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National Guidelines on Responsible Business Conduct and Guidance for MSMEs by MCA

The Ministry of Corporate Affairs (MCA), Government of India, released a set of guidelines in 2011 called the National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs). This was expected to provide guidance to businesses on what constitutes responsible business conduct. In order to align the NVGs with the Sustainable Development Goals (SDGs) and the 'Respect' pillar of the United Nations Guiding Principles (UNGP) the process of revision of NVGs was started in 2015. After, revision and updation, the new principles are called the National

the full benefits of sustainable business strategies.

The primary rationale for the update is to capture key national and international developments in the sustainable development agenda and business responsibility field that have occurred since the release of the NVGs in 2011. The NGRBC are designed to be used by all businesses, irrespective of their ownership, size, sector, structure or location. It is expected that all businesses investing or operating in India, including foreign multinational corporations (MNCs) will follow these guidelines. While the Principles have been updated,

they have retained the articulation and description of those in the NVGs. The connected Core Elements enhance the operationalization of each Principle. Keeping the importance of Micro, Small and Medium Enterprises (MSMEs) in view, the business case for adoption of NGRBC by the MSMEs is given as under.

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

Significance of MSMEs for NGRBC

Guidelines on Responsible Business Conduct (NGRBC). As with the NVGs, the NGRBC has been designed to assist businesses to perform above and beyond the requirements of regulatory compliance.

It is worthwhile to emphasize that all Principles of the NGRBC (as detailed in table below) are equally important, inter-related, interdependent and non-divisible, and businesses should adopt them to demonstrate their commitment to being a responsible business, and accrue

MSMEs contribute significantly to the GDP, employment and social equity of India. They are the 2nd largest employer, after agriculture, employing an estimated 100 million people which is almost ten times that of the employment in the government and large private sector put together. MSMEs are present in almost all economic activities, ranging from crafts to services and high-end industrial activities. The product range spreads across sectors including

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handicrafts, handlooms, textiles, garments, leather, plastics, engineering, IT & IT enabled services, hospitality, tourism, health care and several others. In terms of markets, these enterprises are connected with rural markets to global value chains. Together they contribute to 37% of industrial output, 40% of manufactured exports and 37.54% of the GDP for 2012-13 (Annual report of Ministry of MSME, Govt. of India, 2015-16), with a considerable multiplier effect on the economy. Another remarkable feature of the MSMEs in India is that almost two-third of them are naturally organized around approximately 6000 geographic clusters, as a part of local, regional, national and global value chains. These clusters in groups of contiguous villages, blocks or districts are known for a range of crafts, industrial products or services. MSMEs are, therefore, not a residual segment but a very significant component of the larger social and economic system, interconnected with a variety of stakeholders. Hence, for the NGRBC to succeed, widespread buy-in and adoption by the MSME sector is necessary.

Classification of MSMEs

The Indian MSME sector can be broadly categorized into two types:

1. MSMEs organized around local and regional value chains: These comprise a large number of very small enterprises and is estimated to contribute between half to two-thirds of the total MSME output. However, their share has been shrinking over the years making way for integration across national and global value chains.
2. MSMEs that are part of national & global value chains: These can be further broken into three distinct although not mutually exclusive subgroups:
 - a. Global value chains linked: This group accounts for increasing exposure of MSMEs to the global business environment since the 1990s. Those in product categories like garments, sports goods, furniture, chocolates, beverages and other food products are well exposed to individual and collective buyer standards across environment, labour and other issues, and are hence reasonably in tune with various responsible business guidelines, codes and standards.
 - b. Vendors/suppliers for large buyers with domestic base: The MSMEs in this group are linked across several sectors where global players have significant manufacturing or sourcing base in India, such as automobiles, engineering goods, aerospace, defence, railways and large retail companies. There is also a wide range of MSME suppliers for public procurement supplying to railways, engineering companies, power sector companies and a wide range of government services across hospitals, schools, etc.
 - c. Emerging high growth start-ups: The phenomenon of technology based high growth start-ups is beginning to surge. This is significant not only for the growth of individual enterprises but also with their power to disrupt the way classical brick and-mortar enterprises function. With a more positive socio-economic environment for spawning start-ups with support from academic institutions, private funding for risk capital, and government support, this group is fast emerging as a significant one. To illustrate there are technology based aggregators of MSMEs that include independent taxi operators, e-commerce platforms and credit facilitators. These entrepreneurs have joined the bandwagon of globally integrated Indian MSMEs.

The Business Case for MSMEs to adopt the NGRBC

There is no doubt that smaller businesses have fewer resources and

abilities to adhere to multiple laws, regulations and guidelines. But the facts that several of them already do clearly suggest that not only are they capable of doing so but it is worth their while – in other words, it makes business sense to do so. So, what are the business benefits of adopting these Principles and Core Elements? Some of these are outlined here:

Increased access to markets and customers: MSMEs that are a part of national and global value chains know that for them to gain new customers and retain their existing ones, they have to conform to a number of sustainability codes and standards that go well beyond compliance with local laws. These codes and standards, typically relating to issues regarding environment and labour, which are almost standard requirements for those exporting to western countries, are increasingly becoming universal, with several Indian companies also expecting their supply chains to conform to sustainability requirements. Adopting the Principles herein may enable MSMEs to become preferred suppliers to the increasing number of customers who expect responsible behaviour from their value chains.

Better preparedness for compliance: India was a signatory to two global agreements in 2015 – the Sustainable Development Goals and Paris Agreement on Climate Change. As a consequence, businesses will be expected to do more in the social and environmental spheres, and this will, inevitably, lead to tighter regulations over the years. The MSME sector too will face this challenge. Further, there are already multiple buyer codes and standards that MSMEs are expected to align themselves with and these will only increase. Adopting the NGRBC will enable MSMEs to be better prepared for this future.

De-risking operations: Adopting these guidelines will enable MSMEs to reduce the risk of their operations being affected due to noncompliance with either regulations or customer expectations (as expressed in their own codes and standards).

Cost savings and increase in productivity: There is mounting evidence, even amongst MSMEs, that investing in processes that reduce environmental footprints, waste, and drudgery, and increase the quality of life of employees, provides benefits that pays back these investments quickly and in good measure.

Access to funds: Several banks and financial institutions, including in India, are increasingly looking at businesses that do not conform to responsible business practices as risky and either fund them at a premium or do not fund them at all. The Indian Banks Association has recently come up with a set of National Voluntary Guidelines for Responsible Finance, which asks members to factor commitment to responsible business in their lending and investment decisions. MSMEs that adopt the NGRBC may find themselves better placed to negotiate better financial terms with banks and financial institutions to meet their growth plans.

Adopting the NGRBC

The steps that MSMEs should take to adopt the NGRBC are also described as under. Recognizing that some of these steps can be undertaken only by those businesses that are relatively larger and more mature, given below are what MSMEs must do at the bare minimum:

1. Prioritizing the Core Elements. The first step in adoption has to be prioritizing the Core Elements. In order to do this, the MSME must map all the Core Elements against:
 - a. Its own vision, mission, values and business success factors:

Those that align with or contribute to these must be considered priority.

- b. Laws and regulations: All Core Elements that are governed by a law or regulation, current or emerging, have to be prioritized.
 - c. Buyer/Customer codes: All codes adopted by buyers /customers, current and potential, must be studied and understood and those Core Elements that cover these requirements must be prioritized.
2. Embedding Prioritized Core Elements: All the prioritized Core Elements must then be integrated into the core business. All MSMEs must set their ambitions at the Essential level but those that set themselves higher ambitions are likely to reap the benefits of this in the medium to long term.

Aggregate Reporting – Useful methodology for MSMEs in clusters

MSMEs can now imbibe a method of preparing an aggregate report,

i.e. the result of applying the Aggregate Reporting (AR) methodology to combine data from individual units that belong in the same cluster (i.e. region/location) in order to create one collective sustainability report. The small enterprises of India can benefit from this reporting process that can identify significant issues that may impact the business, and can lead to business benefits through the process of measurement, management and change. The methodology is outlined in the learning document for the project, “Scaling up Sustainable Development of MSME”.

The above abstracts of National Guidelines on Responsible Business Conduct, released by Ministry of Corporate Affairs, are only in terms of Chapter-I and Chapter-II comprising of mandate, rationale, applicability and core elements and Annexure 2 that provide practical guidance for Micro, Small and Medium Enterprises on the adoption and implementation of these guidelines. ■

**A Brief Abstract Compiled by CS Bhagyashree Bardia, Sr. Executive, IOD and Practicing Company Secretary*

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