

## BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING - A RIGHT STEP IN RIGHT DIRECTION

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**THE BACKGROUND** We are facing unprecedented time, as we are navigating through a global pandemic COVID-19. As nations work to deal with it, the roles of Government, businesses, and civil society organisations are being rewritten in a manner that was not envisaged before. The Government has requested employers to take a more compassionate view of the unfolding challenges of the lockdown and second wave, financially, for their employees.

Many corporations have responded to the call for support to fight the crisis with their human, financial, and material resources. Against the backdrop of this crisis, the Business Responsibility and Sustainability Report assumes an even greater significance.

Traditionally, the primary duty of a director has been to work towards the interest of a company's shareholders. Since the economist, Milton Friedman, famously declared that "*the social responsibility of business is to increase its profits*", shareholder primacy has been the cornerstone of business operations.

However, in light of ever-increasing global challenges relating to climate change, environmental risks, growing inequality, etc., business leaders have been compelled, and have also found it to be in their interest, to reimagine the role of businesses in the society and not view them merely as economic units for generating wealth.

Perhaps, this is what led the Business Roundtable (BRT), an influential association of CEOs of the United States of America's biggest companies, to issue a statement in 2019 that redefines the purpose of a corporation. The 181 signatories to the statement reaffirmed the commitment of their businesses to all stakeholders.

The BRT is not alone. The World Economic Forum also released the '*Davos Manifesto: The Universal Purpose of a Company in the Fourth Industrial Revolution*' in 2020, at its annual meeting. Amongst other things, the statement asserted a move towards stakeholder capitalism and emphasised that the performance of a company must be measured not only on the return to shareholders, but also on how it achieves its environmental, social, and good governance objectives.

Therefore, it is evident that even globally there is a growing recognition and emphasis on the stakeholder model of governance.

In this context, non-financial, sustainability reporting provides an opportunity for businesses to communicate openly and transparently with stakeholders.

**IN INDIA** On 25th March '21, the Securities Exchange Board of India (SEBI), in its press release communicated its decision to introduce new requirements for sustainability reporting by listed entities. This new report shall be called the Business Responsibility and Sustainability Report (BRSR). *The BRSR shall be applicable to the top 1000 listed entities (by market capitalization), for reporting on a voluntary basis for FY 2021-22 and on a mandatory basis from FY 2022-23.*

The applicability of BRSR:

1. For listed Companies, reporting may be done by the top 1000 listed companies (by market capitalization) as applicable presently or as prescribed by SEBI
2. Integration of BRSR with MCA 21 portal
3. A Guidance Note on BRSR to be prepared to enable companies to disclose their actions in a more meaningful manner. It is also envisioned that the information captured through BRSR filings be used to develop a Business Responsibility-Sustainability Index for companies.
4. Finally, BRSR reporting Format would serve as a single source for all non-financial disclosures.

**STRUCTURE OF BRSR FRAMEWORK** The BRSR has three sections with their purpose and structure as follows:

**Section A: General Disclosures** The objective of this section is to obtain basic information about the company – size, location, products, number of employees, CSR activities, etc. The proposed formats include additional disclosures on the proximity of a company's operations to environmentally sensitive sites such as protected areas, water-stressed zones, etc.

**Section B: Management and Process** In this section, the company is required to disclose information on policies and processes relating to the NGRBC Principles concerning leadership, governance, and stakeholder engagement. The purpose of this section is to understand whether the company has the building blocks in place that will enable and ensure responsible business conduct. It reflects the belief that policies and processes are foundational in nature to ensuing action.

**Section C: Principle-wise performance** Responses in this section will indicate how a company is performing in respect of each Principle and Core Element of the NGRBCs. This section requires companies to demonstrate their intent and commitment to responsible business conduct through actions and outcomes. The Principles are:

1. Businesses should conduct and govern themselves with integrity in a manner that is Ethical, Transparent and Accountable.
2. Businesses should provide goods and services in a manner that is sustainable and safe.
3. Businesses should respect and promote the well-being of all employees, including those in their value chains.
4. Businesses should respect the interests of and be responsive to all their stakeholders.
5. Businesses should respect and promote human rights.
6. Businesses should respect and make efforts to protect and restore the environment.
7. Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
8. Businesses should promote inclusive growth and equitable development.
9. Businesses should engage with and provide value to their consumers in a responsible manner.

This is a welcome step and is in line with recent amendments in CSR Rules. This will increase transparency and ensure effectiveness in the execution of activities impacting the society.

**This will, however, impact the C-Suite and organizations as follows:**

**Extra responsibility for CFO** As the BRSR lays considerable emphasis on quantifiable metrics, which allows easy measurement and comparability across companies, sectors and time periods. Thus, CFO will now be required to pay extra care towards the implementation of CSR activities. In addition, he also has to ensure that a proper system exists for capturing the relevant data, as well as interpretation and reporting of the same.

**Duty of Independent Director increased** BRSR significantly enhances the disclosures on climate and social (employees, consumers and communities) related issues of the entity. It has now been made more granular. In light of this, the role of independent directors has now become more evident. By virtue of their presence in CSR Committee, Audit Committee, Remuneration Committee, Appointment Committee etc., they will be in a better position to make informed decisions impacting the ESG dimensions of a business.

**Sustainability Reporting Standards** One of the significant features of BRSR is that it provides inter-operability of reporting i.e. the entities which prepare sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD, Integrated Reporting) can cross-reference the disclosures sought under the BRSR to the disclosures made under such frameworks. Recently, IFRS has also started consultations in the creation of Sustainability Reporting and will come out of its own set of standards soon.

**Value creation and Impact assessment** CSR rules mandate that the companies with average CSR obligation of INR 10 Crore or more in the three immediately preceding financial years shall undertake impact assessment through an independent agency for projects of Rs. 1 crore or more which have been completed not less than 1 year before undertaking the impact study. This shall be presented before the board and shall be annexed to the annual report on CSR.

Measurement of Value is the most acceptable methodology to measure the impact of the work. It encompasses the material aspect as well as ensures the participation of all stakeholders. It is quantifiable and reportable. Social Return on Investment (SROI) is globally accepted.

**THE WAY FORWARD** The BRSR proposed are generic in nature and cut across all business sectors.

The growing salience of non-financial disclosures along with the annual financial disclosures ensures that businesses explicitly recognize their environmental and social responsibilities. It provides a standard and consistent framework to capture their performance on globally recognised and locally relevant indicators.

Value chain, labour welfare, and women's participation in economic activity – recognised as the three key pillars for inclusive development – are within the influence of companies and have been explicitly emphasised in the proposed BRSR formats.

Sustainable production, with a focus on raw material procurement, waste disposal, and recycling are recognised challenges and have been incorporated into the BRSR.

The recognition of the transformative role of businesses in driving responsible conduct is recognized and also emphasized.

These frameworks may also function as a singular source of information for companies reporting in India, such that they serve as primary documents for the assessment of businesses.

It is hoped that as non-financial/sustainability disclosures grow in eminence, this information would be used by banks, credit rating agencies, and other financial institutions, along with financial information to assess the credibility of a company/business.

It is also important that steps be taken to ensure that businesses be hand-held through capacity building and training to adopt these formats for making disclosures

The new reporting requirements are thus expected to bring in greater transparency through disclosures of ESG-related information to enable market participants to identify and assess sustainability-related risks and opportunities.

These requirements set the stage for taking a leap for better disclosures in the ESG space in India.

#### ***References:***

1. *Reports and Notifications issued by Ministry of Corporate Affairs, Government of India*
2. *Harvard Business Review*
3. *UN Sustainable Development Goals*
4. *GRI Framework*