LODHA & CO

BEST SOCIAL PRACTICES THAT MAKE A DIFFERENCE

2023

Introduction

Socially responsible practices by businesses are not only due to generosity but to maintain a positive reputation, fulfil customer expectations, engage workers, manage risks, assure long-term viability, attract investors, and comply with legal and regulatory frameworks. Companies that commit to social and environmental concerns gain the trust and respect of their customers, workers, and the community. This can result in enhanced consumer loyalty, higher employee morale, and a competitive edge in the market. The demand for products and services from socially conscious businesses is rising, which may benefit such businesses' bottom lines.

After analyzing reports of top global and Indian players in three sectors, namely the financial sector (26.85%), IT sector (13.04%), and energy sector (11.88%) with significant weightage in the MSCI index, we have identified some of the best social practices implemented by these companies to enhance their social scores in ESG evaluations.

Social practices adopted by businesses

1. Diversity and Inclusion:

Promoting diversity and inclusion is an important social practice for top publicly traded companies. They try hard to create inclusive workplaces, assure fair representation across demographics, and remove bias and discrimination in their recruitment and promotion procedures. The representation of women and underrepresented communities should be increased. Many companies are aiming to bring in more women to senior management positions.

Companies like Apple. Inc, a multinational tech company aims to protect youth and end the practice of extreme sentences in the criminal justice system. Financial commitments are made by them to support Black, Hispanic/Latinx, and Indigenous entrepreneurs, businesses, and financial institutions. Investments in green technology and clean energy are directed toward businesses led by people of color, demonstrating a commitment to both equity and the environment. The company also provides support for minority-serving institutions.

Another example is HSBC, a London-headquartered universal bank and financial services group that is following a data-driven approach to inclusivity, such as a collection of employee socio-economic diversity data to promote social mobility and to gain insights into the representation and career development of those from lower socio-economic backgrounds.

Companies like Apple.Inc and Google are turning their offices into inclusive spaces by incorporating infrastructure and additional services like on-demand Sign language interpretation, etc. for Persons with Disability.

A 5C model of Engagement which stands for "Connect, Collaborate, Celebrate, Care, and Culture" has been introduced by Infosys, an Indian multinational IT company. It is a framework for strengthening and enforcing company's culture so that all workers, whether they work in the office or remotely, have a positive experience of working in the company.

Social practices adopted by businesses

2. Human Rights and Labour Standards:

Top-tier corporations often emphasize human rights and labor standards in their operations and supply networks. They may enact regulations prohibiting child and forced labor, ensuring fair salaries, and promoting safe working conditions.

Forced labor, underpayment, unsafe working conditions, discrimination based on race, gender, sexuality, and damage to people's health by pollution are some human rights issues that corporations must consider when conducting their activities.

Due to factors like regulatory pressure, pressure to conform to international guidelines and standards, reputation and relationships with customers, employees, media and NGOs, labor Unions, suppliers, investors, and lenders, it has become critical to develop human rights policies after stakeholder's dialogue.

For finance companies, the risks associated are downstream with the businesses that finance companies lend to or invest in. They can have a positive impact through their investment choices, lending criteria, and client due diligence.

For companies that sell goods or products to customers, risks such as misuse of the consumer's right to privacy or data protection may exist throughout the value chain. For example, HSBC has made sector-specific regulations as some of the company's clients include businesses that operate in industries with more danger of adverse human rights effects. Moreover, the HSBC Principles for the Ethical Use of Data and Artificial Intelligence outline their approach to upholding privacy rights using emerging technologies.

Through induction courses, new organization workers can be made aware of human rights. Security staff can be taught about human rights policies, child labor identification, and prevention. Regarding pay, there should be no disparities between local migrant employees and male and female workers.

3. Community Involvement:

Many businesses actively participate in the communities in which they operate. They contribute to social development through charity, volunteerism, and collaborations with nonprofit organizations to solve local needs, support education, and encourage long-term development. Companies can engage with the communities by first identifying the company's direct and indirect impact area and then contributing through donations, disaster assistance, and volunteerism.

Social practices adopted by businesses

For example, Ultratech, Aditya Birla's cement flagship firm based in Mumbai, has been investing in community development, emphasizing sanitation, infrastructure, and healthcare. Businesses support the community by providing eye camps, dental checkups, blood donation, homeopathy, thalassemia, hemoglobin testing, and general health counseling through mobile camps.

4. <u>Ethical Sourcing and Supply Chain Management:</u>

Businesses are concerned with ethical sourcing and supply chain management. They enact policies to ensure that their suppliers follow ethical practices such as respecting human rights, reducing environmental impact, and encouraging fair trade.

Ashok Leyland, an automobile manufacturer, uses local sourcing and a green supply chain as two of its key marketing strategies. It has a very well-defined policy on sustainable sourcing called the "Green Supply chain initiative" and to cut down on the use of wood and carton, the company uses recyclable pallets and shipping containers as well as eco-friendly packaging. It has 98% of its suppliers based in India.

Another example is Infosys which in order to establish a baseline for their ESG performance and pinpoint opportunities for development via cooperation, has initiated a responsible supply chain assessment for its top 100 suppliers. Additionally, they trained suppliers on ESG subjects and their relevance to goods and services in 2022.

5. <u>Stakeholder Engagement:</u>

Top-tier organizations understand the value of interacting with stakeholders such as employees, customers, investors, and local communities. They may undertake regular discourse meetings, surveys, and feedback methods to better understand and address the issues and expectations of their stakeholders. Businesses are developing digital tools for engaging with stakeholders. For instance, the cement company Ultratech, released UltraTech Trade Connect, an app common for customers, channel partners and internal teams which got positive feedback, with strong adoption rates, and has become a crucial component of everyday corporate operations.

Social practices adopted by businesses

- For suppliers:

Taking the example of the Maruti Suzuki Suppliers' Welfare Association (MSSWA), which serves as an excellent forum for supplier interaction with the company's top management. It allows for better engagement with stakeholders, understanding their perspectives and challenges, and finding solutions to enhance productivity. Additionally, the company has introduced a Compliance Month initiative – a month-long activity aimed at sensitizing, educating, and reinforcing the belief that compliance is an integral part of the business.

- For employees:

Companies may engage with their employees in numerous ways including employee recognition and rewards, training and development, employee wellness initiatives, employee feedback and surveys, employee empowerment by encouraging them to participate in decision-making processes, team building activities, engaging employees through volunteering programs, charity initiatives, environmentally sustainable practices, etc. They may also provide competitive pay and benefits packages, flexible work schedules, mental health support, and comprehensive training and development programs.

After engagement activities, companies should assess the impact of their activities. This helps to understand what proportion of employees experience a positive environment and culture and look up to the company for better training and progression opportunities. This type of feedback system aids businesses in determining if the actions done are advantageous or not and where the gaps are.

An example can be taken from HSBC Bank, which uses eight snapshot indices to gauge essential areas of focus and inclusion and benchmark against similar institutions. Those indices are employee engagement, employee focus, strategy, change, leadership, trust, career, and inclusion; which include a set of questions, and the scoring is given on the survey conducted. This scoring helps the Bank understand which factors are contributing to employee productivity. The Bank found that career development and pay benefits were the important influencing factors for voluntary attrition in the company.

- For customers:

Company's engagement with customers is for building strong relations, a loyal customer base, addressing customer needs and grievances, and creating positive experiences. Companies reach out to customers through social media channels, email marketing, communities, or forums to connect and share experience

Social practices adopted by businesses

6. Product Responsibility:

Companies that adopt ESG, consider the influence of their products or services on consumers and society. They may prioritize sustainable and ethical material procurement, and product safety design, and actively endeavor to minimize negative environmental and social impacts throughout the product lifecycle.

Taking a look at Google, an American multinational tech company that has not only one integrated report dedicated to ESG but additionally has a supplier responsibility report and product impact reports. The company has shared a report on life cycle assessments conducted on its products to find the materials and processes that would contribute to GHG emissions, and how they have incorporated various energy efficiency techniques to reduce the carbon footprint. Additionally, the products are made from recycled content, for instance, the Google Pixel 6a's plastic components include roughly 14% recycled material.

Researching, incorporating, and showcasing the efforts to make products sustainable helps the company to develop and improve itself; increases transparency and trust in the organization and its products among customers, employees and investors.

Way Forward

The existing and new blooming firms may make themselves socially responsible and, therefore, viable in the longer term by taking lessons from numerous top businesses that have embraced social practices without compromising their financial profit generation.

People are increasingly becoming aware of how crucial companies are to raise living standards. The rising understanding that in a world that is ever more complicated, companies also have major and enduring effects on people, the environment, and our capacity to sustain the levels of holistic growth that we all strive for. All stakeholders are demanding that companies of all shapes and sizes operate ethically, and thus requiring enterprises to be completely cognizant of their social, environmental, and economic duties and to balance them in a way that is ethical.

Both the methods and the objectives of conducting business should benefit society. Businesses can concentrate on making the company operations and procedures ethical by integrating sustainable practices, as opposed to creating profits by any methods that are unethical and then engaging in charitable activities to make up for it. Research and development in the areas of goods, services, and supply chains, the use of technology to make processes more eco-friendly and lower carbon footprint, interaction with and adding value to the community and stakeholders, and other such practices can be used to create socially sustainable enterprises.

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