

PRESS RELEASE

INDIA: India Takes Steps to Improve Corporate Governance and Social Accountability

A land of paradoxes, India is home to the fastest growing economy in the world, at the forefront of IT and new global advancements, and yet also home to massive poverty. In India, Small and Medium Enterprises have been at the front of India's phenomenal growth story. With an incredible 48 million SMEs, India ranks second only to China. These SMEs contribute 17% of India's GDP.

SMEs have always been important for India's economy, so much so that India has a dedicated ministry that looks after the concerns of micro, small and medium enterprises. The country's 1.3 million SMEs account for 36% of India's total exports. SMEs employ 40% of India's workforce and contribute of 45% of India's manufacturing output and boost India's phenomenal exports outside the country.

Revision of the Companies Act

To further involve the SMEs in India's social and economic growth, there has been a revision of the Companies Act, Section 135 incorporating CSR (Corporate Social Responsibility) as a mandate. With the passage of the Companies Act, 2013, CSR has to be heeded with even greater rigor. Under the Companies Act, 2013, any company having a net worth of \$20 million or more or revenue of \$200 million crore or more or a net profit of \$1 million or more must spend 2% of its net profits in this fiscal year on CSR activities. CSR is not new in India, but the rules that came into effect 1 April 2014 bring more companies into the fold.

Why is CSR important?

SMEs are being included in this mandate not just because it's required. The new generation of entrepreneurs realizes that it truly is in their interest to implement a CSR policy. UNIDO's website explains the opportunity clearly when it says, "A properly implemented CSR concept can bring a variety of competitive advantages ..."

In addition, SMEs face new challenges. Their margins are being squeezed as transnationals and large corporations are integrating backwards and forward to sustain their market leadership and to create better value propositions for their customers. That is why this mandate will help, as it forces SMEs to focus on enhanced processes and to look at collaboration with each other and create processes that attract talent and support incubation of new products.

The increasing demands that international partners are also making of their SME

partners as a part of their own CSR compliance is also putting CSR higher on their agendas. Big companies increasingly work with SMEs as suppliers and even co-innovators. When large companies are committed to CSR, it is essential that their partner companies follow the same principles.

The key issue is how SMEs can be encouraged to invest the time and resources to comply with the requirements of CSR. So far, good leadership in companies is a potential driving force for implementing CSR. While there can be costs involved in adapting company operations to the CSR requirements of sustainable production, it requires both the vision and perception of top management to appreciate the good mid- to long-term business sense of fully embracing the principles of CSR.

Key issues of implementation by SMEs in India

SMEs in India have long participated in CSR activities but these efforts have not been optimally delivered. The reasons are many – CSR has been limited to philanthropy depending on the whims of the owner. Fluctuations in profit also create issues in planning CSR activities, and limited human resources is another key issue. The inability to make long-term plans is also an issue as SMEs tend to focus on short-term activities with lower operational costs. A survey conducted by UNIDO in 2008 of five SME clusters in India found that 31% to 79% of these SMEs preferred charity donations rather than long-term programs for local communities.

What SMEs need to be made aware of is that CSR is the only way the company can achieve a balance of economic, environmental and social goals. As a part of our movement to help India achieve its dreams, we at ECOVIS RKCA believe that each company big or small takes on responsibility for social, educational and environmental concerns.

FACILITATION OF ISO 26000 – ISO Standard for CSR

That is why ECOVIS is hand-holding partners into getting an ISO 26000:2010 implementation. This provides guidance and helps clarify what social responsibility is, helps businesses and organizations translate principles into effective actions and shares best practices relating to social responsibility on a global scale. It is aimed at all types of organizations regardless of their activity, size or location.

The standard was launched in 2010 following five years of negotiations between many stakeholders across the world. Representatives from government, NGOs, industry, consumer groups and labor organizations around the world were involved in its development. Knowledge of ISO 26000 can be an efficient way to recognize important issues and set priorities in CSR. The standard mainly covers the economic, environmental and social impacts to be addressed by organizations. Each subject, if not necessarily every issue, has some relevance to each organization.

ISO 26000 addresses 7 core subjects: (i) Organizational Governance, (ii) Human Rights, (iii) Labor Practices, (iv) The Environment, (v) Fair Operating Practices, (vi) Consumer Issues, and (vii) Community Involvement and Development. Economic aspects, those of health and safety and the value chain are processed through the 7 core subjects, as appropriate. CSR training should make ISO 26000 accessible to SMEs in order to facilitate the integration of CSR strategies within the overall company strategy.

That is why ECOVIS helps SMEs in:

- 1) Collaborating to create an alliance of interested SMEs. Involvement of the cluster association will ensure that local priorities are given due consideration while developing CSR programs. The alliance should then form a steering committee with the representatives from each SME to study issues.
- 2) Implementing the concept on
 - Operationalizing institutional mechanisms
 - Contracting
 - Budgeting and payments
 - Monitoring
 - Impact measurement
 - Project development

CSR goes to the core

Corporate Social Responsibility is not a “bolt-on” to how business is run. It goes to the core of how business does business: how it sources, manufactures, markets and how it engages its stakeholders and the wider environment. ECOVIS is currently working with differently sized SMEs on taxation, auditing, law, accounting, finance and systems consulting. It is only by recognizing the risks which may threaten its existence that makes it possible for a company to adopt the appropriate countermeasures to deal with these risks.

The prime focus should not be on a complete overhaul of the management approach hitherto, nor on establishing another administrative department. Instead, it is preferable to develop a structured procedure for all the actions and functions relevant to the recognition and handling of risks, the elements of which of course already exist within the management body as a whole but not in a compact and structured manner.

High-quality risk management

Experience shows that the regular and structured analysis of the company-specific risk situation noticeably improves the quality and reliability of short- and long-term planning. High-quality risk management is the ideal tool for achieving competitive advantages, ensuring the organizationally independent continuance of the company, and, finally, protecting the company’s own assets. By further developing existing rules on the one hand and, on the other, learning the lessons taught in times of crisis, a reasonable division of tasks which can be absorbed smoothly into the project risk management as a whole has proven to be effective.

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About Ecovis

Ecovis is a leading global consulting firm with its origins in Continental Europe. It has over 4,500 staff operating in 40 countries. Its consulting focus and core competencies lie in the areas of tax consultation, auditing, legal advice and accounting and management consulting services. The particular strength of Ecovis is the combination of personal advice at a local level with the general expertise of an international and interdisciplinary network of professionals. Every Ecovis office can rely on qualified specialists in its back offices as well as on the specific industrial or national know-how of all the Ecovis experts worldwide. This diversified expertise provides clients with effective support, especially in the fields of international transactions and investments - from preparation in the client's native country to support in the target country. In its consulting work Ecovis concentrates mainly on mid-sized firms. Both nationally and internationally- from preparation in the client's native country to support in the target country. In its consulting work Ecovis concentrates mainly on mid sized firms. Both nationally and internationally, its one-stop-shop concept ensures all-round support in legal, fiscal, managerial and administrative issues.

The name Ecovis, a combination of the terms economy and vision, express both its international character and its focus on the future and growth.

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