

Conversations on Corporate Governance

Dialogue 6: Corporate Citizenship: Expectation and Reality



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Dialogue 6: Corporate Citizenship: Expectation and Reality

Corporate citizenship broadly refers to responsibilities of businesses toward society, beyond the profit maximization objective, and their role in social welfare and development. India was the first country to statutorily mandate CSR spending for corporates satisfying certain criteria with respect to net worth, revenue and profits. ESG initiatives have now become key factors in determining long-term value creation for corporates. While CSR programs by corporates are beneficial for the society, they also help corporates build a positive image in the community and garner acceptability for the products and services offered by them.

Corporate activities have an impact on the society, environment and their stakeholders. It is therefore not only important for corporates to conduct their day-to-day business activities responsibly but also contribute towards the well-being of society and environment in which they operate. The stakeholders of the company, including employees and shareholders, play a vital role in steering the company towards responsible and ethical ways of conducting businesses and working towards sustainability as well as the greater benefit of the community.

CSR is integral to being a good corporate citizen. CSR helps businesses to strengthen public trust, build employee morale and improve relations with their stakeholders. Investing in long-term progressive development of the society will not only benefit the community the company serves but also benefit the company in terms of its reputation and brand and sustainable long-term growth.

The crucial question, however, is whether the corporates have successfully measured up to the expectations in fulfilling their role as a corporate citizen. Answering this question also needs some thought on the alignment of the responsibilities to stakeholders—shareholders on one side and the broader society on the other.

In this context, NSE, jointly with Excellence Enablers - a corporate governance advisory firm, had organized a **webinar on “Corporate Citizenship: Expectation and Reality”** – the sixth dialogue in the series of Corporate Governance Webinars on February 24th, 2021.¹ The panel comprised very eminent and highly regarded speakers—Mr. S. N. Subrahmanyam, MD and CEO, Larsen and Toubro, Mr. Amit Chandra, Chairman India and MD, Bain Capital and Mr. M. Damodaran, Former SEBI Chairman and Founder, Excellence Enablers. This report provides a summary of the deliberations.

- CSR - Before it was mandated: In an environment in which corporates are perceived as focusing only on topline and bottomline, it is useful to remind ourselves of the concept of Corporate Citizenship. At the outset, it is necessary to recognise that some corporates have been contributing to social welfare and development long before the law mandated that a percentage of profits should be applied to CSR initiatives.
- CSR - An affair of the heart: The mandating of a minimum outlay, determined as a percentage of profits, for undertaking socially meaningful and relevant projects, is a unique Indian phenomenon. For the first time in corporate history, the Companies Act, 2013 and the Rules thereunder, mandated both the minimum spend as well as the areas/ activities which could be included in CSR. In doing so, they converted what was essentially an affair of the heart to a series of accounting entries. The journey of CSR started with a "comply or explain" (corex) approach, and it is today, an excessively prescriptive system with accompanying punitive measures.
- Corporate citizenship - More than CSR: Corporate citizenship is not to be seen through the lens of CSR alone. At the same time, while Covid-19 could be seen as a proximate trigger for conversations on this subject, corporate citizenship has

Please click [here](#) to listen to the recording of the webinar.

¹ The first series comprised: First dialogue on August 19th, 2020 on the topic “Crisis Management: The Lessons Learnt. Second dialogue held on September 22nd, 2020 on the topic “Corporate Governance and Financial Sector Regulations”. Third dialogue on October 21st, 2020 on the topic “Instruments of Corporate Governance”. Fourth dialogue on December 16th, 2020 on the topic “Conflict of Interest”. Fifth dialogue on January 19th, 2021 on the topic “Strengthening Institutions for the Coming Decade”. Please click [here](#) to read our summary reports and watch the YouTube recordings.

existed as a concept in pre-Covid times and will continue to remain relevant long after Covid has reduced its stranglehold on human activity.

- Expectations from corporates: In regard to what corporates do for society, it is not difficult to tell the men apart from the boys. There are clearly significant expectations that society as a stakeholder has from corporates, especially large corporates. And it is in attempting to measure upto these expectations, that corporates stand up and get counted as responsible citizens.
- Climate and Social development: Corporate citizenship translates into effective interventions in regard to a number of diverse matters such as climate, and several aspects of social development, that enhance the quality of life of the average person. In this background, it is imperative that corporates look beyond shareholders, and at the larger community of stakeholders. ESG, especially E and S, should not be lost sight of, having regard to the interest of future generations for whom we cannot leave behind a denuded planet.
- Indian corporates - Good corporate citizens? If CSR is seen as the be-all and end-all of corporate citizenship, it is useful to ask whether Indian corporates were bad citizens before 2014, when the new Act came into force. Clearly, the answer is negative. Employees, customers and others look at some companies differently because they are seen as conducting their business based on values, ethics and good corporate behaviour. The tone at the top, as manifested by exemplary leadership, determines the culture of organisations, and ensures that, generally people act in the right manner because that is the only way they have seen work getting done. There are of course exceptions, but they do not take away from the fact that by and large, an organisation perceived as a good corporate citizen, transparently goes about its work, without resorting to shortcuts and expediency. Such corporates clearly are role models for others, especially, new corporate entities that are being set up.
- Lopsided spending under CSR: Directing good corporate citizenship through the instrumentality of CSR has resulted in lopsided spending in areas where such expenditure became easy, even if less impactful. Interventions were determined by ease of implementation, rather than by the requirement of the community. Also, there was a focus on spending money in places that were easier to access, leaving the more deserving remote areas starved of a legitimate share of CSR expenditure.
- Spending by Government: It is recognised that corporates, as responsible citizens, must play their part in the economic and social development of the country. However, this should not translate, as it seems to have done, to spending money mostly in activities that fall within the province of the Central and State Governments. Corporate conscience should not result in a gap filling exercise, doing more of what Governments are expected to do, and are perhaps doing. Corporate attention should be focussed on activities in the areas which Government does not normally get into. These could be the encouragement of innovative practices, the support to be provided for research activities, and helping to establish proof of concept where economic returns are not readily visible, and where the public sector is likely to be accused of infructuous expenditure.
- Reimaging CSR: Better technology adoption, leading to improved productivity, and better delivery, could be an area of focus for corporate citizens. If CSR is to be the reference point, it is time to reimagine CSR, and to make it more meaningful and relevant. Central to how we must look at corporate citizenship is

the following statement of Jamsetji Tata, made around 150 years ago: "In a free enterprise, the community is not just another stakeholder, but is in fact the very purpose of its existence."

- **Shared vision on CSR:** It is crystal clear that ethical behaviour should inform all business activity. The challenge is to get this message across the organisation so that everyone has a shared vision. It is easy to preach ethical behaviour, but with value systems that are under threat, spreading the message of good conduct is not an easy task. If persons at senior levels practice correct behaviour, and are seen as not being recipients of privileges, the younger persons in the workforce are likely to emulate them. Senior persons conducting themselves in the right manner, knowing that the gaze of the flock is upon them, constitute the most persuasive influences in spreading the message of ethical behaviour. It is not behaviour within the organisation, but also behaviour with outsiders such as vendors and contractors, that establishes the corporate as an entity that is decent, and not exploitative. While programmes can be conducted to share experiences and expectations, they will be less impactful than what younger elements can observe and absorb from the conduct of their seniors. This is, and will be, at the core of good corporate citizenship.
- **Volunteering by employees:** The recognition that the corporate has to contribute to society should also translate into employees volunteering to work for the community. Competitive pressures on one's time can, to a certain extent, reduce the possibility of such involvement. However, good corporates, not through fiat, but through example, should be in a position to nudge their employees to lend a helping hand to the less privileged sections of society.
- **Inadequate resources of Government:** Critics of CSR often pan the Government saying that it is trying to pass on its responsibility to the corporates. This is incorrect. Given that the country has a large population, with a revolution of rising expectations, the resources of the Government are never likely to be entirely adequate. Therefore, the supplementary, though important, role that corporates are called upon to perform, should not raise eyebrows. The corporate effort, through various initiatives, can never supplant, but only supplement, the efforts of the Government.
- **Behavioural aspects:** There are also behavioural aspects that corporate conduct can encourage. While no study has been done on this specific aspect, it is reasonable to presume that increased safety consciousness at the workplace, will, in some measure, impact on safety awareness outside the workplace.
- **Profit maximisation and Society:** The fact that profit maximisation is an important element of the mental makeup of the corporate cannot be wished away. Happily, the profit maximisation motive can be reconciled with higher involvement in the welfare of society, since it is growth that translates into profit, and also generates surpluses that can be applied for social benefits.

Key speakers

Welcome address:

Mr. Vikram Limaye, *MD and CEO, NSE*

Introductory remarks

Dr. Tirthankar Patnaik, *Chief Economist, NSE*

Panel Discussion

S N Subrahmanyam, *MD and CEO, Larsen and Toubro*



S N Subrahmanyam is the Managing Director and CEO of Larsen & Toubro and serves on its Board. He is also the Vice Chairman of LTI, L&T Technology Services and Mindtree, and Chairman of L&T Metro Rail (Hyderabad). Prior to taking over as MD and CEO in July 2017, in his capacity as Deputy MD & President, he led L&T's infrastructure business to its position as the country's largest construction organisation and 14th in the world. He started his professional journey with L&T in 1984 as a project planning engineer. Over the years, he has led L&T into executing developmental projects. HITEC City project in Hyderabad and all the major international airports are a few of the examples. He has also led L&T into geographies such as the Middle East, Africa & ASEAN. In February 2021, he was appointed the Chairman of National Safety Council (NSC) for three years by the Union Ministry of Labour & Employment. In this role, Mr. Subrahmanyam will guide the NSC, which has a major part to play to ensure safety in workplaces under the new Occupational Safety, Health and Working Conditions Code, 2020 (OSH Code, 2020). He has been the recipient of several awards.

Amit Chandra, *Chairman India and MD, Bain Capital*



Amit Chandra joined Bain Capital Private Equity in 2008. He is the founder of the India office, and Managing Director and the Chairman of India for the firm. He is a member of the Financial and Business Services Vertical and a member of the Asia-Pacific leadership team. Prior to joining Bain Capital, he spent most of his professional career at DSP Merrill Lynch, a leading investment bank in India. At DSP Merrill Lynch, he had direct oversight of its Global Markets and Investment Banking business, which included the firm's substantial principal businesses. He retired from DSP Merrill Lynch in 2007 as a Board Member and Managing Director. Consequently, for a part of 2007, he was a partner of NSR Advisors. He started his career at Larsen & Toubro. Over the years, he has served on the Boards of many leading corporates, including Tata Sons and some Tata Trusts, as also of not-for-profit organisations. He and his wife have received the "Asia Heroes of Philanthropy Award" in 2016. In 2007, he was named by the World Economic Forum as a Young Global Leader.

M Damodaran, *Chairperson, Excellence Enablers and Former Chairman, SEBI, UTI and IDBI*



Mr. M. Damodaran is Chairperson, Excellence Enablers Private Limited and Former Chairman of SEBI, UTI and IDBI. He serves on Boards of Directors, including as Non-Executive Chairperson of InterGlobe Aviation, and on Advisory Boards of several companies. He successfully led the revival efforts of UTI and IDBI. He created the unique Stressed Assets Stabilisation Fund (SASF) which helped clean IDBI's books. He was also the Former elected Chairman of the International Organization of Securities Commissions (IOSCO)'s 80-member Emerging Markets Committee for two years. He has chaired several committees of the Government of India, RBI and some chambers of commerce. He was Former Chief Secretary of the Government of Tripura. He is a recipient of several awards and recognitions.

About National Stock Exchange of India Limited

National Stock Exchange of India Ltd. (NSE) is the world's largest derivatives exchange by trading volume as per the statistics published by Futures Industry Association (FIA) for 2019 and ranked 3rd in the world in the cash equities segment by number of trades as per the statistics published by the World Federation of Exchanges (WFE). NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: www.nseindia.com

About Excellence Enablers Private Limited (EEPL)

Excellence Enablers Private Limited (EEPL) is an initiative that focuses on implementation of better corporate governance practices, improvement of Board performance, including audit and evaluation, training of directors and engagement with stakeholders of governance. It is founded on the firm belief that the gap between performance and potential can, and must, be bridged. Consistent with that belief, all our offerings are tailor-made to the specific needs of the organisation or the individuals concerned.

Given that our founder, Mr. M. Damodaran, introduced Clause 49 of the Listing Agreement, dealing with corporate governance in India, and has been a part of both public sector and private sector Boards, as well as performing and underperforming Boards, we offer experience based consultancy and courses on the journey from compliance through governance to performance. Further, given his success in turning around organisations that had been written off, we are uniquely positioned to offer courses on leadership, organisational transformation, and building winning teams.

EEPL has a number of highly experienced and renowned consultants and faculty members who have helped, and continue to help, us deliver programmes that have been well received.

For more information, please visit: www.excellenceenablers.com

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