



Investing in a Sustainable Future

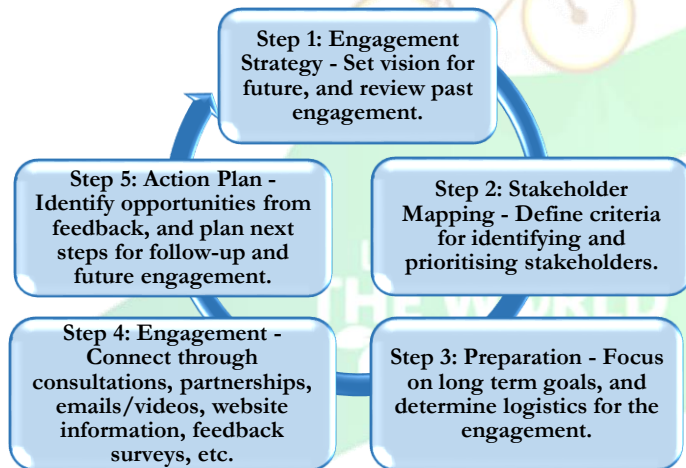
Edition - April, 2024

Editor's Nest

“The basic task of leadership is to increase the standard of living and the quality of life for all stakeholders.” – Stephen R. Covey, Author and Businessman.

In our previous issue, we discussed at length about Principle 3 of the SEBI mandated Business Responsibility and Sustainability Report (BRSR) which revolves around employee and worker well being. In this edition, we will analyse Principle 4 which mentions that *“Businesses should respect the interests of and be responsive to all its stakeholders”*.

The first step to good stakeholder management is to understand who a stakeholder is. A stakeholder is anyone who has a vested interest in the company's activities and outcomes, and they could be from both the corporate sector as well from non-profit sectors. Thus, they would include employees, customers, suppliers, investors, community members, government bodies, etc who are key to a company's decision making and strategies. Successful organizations don't just talk to their audience, they engage with them. So, stakeholder engagement is like a two-way street where you listen to your supporters (and critics!), collaborate on solutions, and keep everyone informed. Let's understand the process better.



Expert Speak

Implementing ESG: Three Essentials – Mr. Nowshir Mirza, Senior Independent Director.

ESG is another name for the relationship between a corporation and its stakeholders. Much has been written about measurement and reporting of ESG, but far less on how to implement it. Many years ago, we developed sophisticated systems to measure and report the impact on one stakeholder – the equity shareholder. These include pay-back period, IRR, DCF, L1, business valuations and IndAS. The equity provider holds all the powers over a corporation. The other stakeholders possess none. How then, can ESG be successfully introduced? There are three critical aspects:

RECOGNITION – Every decision in a company *at every level* should be justified not only financially but considering its impact on all stakeholders. For example, if L1 tenderer quotes the best commercial terms and provides the best quality, but if she exploits her workers or callously tramples on the environment, the decision to select her will need to justify ignoring these negatives. This will require managers to play God – managing trade-offs in a zero-sum game.

REWARD – Include select ESG targets in the measurement of variable compensation of the CEO and other senior managers. You will witness a magical enthusiasm for ESG which, till then, would have been a nuisance.




CULTURAL – As always, this is the hardest. Every employee would have, during his career, honed his skills to grow the top and bottom lines of his employer. That is what is considered a *successful* corporation. But society now demands *responsible* corporations. The measures must change. If growth remains one of them, it will need to be growth without the negative impacts on stakeholders.

The question to Boards now is, “How much profit are you willing to forego so that humans do not become extinct?”



Best Practices for Principle 4

The following are the major components covered by the SEBI mandated BRSR format, further supported by best industry practices:

Component	Company	Best Practice
 Identification of Key Stakeholders	 Mahindra Lifespace Developers Limited	 Stakeholders are identified on 3 key dimensions – importance and influence, physical proximity, and dependency factor.
Engagement with Stakeholder Groups	Asian Paints Limited	Comprehensive and dedicated mapping of key stakeholders, why they matter, their key concerns, and engagement approach (including frequency and mode of engagement).
Stakeholder Consultation used in Company's ESG policies and activities	Hindustan Petroleum Corporation Limited	Company's CSR and Sustainability Development Committee asks regular feedback from Strategic Business Unit, etc.
Addressing concerns of Marginal/ Vulnerable Stakeholder Groups.	Reliance Industries Limited	Capacity building of rural communities, increasing access to education and health for women and children, promoting quality education through RF schools, helping marginalized communities with disaster management.

Did you know?

Vulnerable and Marginalised Groups refers to group of individuals who are unable to realise their rights or enjoy opportunities due to adverse physical, mental, social, economic, cultural, political, geographic or health circumstances. They are identified on basis of *gender* (women, transgender, etc.), *age* (children, elderly), *ethnicity* (caste, religion, tribe, etc.), *occupation* (displaced, migrant workers, etc.), and *disability*.

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Contact us for a detailed presentation on the subject of ESG & BRSR Reporting at info@cnkindia.com | +91 22 6250 7600

www.cnkindia.com

Ready, Set, Recap! A BRSR Quiz

We've been discussing at length about BRSR in each of our previous newsletters. Let's now test your knowledge on ESG, and the key principles of BRSR that we've covered so far!

- How can a company ensure that it acts ethically and with integrity as per Principle 1 of BRSR?
 - Establish a whistleblowing hotline for employees.
 - Codify and implement a formal anti-corruption program.
 - Integrate ethical considerations into decision making processes.
 - All of the above.
- Principle 2 of BRSR focuses on "businesses providing goods and services in a sustainable and safe manner". A company that manufactures electronics is looking to implement this Principle. Which of the following actions would be MOST aligned with Principle 2?
 - Implement rigorous safety protocols to minimise workplace accidents during production.
 - Design new products with a focus on longer lifespans, easier repairs, and energy efficiency.
 - Increase product efficiency by using fewer but potentially more hazardous materials.
 - Participate in various seminars and conferences focused on making electronics industry greener.

Principle 4 aligns with the following United Nation's Sustainable Development Goals:



Principle 4 also aligns with the following Integrated Reporting Capitals:



Quiz Answers: 1.d, 2.b