter
16. Proposed Concrete Steps by Indian Industry on Affirmative Action for Scheduled Castes & Scheduled Tribes: A CII-ASSOCHAM Action Plan
17. Public Sector Roles in Strengthening Corporate Social Responsibility by The World Bank
18. Reports of the UN Special Representative on Business and Human Rights
19. Social Code for Business by UNDP and CII
20. Stakeholder Engagement: A Good Practice Handbook for Companies DoingBusiness in Emerging Markets by IFC
21. Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains by IFC
22. Towards Responsible Lobbying : Leadership and Public Policy by Accountability and the Global Compact
23. Universal Declaration of Human Rights
24. “Developing Value” by Sustainability and IFC.

Adapted from “Annexure B: Resources” pp. 42, *NVG-SEE*

Annexure 3: Dr. Manmohan Singh's Ten Point Social Charter for Inclusive Growth

"First, have a healthy respect for your workers and invest in their welfare. In their health and their children's education, give them pension and provident fund benefits, and so on. Unless workers feel they are cared for at work, we can never evolve a national consensus in favour of much needed more flexible labour laws aimed at ensuring that our firms remain globally competitive.

Two, corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions. This is not an imported western management notion. It is a part of our cultural heritage. Shri Seshasayeeji quoted Mahatma Gandhi. Mahatma Gandhi called it trusteeship. It is based on the idea that the wealthy have an obligation to society and balance in nature. Responsibilities commensurate with their rights. I am aware that some of our companies are doing creditable work. I compliment them. But we need more such inspiring examples. I appeal through the CII to our industry to come forward in a much more substantial manner and engage extensively in activities which benefit society at large.

Three, industry must be pro-active in offering employment to the less privileged, at all levels of the job ladder. The representation companies give to Scheduled Castes, Scheduled Tribes, other Backward Classes, Minorities and Women, in their workforce and staff must increase. I am, therefore, encouraged by CII's Report on Affirmative Action. I commend your example. I hope it will be widely emulated. Its recommendations should be implemented by CII members in a time-bound manner. I look forward to credible results at an early date. You must show sensitivity to those who are physically less-abled, in providing a work-place conducive to their employment. You must employ retired members of our gallant Armed Forces who spend their youth defending our nation but retire at a relatively young age.

Four, resist excessive remuneration to promoters and senior executives and discourage conspicuous consumption. In a country with extreme poverty, industry needs to be moderate in the emoluments levels it adopts. Rising income and wealth inequalities, if not matched by a corresponding rise of incomes across the nation, can lead to social unrest. The electronic media carries the lifestyles of the rich and famous into every village and every slum. Media often highlights the vulgar display of their wealth. An area of great concern is the level of ostentatious expenditure on weddings and other family events. Such vulgarity insults the poverty of the less privileged, it is socially wasteful and it plants seeds of resentment in the minds of the have-nots.

Five, invest in people and in their skills. Offer scholarships to promising young people. Fill young people with hope in their future. High rates of growth mean nothing for those who are unable to find employment. We must invest in skill-building and education to make our youth employable. Here too, I appreciate the CII's initiative CII in upgrading ITIs. This is a very good beginning, but there is more to be done. Indian Industry must allocate sufficient resources to skill development, either managing ITIs or setting up a network of Greenfield Skill Development Centres across the country. CII's current efforts need to be multiplied a 1000 times and Indian companies need to allocate resources for this vital work of building the capabilities of India's youth.

Six, desist from non-competitive behaviour. The operation of cartels by groups of companies to keep prices high must end. It is unacceptable to obstruct the forces of competition from having freer play. It is even more distressing in a country where the poor are severely affected by rising commodity prices. Cartels are a crime and go against the grain of an open economy. Even profit maximization should be within the bounds of decency and greed! If a liberalized economy has to succeed, we must give full play to competitive forces and the private sector should show some self-restraint in this regard.

Seven, invest in environment-friendly technologies. India's growth must be enhanced and, yet, our environment and ecology must be protected and safeguarded for our future generations. Industry has an enormous role to play in this regard. Evidence shows that many of our companies are becoming increasingly environment friendly. Our track record in resource use is good, but must improve further. Conservation of natural resources is a national mission. Industry can and must provide leadership on this front. As a country of a billion plus people, with a scarcity of natural resources on a per capita basis, we cannot afford the wasteful lifestyles of the Western world. Conspicuous consumption must be reduced not just because it is socially undesirable at our level of development but also because it is environmentally unsustainable.

Eight, promote enterprise and innovation, within your firms and outside. If our industry has to make the leap to the next stage of development, it must be far more innovative and enterprising. The success story of the last two decades has been the emergence of a large number of first generation enterprise. As industry aims to master increasingly complex technologies and becomes organizationally more complex, it must try to maintain its competitive edge by investing in R&D and innovation and promotion of enterprise. While government can do its bit, the larger burden is on industry.

Nine, fight corruption at all levels. The cancer of corruption is eating into the vitals of our body politic. For every recipient of a bribe there is a benefactor and beneficiary. Corruption need not be the grease that oils the wheels of progress. There are many successful companies today that have refused to yield to this temptation. I commend them. Others must follow. Businessmen who enter politics should erect a Chinese wall between their political activities and their businesses. CII should develop Codes of Conduct for their members with respect to business practices and for control of corruption.

Ten, promote socially responsible media and finance socially responsible advertising. Through your advertisement budgets and your investments in media you can encourage socially responsible media to grow and to flourish. You can promote socially relevant messages and causes."

For full transcript, see: http://pib.nic.in/newsite/erelease.aspx?relid=28178