

CHAPTER – III

AN OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY

3.1 INTRODUCTION

In recent years, the societal guiding model for sustainable development and its corporate derivatives known as Corporate Social Responsibility (CSR), which become most popular concepts. In the last two decades, Corporate Social Responsibility has played a vital role in the business community. Corporate Social Responsibility has been defined first, as a concept whereby companies decide voluntarily to contribute themselves for the development of a better society and cleaner environment and, second, as a process by which companies manage their relationship with stakeholders.

There is no doubt that CSR will become embedded in a Company's culture and organizational profile to such an extent that it will not be noticed, explicitly, anymore. There is also not much doubt that the phrase CSR will disappear, but the sentiments behind it will be in place. The area of business and society will continue to be one of great debates, and the corporation will certainly change its form. Owing to increasing attention to corporate practices from consumers and other stakeholder groups, marketing and management scholars have also shown an intense interest in the field of CSR.

Evolving cultural and societal expectations from Corporations to go beyond profitability and demonstrate the effects of their actions underscore the importance of communication. Corporate Social Responsibility is believed to create value not only for stakeholders of the corporation, but also for a Corporation itself. This value for the Corporation can be created through the marketing of corporate responsibility. Marketing tools and techniques can also be used in projects to promote good causes in a more effective way.

3.2 DEFINITIONS OF CSR

- **CSR Europe:** Corporate Social Responsibility is the way in which a company manages and improves its social and environmental impact to generate value for both its shareholders and its stakeholders by innovating its strategy, organization and operations.
- **Business for Social Responsibility (BSR):** CSR is defined as “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment”.
- **International Labour Law :** A way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law.

- **Organization for Economic Co-Operation and Development (OECD):** Corporate Responsibility involves the ‘fit’ businesses develop with the societies in which they operate. The function of business in society is to yield adequate returns to owners of capital by identifying and developing promising investment opportunities and, in the process, to provide jobs and to produce goods and services that consumers want to buy. However, corporate responsibility goes beyond this core function. Businesses are expected to obey the various laws which are applicable to them and often have to respond to societal expectations that are not written down as formal law.
- **ISO 26000:** The responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparency and ethical behavior that:
 - Contribute to sustainable development, including health and welfare of society,
 - Takes into account the expectation of stakeholders,
 - Is in compliance with applicable law and consistent with international norms of behavior,
 - Is integrated throughout the organization and practices in its relationship.
- **Amnesty International-Business Group (UK) :** Companies have to recognise that their ability to continue to provide goods and services and to create financial wealth will depend on their acceptability to an international society which increasingly regards protection of human rights as a condition of the corporate license to operate.

- **The Corporate Responsibility Coalition (CORE) :** As an ‘organ of society’, companies have a responsibility to safeguard human rights within their direct sphere of operations as well as within their wider spheres of influence.
- **The European Commission:** CSR is “the responsibility of enterprises for their impacts on society”. Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their Corporate Social Responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximizing the creation of shared value for their owners / shareholders and for their other stakeholders and society at large identifying, preventing and mitigating their possible adverse impacts.
- **World Bank :** The World Bank defined CSR as the commitment of business to contribute to sustainable economic development, working with employees, their families, local community and society at large to improve the quality of life in ways that are both good for business and good for development.
- **Wikipedia:** CSR is a concept that organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations”. It further clarifies

that this obligation extends beyond the corporation's statutory obligation to comply with legislation. Therefore, most of what is called the 'license to operate' or legal argument for CSR would not pass the test for CSR.

3.3 EMERGENCE OF CSR

Corporate Social Responsibility is not a new phenomenon; rather its history is long embedded in the Indian culture and has its roots in the Indian context. For example, the Sanskrit saying, "AtithiDevoBhav", means "the one who comes to you for being served, should be taken to be as God", is considered as the highest order of responsibility, be it to individuals or to the society. This phrase is the implicit indicator of acceptance of CSR in the culture of Indian society.

CSR has grown with much importance in recent years, often through public scandals and mismanagement. The Corporate scams and failures worldwide have increased the demand for CSR on a global scale. There is an increased demand from customers, employees, statutory bodies and the general public for detailed information about whether companies are meeting acceptable CSR standards.

3.4 THE HISTORY AND DEVELOPMENT OF CSR: GLOBALLY

The history of CSR is as old as the history of business itself, even though the concept was not formally formulated until recently. Even then as it was observed in the review of the meaning of CSR, the concept is still evolving and there isn't complete agreement as to what

the concept is all about. Victorian Philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centers today. In the global context, the recent history goes back to the seventeenth century when in 1790s, England witnessed the first large scale consumer boycott over the issue of slave harvested sugar which finally forced importer to have free-labor sourcing. The emergence of large corporations during the late 1800's played a major role in hastening movement away from the classical economic view. As society grew from the economic structure of small, powerless firms governed primarily by the market place to large corporations in which power became more concentrated questions of responsibility of business to society surfaced.

The history on CSR can be divided into two broad periods (Spring 2007):

- Before 1900 and
- From 1900 to present

- **CSR: Before 1900**

The history of social and environmental concerns about business is as old as trade and business itself. It is studied that laws to protect forest and commercial logging operations can both be traced back almost 5,000 years. Around 1700 BC, King Hammurabi of Ancient Mesopotamia is known to have introduced a code in which builders, innkeepers or farmers were put to death if their negligence caused the

deaths of others, or major inconvenience to local citizens. Meanwhile, history has equally recorded the grumblings of Ancient Roman senators about the failure of businesses to contribute sufficient taxes to fund their military campaigns. In 1622 disgruntled shareholders in the Dutch East India Company, are said to have started issuing pamphlets complaining about management secrecy and “self-enrichment” (BRASS Centre, 2007). Talking to individuals, thinkers and business people in Africa, it is found out that the CSR concept is very much part of their business history. The research showed that hunters in the Southern Cameroons, as well as other parts of Africa were expected to bring part of their catch to the chief (traditional rulers). Farmers in Eastern Nigeria (Igbo land) brought their first harvest for the famous communal “New Yam Festival”. Professional craftsmen were seen as custodians of history and many of their art works were kept in the palaces of the chiefs (they were not paid for such pieces of art). In all parts of Africa found out that vital professionals such as doctors were not allowed to charge exorbitant fees for their services.

In fact their fees were normally so nominal that no one was unable to pay. All these point to the fact that in traditional African societies, businesses were seen first and foremost as providing benefits for the whole society, and the individual business person came only second place. A parallel view of business is presented in the Bible, where there is condemnation for charging interests on debts. In addition, Jesus in some of his parables, such as the Prodigal Son and the Good

Samaritan, exemplifies the sharing of wealth. The beatitudes too also foster that sense of community. Indeed, CSR can be seen as a very Christian concept. Many of the social teachings of the Catholic Church support CSR. The concern on the part of the Catholic Church for the poor and underprivileged has continued even to the 20th and 21st centuries.

- **CSR: From 1900 to Present:**

As early as the 1920s, discussions about the social responsibilities of business had evolved into what could be recognized as the beginnings of the “modern” CSR movement. In 1929, the Dean of Harvard Business School, Wallace B. Donham, commented in an address delivered at North Western University as: “Business started long centuries before the dawn of history, but business as we now know it is new, - new in its broadening scope, new in its social significance. Business has not learned how to handle these changes, nor does it recognize the magnitude of its responsibilities for the future of civilization” (BRASS Centre, 2007). The concept of social responsibility that prevailed in the US during most of the history was fashioned after the traditional or classical economic model. The classical view held that a society could best determine its needs and wants through the market place. If the business is awarded on this ability to respond to the demands of the market the self-interested pursuit of that reward would result in society getting what it wants. Thus, the invisible hand of the

market transforms self-interested into societal interest. Years later, when laws constraining business behavior began to proliferate it might be said that a legal model emerged. Society's expectations of business changed from being strictly economic in nature to encompassing issues that have been previously at business's discretion. Over time, a social model or stakeholder model has evolved. A modification of the classical economic model was seen in practice in at least three areas: philanthropy – contributions to charity and other worthy causes, voluntary community obligations and paternalism – appeared in many forms and one of the most visible was the company's progress towards community service (Georgeta Nae, 2008). The notion of CSR assumes corporate behavior that goes beyond legal requirements.

CSR is the detailed 'issues' which an organization may be taking into account when developing strategies and on which an organization exceeds its minimum required obligations to stakeholders (Johnson, 1999). Traditionally, these issues are both internal and external to the organization i.e. employee welfare, working conditions, green issues, products etc. Today, the Corporate Social Responsibility 'handbook' extends to human rights, workplace practices, globalization practices, corporate power, environmental impact, corruption, community affairs and effective stakeholder dialogue (Cowe, Porritt, 2002). By meeting its legal obligations, an organization should come forward to fulfill the societal needs. Among unemployed youths in British cities led companies to take a closer interest in the country's social stability and to

become involved in improving living conditions in their local area. Today British companies pay close attention to the needs and demands

3.5. EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY IN INDIA

The evolution of corporate social responsibility in India refers to changes over time in India. The cultural norms of corporations engagement of corporate social responsibility (CSR), is the way that businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate. The fundamentals of CSR rest on the fact that not only the public policy, but also the corporate that should be responsible to solve the social issues. Thus, companies should deal with the challenges and issues looked after to a certain extent by the states.

Among other countries, India has one of the richest traditions of CSR. Much has been done in recent years to make Indian Entrepreneurs to aware of social responsibility as an important segment of their business activity, but CSR in India has yet to receive widespread recognition. If this goal has to be realised then the CSR approach of corporate has to be in line with their attitudes towards mainstream business companies setting clear objectives, undertaking potential investments, measuring and reporting performance publicly.

3.6 CURRENT STATUS OF CSR IN INDIA

CSR is not a new concept in India. Ever since their inception, corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporate feel that CSR is not just another form of indirect expense, but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.

Companies have specialised CSR teams that formulate policies, strategies and goals for their CSR programmes and set aside budgets to fund them. These programmes are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programmes are put into practice by the employees who are crucial to this process. CSR programmes ranges from community development to the development in education, environment and healthcare etc.

A more comprehensive method of development is adopted by some corporations such as Bharat Petroleum Corporation Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited.

Provision of improved medical and sanitation facilities, building schools and houses, and empowering the villagers and in process, making them more self-reliant by providing vocational training and a knowledge of business operations are the facilities that these corporations focus on. Many of the companies are helping other peoples by providing them a good standard of living.

On the other hand, the CSR programmes of the corporations like GlaxoSmithKline Pharmaceuticals' focus on the health aspect of the community. They set up health camps in tribal villages which offer medical checkups, treatment and undertake the health awareness programs. Some of the non-profit organizations which carry out health and education programmes in backward areas to a certain extent funded by such corporations.

Also Corporates increasingly join hands with Non-governmental organizations (NGOs) and use their expertise in devising programs which address wider social problems.

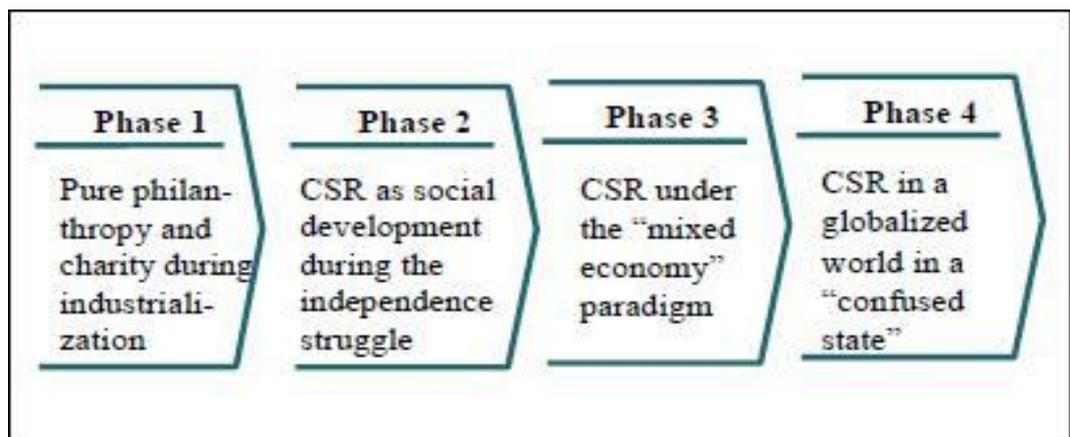
CSR has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the corporates. Not one, but all corporates should try and bring about a change in the current social situation in India in order to have an effective and lasting solution to the social woes. Partnerships between companies, NGOs and the government should be facilitated so that a combination of their skills such as expertise, strategic thinking, manpower and money to initiate

extensive social change will put the socio-economic development of India on a fast track.

3.7 THE FOUR PHASES OF CSR DEVELOPMENT IN INDIA

The history of CSR in India has four phases which run parallel to India's historical development and resulted in different approaches towards CSR. However, the phases are not static and the features of each phase may overlap other phases.

Figure 3.1: Four Phases of CSR Development in India



Source: Tatjana Chahoud et.al, (2007)

The First Phase

In the first phase, charity and philanthropy were the main drivers of CSR. Culture, religion, family values, tradition and industrialization had an influential effect on CSR. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by the way of setting up temples for a religious cause. Moreover, these merchants helped the society in getting over phases of famine and epidemics by providing money, food from their godowns and thus securing an integral position in the society. With the arrival of colonial rule in India from the 1850s onwards, the approach towards CSR had changed. The industrial families of the 19th century, such as Tata, Godrej, Bajaj, Modi, Birla, Singhanian were strongly inclined towards the economy as well as the social considerations. However, it has been observed that their efforts towards social as well as industrial development was not only driven by selfless and religious motives, but also influenced by caste groups and political objectives.

The Second Phase

In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. Mahatma Gandhi introduced the notion of "trusteeship", in which the industry leaders had to manage their wealth so as to benefit the common man as *"I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no*

makeshift, certainly no camouflage. I am confident that it will survive all other theories." Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools and colleges and also helped in setting up the training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

The Third Phase

In the third phase of CSR (1960–80) had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector has seen as the prime mover of development. Because of the stringent legal rules and regulations, the period was described as an "era of command and control". The policy of industrial licensing, higher taxes and restrictions on the private sector led to corporate malpractices. This led to the enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy. However, the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the

country. In 1965, Indian academicians, politicians and businessmen have organized a National level workshop on CSR aimed at reconciliation. They have emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

The Fourth Phase

In the fourth phase (from 1980 to the present), Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s, the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with, which gave a boost to the economy the signs of which are very evident today. The increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. As Western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies which export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

3.8 TRIPLE BOTTOM TO CSR

The companies are facing public scrutiny in their local country as well as in the global world regarding their CSR frameworks. CSR includes a wide range of issues like considering family commitments of employees, fair purchasing policy for suppliers, giving employment to local unemployed, setting tasks for social upliftment etc. It gives rise to a new level of competition not based on economic terms but on social terms. Hence, the Indian companies are facing the challenges from their foreign counterparts not only to comply the legislative framework but also to compete on social responsibility aspect. CSR lays emphasis on corporate accountability and transparency, which demands the companies to go beyond their traditional economic lines meant to earn profits with little regard for its social and environmental consequences. The companies refer Generally Accepted Accounting Principles for financial reporting.

The companies can address the emerging standards for social and environmental reporting through Triple Bottom Line (TBL) approach, which is a proactive answer to the questions raised by the stakeholders with respect to increased transparency and accountability. Therefore, the companies are now accepting TBL of economic, social and environmental performance. Triple bottom line concept (3P) explains that in order to sustain in the long run a corporation should pay attention to the following components:

People relates to fair and beneficial business practices towards labour, the community and region where corporation conducts its business. Support from people (society) in business area is needed for corporate sustainability. As an integral part with society, corporation needs to have commitment in giving optimum benefit to the society.

Planet refers to sustainable environmental practices. There is a causal relationship between corporations and planet. If corporations preserve their environment, environment will benefit them. A triple bottom line Co. does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy metals.

Profit is the economic value created by the organisation after deducting the cost of all inputs including the cost of the capital tied up. It is the most important thing and also main objective of every business. Profit can be increased by improving work management through process simplification, by reducing inefficient activities, save processing and service time and usage of material as efficient as possible.

3.9 THE PYRAMID OF CSR

Carroll (1979) has given a four-part definition for CSR, suggesting that it “encompasses the economic, legal, ethical, and discretionary expectations that society has organizations at a given point in time”. According to Carroll, these four categories of business performance have to be embodied in the definition of CSR in order to cover the obligations of the corporation to the society. (Carroll 1979, 499-500) Figure 3.2 illustrates the corporate social responsibilities in a

form of a pyramid. The proportions suggest the relative magnitude of each responsibility

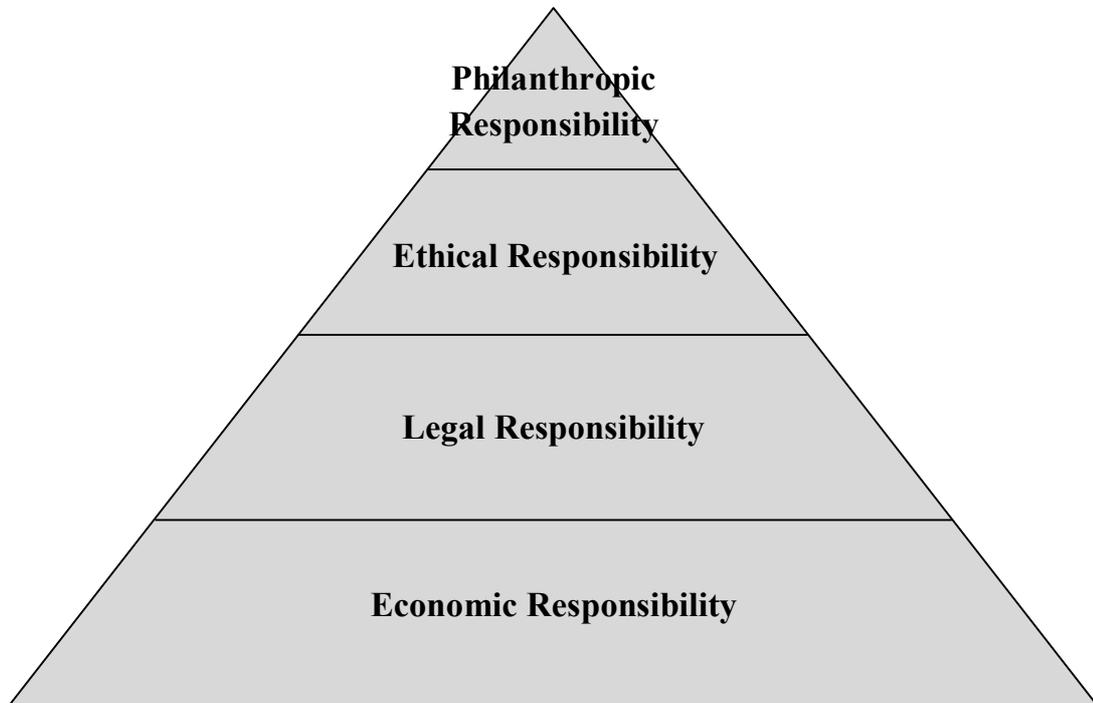


Figure 3.2: Corporate social responsibility pyramid for the developed world
Source: Adapted from Carroll (1991).

✓ ***Economic responsibility in Carroll's CSR Pyramid***

It concerns the responsibility of the business of producing goods and services needed for the society and selling them for making a profit. Novak (1996) has defined seven responsibilities of companies which have shareholders who demand a reasonable return on their investments, have employees who want safe and fairly paid jobs, and have customers who demand good quality products at a fair price. The first responsibility of the business is about the functioning of economic unit

which stays in business. It is the base of the pyramid, where all the layers rest on.

✓ ***Legal responsibility in Carroll's CSR Pyramid***

The legal responsibility of corporations demand businesses abides by the law and play by the rules of the game. Companies should choose to “bend” or even ignore their legal responsibilities when the price will be very high for the business. And US software giant Microsoft has faced a long running anti-trust case in Europe for abusing its monopolistic position to disadvantage its competitors which resulted in tough settlements against the company.

✓ ***Ethical Responsibility in Carroll's CSR Pyramid***

The main concept of ethical responsibility as defined and expressed by Carroll (1991) is that the ethical responsibility consists of what is generally expected by society over and above economic and legal expectations. Ethical responsibilities of companies cover its wide range of responsibilities. Ethical responsibilities are not necessarily imposed by law, but they are expected from ethical companies by the public and the governments. Hence, this case has seen in the example of Shell, where the decision of the government was reversed for disposing of oil platform after a campaign and disagreement by the society and public.

✓ ***Philanthropic responsibility in Carroll's CSR Pyramid***

As it is at the top of the pyramid, it focuses on more luxurious things such as improving the quality of life of employees, local

communities and ultimately society in general. Some points of the philanthropic responsibilities of the businesses can be controversial and requires separate studies aimed to it. Especially, who should decide on what cause to spend the money, how much, and on what basis these decisions should be made?

Carroll (1991) argued that these four responsibilities should be fulfilled by the companies simultaneously. He also suggested that the ethical and philanthropic responsibilities are the social responsibilities of the company. In addition, the CSR debate focused on the ethical and philanthropic responsibilities, giving little attention to economic and legal responsibilities.

3.10 MOTIVES OF CORPORATE SOCIAL RESPONSIBILITY

A number of factors are driving the increased adoption of CSR practices in the corporate India. Regulation obviously provides the baseline for corporate action, notably for employment practices and the environment. Beyond this, for many companies, being a good corporate citizen is a vital aspect of their identity, values, and vision. Far-sighted business leaders recognize that it is unsustainable for their companies to exist as ‘islands of prosperity’ in a sea of poverty. ‘We must do something for the community from whose land we generate our wealth’, says one leading chief executive officers. Market forces are also propelling many firms to go ‘beyond compliance’, notably for those selling into international supply chains. No longer a legal necessity and a nice thing to do, corporate social responsibility is emerging as a ‘hard’

commercial factor, linked directly to profits and brand value.

In the recent years corporate business houses have substantially involved towards societal responsibilities. Companies have started to realise the importance of corporate social responsibility and initiating the steps towards it. Today, the objectives of the companies are not limited to profit maximisation, economic gains or enhancing competencies but at the same time ensure environmental protection, promotion of social responsibility including consumer interest. It will lead to good public image which in turn have positive impact on the wealth of the organisation. The reasons that motivate organisations to involve in corporate social responsibility activities are discussed as follows:

Globalization and market forces: As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes labour exploitation are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance. Some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. (Fry, Keim and Meiners 1986) Global competition places particular pressure on multinational corporations to examine not only their own labour

practices, but those of their entire supply chain, from a CSR perspective.

Laws and regulation: Another driver of CSR is the role of independent mediators, particularly the government, in ensuring that corporations are prevented from harming the broader social good, including people and the environment. CSR critics such as Robert Reich argue that governments should set the agenda for social responsibility by the way of laws and regulation that will allow a business to conduct themselves responsibly. The issues surrounding government regulation pose several problems. Regulation in itself is unable to cover every aspect in detail of a corporation's operations. This leads to burdensome legal processes bogged down in interpretations of the law and debatable grey areas (Sacconi 2004).

Social awareness: The role among corporate stakeholders to work collectively to pressure corporations is changing. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly. Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community in holding businesses responsible for their actions is growing (Roux 2007).

Ethical Consumerism: The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources

required to meet rising consumer demand (Grace and Cohen 2005). Industrialization in many developing countries is booming as a result of technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

Stakeholder priorities: Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders expect them to understand and address the social and community issues that are relevant to them. Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on). Key external stakeholders include customers, consumers, investors (particularly institutional investors, regulators, academics, and the media). There is a wide consensus among public and private institutions that the concept of Corporate Social Responsibility (CSR) is based on a company attaining a balance between the interests of all its stakeholders within its strategic planning and operations.

Consumers Satisfaction: Responsible companies give greater priority to their customers. With diminishing business boundaries across the world consumers have become aware and more demanding in terms of

information regarding conditions in which the products and services are produced along with the sustainability impact thereof. CSR is about values and accountability which includes the behaviour of the people. Many potential clients who themselves operate CSR activities expect their suppliers to do similar kind of programmes. Sometimes the selection is on the basis of social responsiveness of the supplier.

Employees Satisfaction: Young blood in the organisation wants more than the financial benefit. They feel sense of pride to be connected with the organisation which is socially responsible. Strong CSR practices can help in attracting, recruiting and retaining the best young talents.

Image Building: Globalisation and universal expansion of the economies enhances the consideration of image and reputation among organisations. An organisations' image and reputation can be ruined in days through unregulated and unethical practices. Hence, imbibing CSR practices becomes the strong foundation in image building. CSR practices can help the organisation to avoid the risk of corruption scandals, environment disasters, child labour violations and dangerous work environment. These incidents also draw unwanted attention from regulators, courts, governments and media. A genuine effort in playing straight and having good CSR record with the right check insulates the companies from such risks.

Risk Management: Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental

accidents. These events can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.

License to operate: Corporations are keen to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity or the environment good corporate citizens with respect to labour standards and impacts on the environment.

Environment protection: Environment protection becomes an area of concern these days. A CSR programme that aims to conserve earth's natural resources, avoiding pollution, water conservation and minimising global warming effects are the areas in which the companies take initiative.

3.11 THE BENEFITS OF CSR

Every concept has got two faces naturally the advantage as well as disadvantage, here the research try to highlight the first face of corporate social responsibility in terms of its practical benefits and those as mentioned below.

Building Reputation by increasing environmental efficiency and improving environmental responsibility, an enhanced reputation is often manifested in awards and recognition from governments, rating agencies, and public surveys.

Developing human capital through better human resource management, a high quality work force is essential for competitiveness since it improves productivity, product quality, and innovation. A study in India covering 52000 employees in 200 companies found a positive correlation between employment practices and financial returns.

Improving access to capital through high standards of corporate governance that reassure investors on issues relating to shareholder and stakeholder rights, transparency and disclosure, and proper governance structures. Another interesting illustration of the business case for CSR is provided by Bob Willard (2002) in his book, *The Sustainability Advantage: seven business case benefits of a triple bottom line*.

Easier hiring of the best talent Researchers estimate that the most important corporate resource over the next 20 years will be talented employees, many of which pay attention to corporate social and environmental behaviour. Willard shows how recruiting costs for South Dakota Inc. could be reduced by 5% through a positive South Dakota branding.

Higher retention of top talent Studies showed that talented employees tend to stay with a company when they have meaningful work. Willard shows how South Dakota Inc., in embracing a sustainable framework, could avoid 38 million dollars in costs to retain their talented employees.

Increasing employee productivity Willard discusses the connection between meaningful work and productivity, and shows that engaging the entire organization in sustainable development goals like zero

emissions, self-sufficient energy production, zero waste, helping restore the planet's health, ensures that the company gets more output from its employees. Small and medium enterprise (SMEs) productivity benefit translates into 756 million dollars, the equivalent of 12,600 extra employees.

Reduced expenses in manufacturing Willard demonstrates savings opportunities through eliminating or recycling waste and redesigning processes to use less energy, water, and materials in manufacturing, which are the low hanging fruits of eco-efficiency.

Reduced expenses at commercial sites A lot of unnecessary waste takes place at non-manufacturing sites. Through more judicious waste handling, energy efficiency, water conservation, and naturalized landscaping, SD Inc. can add 26 million dollars of pure profit.

Improved financial performance As stated above a corporations' priority is to maximize profits and therefore it is interesting to discuss the relationship between social responsibility actions and economic performance. There are different opinions on this matter and they can be structured into three different viewpoints. The first viewpoint believes that there is a tradeoff between social responsibilities and financial performance. Engaging in CSR will get in the way of profit maximization and it is therefore irresponsible of a corporation towards its shareholders to engage in CSR operations. The second viewpoint believes that the costs occurring when the corporations embrace their social responsibilities are marginal and outweighed by benefits such as

improved employee moral and productivity. *The third viewpoint* believes that CSR is important in itself and its costs are offset by a reduction of other costs (Mcguire et al. 1988).

3.11 THE SCOPE OF SOCIAL RESPONSIBILITY

The scope of social responsibility is wide and could be considered in terms of different viewpoints, some of which are given below:

- **Protecting and promoting the stakeholder's interests**

Some consider social responsibility in terms of services rendered to claimants or stakeholders, who could be both insiders and outsiders. The insiders are employees and shareholders while outsiders include consumers, suppliers, creditors, competitors, government and the general public. Consumers expect the quality of goods and services at fair prices, workers expect fair wages without being exploited, shareholders expect reasonable dividends and fair return on investments and managers expect challenging jobs with attractive salary. The Government and the general public expect the companies to add the wealth and welfare of the country without polluting the environment. In short, business organizations have to consider themselves the “custodians of public welfare”, by rendering such services to the various sections of the society.

- **Social concern and promotion of common welfare programmes**

Another way in which the scope of social responsibility is viewed in terms of social concern and promotion of common welfare programmes for the benefit of the poor and the indigent public.

Companies have highlighted social issues and brought them to the notice of the public through hoarding and other means of drawing the attention of people to the issue in question and generate public awareness. There had been occasions, though limited in number, where corporates have joined hands to sponsor advertisements promoting public causes or issues of social concern such as pointing out the dangers of drug addiction and smoking. Business organizations could also consider social responsibility in terms of relatedness to their own activities. Producers of dental or eye care products organize mass medical camps in villages and semi-urban areas where surgeons attend to the medical needs of the poor and indigent. Such attempts greatly relieve the burden on the financially strapped state in a developing country like India, where people, due to poverty and for historical reasons depend solely on the government to render every type of service.

▪ **As an act of philanthropy**

There are others who view social responsibility as philanthropy. J.R.D. Tata in his keynote address at the inauguration of the Tata Foundation for Business Ethics some 10 years ago outlined this quotation thus: “The Tata industrialist ethos inherited from the great Jamesetji himself, tried to combine high standards and quality production with sincere concern for ethical values such as fair and honest management, product quality, human relations in industry and industrial philanthropy. However, in a strict sense, the concept is

restricted to the observance of rules and regulations that govern business transactions, and in a way facilitates a smooth running of business. “In a wider sense, it demands conformity with accepted norms and interpretations of the laws dealing with business activity.” Moreover, in a business world, where cut throat competition and survival of the fittest dictate the law and have the upper hand over humanity, philanthropy also means a display of humanity which will manifest itself in some form of benevolent activity among the larger public. It undoubtedly benefits some individuals or communities in need”.

▪ **Good corporate governance itself is a social responsibility**

Some social thinkers have the view, in Indian context, that good corporate governance itself is an ingredient of corporate social responsibility. For too long, Indian corporate has insulated themselves from wholesome developments evolving elsewhere. Corporate democracy, professional management and maximization of long-term shareholder value which are attributes of good corporate governance, were lacking in the country. A closed economy, a sheltered market, limited need and access to global business / trade, lack of competitive spirit, a regulatory framework that enjoined the mere observance of rules and regulations rather than a realization of broader corporate objectives, marked the contours of corporate governance for well over 50 years.

Corporate governance has acquired a new urgency in India due to the changing profile of corporate ownership, increasing flow of foreign

investment, preferential allotment of shares to promoters, gradual unwinding of the control mechanism of the state that had hitherto provided protective cover to even poorly managed corporations and the increasing role of mutual funds since 1991.

▪ **Corporate in the vanguard of rendering social service**

Some industrial houses have been promoting activities that supplement the efforts of public authorities in certain areas that are important for all-round human development. The Tatas have contributed to the growth of fundamental and social sciences by building and nurturing institutions of higher learning in these areas. The Birlas have been building and maintaining beautiful monument places of worship in several cities in addition to popularizing science through planetariums. Some corporate have been sponsoring sports events and helping sportspersons attain international standards. TISCO has made several contributions in such diverse areas as community, especially tribal area development, rural industrialisation, etc., SAIL has done its mite in agriculture, health care, drinking water supply, dairy and poultry farming. ITC Ltd. is socially active in agriculture, sports and pollution control, while Brooke Bond has interests in animal welfare, providing veterinary services and improvement in animal breeding. Down south, several corporate have done yeoman service in the field of education and related areas such as sports, building of institutions that train personnel as well as render social service.

The Loyola Institute of Business Administration (LIBA) has instituted The Mother Teresa Award for Corporate Citizen to showcase as a role model for corporate that has rendered social services far beyond the call of its duty and responsibility for others to emulate. It has identified Titan Industries, Tamilnadu Newsprints and Papers Ltd., Indian Oil, Polaris, TVS Motors, and Orchid Chemicals for the award so far in recognition of several socio-economic projects they have been running for the welfare of the disadvantaged sections of the society in and around the places where their factories are located. Some studies have shown that there are several others too who have done yeoman service to the people at large. Some of these are: TVS Group, Bajaj Auto, Balmer Lawrie, Bank of America, Business Standard, Coco Cola India, Dr. Reddy's Laboratories, Forbes Marshall, Nicholas Piramal, Excel Industries, Hindustan Machine Tools, Amar Jyothi Industries, Hindustan Lever and International Business Machines, to mention a few major corporate players. While some of them work for the welfare of the poor, handicapped and the marginalized sections of the society in and around where their plants, facilities and offices are located, and others go beyond their locations and reach out to those who are in direct need of their services.

- **Sponsoring social and charitable causes**

Some entrepreneurs had not only built industrial empires, but also contributed individually to certain social and charitable causes. J.R.D. Tata's contribution to the growth of the Indian airline industry, population-related research, education of the underprivileged, etc. had been exemplary. Late D.C.Kothari, the chairman and managing director of Chennai based Kothari Industrial Corporation Ltd., with his wide-ranging interests, had been the moving spirit behind several charitable trusts as an institution of higher learning, apart from being the prime-mover of the Standards movement in the country and earned the rare distinction of becoming the President of International Organisation for Standardisation (ISO) from the third world country.

- **Corporations should supplement state efforts**

There are several areas where corporate can supplement effectively the ever growing welfare activities, that the state is expected to undertake, but does not have the resources to carry on. Corporates can run schools, either in their own areas or in any other adopted village of their choice, providing good quality primary education. Approximately, our country has more than two lakh corporates. If each one adopts three villages, we will be able to cover the entire country and provide better primary and elementary education to our children. It will go a long way in promoting literacy and over-all development of the country. In this context, it should be borne in mind that the Asian Tigers like Thailand, Philippines, South Korea, Indonesia, Malaysia and Singapore have

achieved higher growth rates before the currency crises overshadowed their achievements because of universalisation of primary education which they carried out since 1950s whereas we have failed to do so.

Corporate resources can also be allocated to run family planning clinics, medium sized hospitals in villages, literacy campaigns and adult education programmes, campaigns against smoking, pollution, AIDS, casteism and communalism, and to provide housing, sports and recreational amenities for slum dwellers, etc. Corporates can also contribute effectively towards urban management which was done by Tata Steel in Jamshedpur.

Another area where corporate concern for social welfare can be shown in the maintenance of public health system. Corporate cannot be mute spectators to the deterioration in public health. Besides the moral and social aspects involved, they have to appreciate the fact that all their activities, business or otherwise, will come to a stand-still, if any disease of epidemic proportions breaks out. In 1999, The Hindu reported a unique government – industry partnership to improve public health in Tamil Nadu. In the first phase of the programme, 57 Primary Health Centers (PHCs) and 6 Government Hospitals were adopted by 19 industrial groups based in the state. According to official sources, 40 more PHCs were adopted in the second phase with more industries joining in due course.

- **Social responsibility of Corporates also lies in abiding by rules and regulations**

This view is widely accepted since it facilitates a smooth functioning of business. This demands conformity with accepted norms, and interpretations of the laws dealing with business activity.

- **Ensuring ecological balance**

Several corporations such as Tata Steel, ITC, Srinivasan Services Trust of the TVS Group have been helping people to harmonise with nature by reducing pollution.

- **By focusing on human elements**

Social responsibility also lies in improving quality of work life; reducing hazards in the workplace; ensuring equality in employment opportunities and wages; ensuring settlements of disputes with workers within the legal framework; assisting employees to adjust themselves with ease to new environments while relocating plants; and to ensure job and retirement security of a reasonable nature.

3.13 THE KEY DRIVERS FOR CSR

Many companies think that corporate social responsibility is a peripheral issue for their business and customer satisfaction is more important for them. Some of the drivers pushing business towards CSR include:

- a) **Direct Economic value/Brand Reputation:** Although the prime goal of a company is to generate profits, companies can at the same time contribute to social and environmental objectives by integrating

CSR as a strategic investment in to their business strategy as they become increasingly aware that Corporate Social Responsibility can be of direct economic value. They can increase their reputation with the public and government by adopting CSR.

- b) **Laws and Regulations:** Another driver of CSR is the role of independent mediators, particularly the government, in ensuring that corporations are prevented from harming the broader social well, including people and environment. Governments should set the agenda for social responsibility by way of laws and regulations that will allow a business to conduct them responsibly.
- c) **Competitive Labour Markets:** Employees are increasingly looking beyond pay-checks & benefits and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.
- d) **Philanthropy:** It is the historical driver which means sense of ethics or welfare. After the Second World War, a variety of national and international regulations arose through bodies such as International Labour Organisation (ILO) emphasizing the need for an active social policy for transnational companies.
- e) **Ethical Consumerism:** The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand. There is

evidence that the ethical conduct of companies exert a growing influence on the purchasing decisions of consumers.

- f) **Globalization and Market forces:** Corporations have to face many challenges i.e. government regulations and tariffs, environmental restrictions etc. that can cost organisations very much. Organisations can sustain a competitive advantage by using their social contributions.
- g) **Social Awareness and Education:** Corporate stakeholders are exerting pressure on corporations to behave responsibly. Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the internet to increase their scrutiny and collective activism around corporate behaviour.
- h) **Supplier Relations:** As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers to ensure that other companies' policies or practices do not tarnish their reputation.

3.14 CODES & STANDARDS FOR CSR

Global Reporting Initiative (GRI): GRI has been addressing the need for standardized approach to corporate sustainability reporting. In 2006, GRI published Version 3.0(G3) of its Sustainability Reporting Guidelines emphasizing performance indicators, which contain a separate section titled "Human Rights" with nine performance

indicators. It is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of organizational activities. Its mission is to improve the comparability and credibility of sustainability reporting worldwide.

UN Global Compact Initiative: Launched in 1999 by United Nations Secretary, Kofi Annan, the Global Compact is a coalition of large businesses, trade unions, environmental and human rights groups, brought together to share a dialogue on corporate social responsibility. It consists of a minimum platform based on fundamental values for disseminating good corporate practice in accordance with universal principals. Companies' adherence is on a voluntary basis and signatories commit to a global pact of nine principles.

Social Accountability 8000: 'SA 8000' standard for social accountability, created in 2000 by Council on Economic Priorities Accreditation Agency (CEPAA). The SA 8000 code of practice is broken down into nine key areas child labour, management systems, working hours, compensation, disciplinary practices, forced labour, health & safety, freedom of association & collective bargaining and discrimination.

International Organization for Standardization (ISO) 26000: ISO an International Standard setting body has developed a new standard on Social Responsibility namely ISO 26000. ISO 26000 is intended for use by all types of organizations and in all countries and to assist

organizations to operate in a socially responsible manner. According to ISO 26000, there are seven fundamental subjects of CSR as follows:

- Environment
- Labour practices
- Human rights
- Organizational governance
- Fair operating practice
- Consumer issues
- Social development

Occupational Health & Safety Advisory Services (OHSAS)

Standard: OHSAS 18001 is applicable to any organization which aims to establish a health and safety management system at work.

Organization for Economic Co-operation and Development (OECD)

guidelines for multinational companies: OECD guidelines contains recommendations on core labour, environmental standards, human rights, competition, taxation, science and Technology combating corruption and safe guarding, consumer rights. These guidelines acknowledge and encourage the contribution that MNEs can make to local capacity building as a result of their activities in local communities.

Others: ISO 9001:2000 (quality), ISO 14001:2004 (environment) and OHSAS 18001:2007 are “generic management system standards”, so that the same standard can be applied to any organisation, large or small, whatever its product or service, in any sector of activity, and whether it

is a business enterprise, a public administration, or a government department. These standards have been developed in the above sequence, they appear to be compatible to each other and hence show some overlapping features.

3.15 GOVERNMENT'S INITIATIVES TOWARDS CSR

1. The Government of every country formulates and executes a set of policies and programmes for the welfare of the society. These policies are executed through legislation.
2. The Government shall encourage corporate to assume a participatory role in schemes of social reforms formulated by the Government by offering suitable incentives to them.
3. The Ministry of Corporate Affairs had released voluntary Guidelines on CSR in 2009 as the first step towards the mainstreaming concept of Business Responsibilities. Keeping in view the feedback from stakeholders, it was decided to revise the same with a more comprehensive set of guidelines that encompasses the social, environmental and economical responsibilities of business.
4. The National Voluntary Guidelines on Socio-Economic and Environmental Responsibilities of Business brought out by the Ministry of Corporate Affairs have encouraged the corporate sector in their efforts towards inclusive development. The guidelines were released by the Ministry of Corporate Affairs on 8

July 2011. The guidelines are given in the form of nine principles and core elements. These are enumerated below:

5. PRINCIPLE 1: Businesses should conduct and govern themselves with ethics, transparency and accountability.
6. PRINCIPLE 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.
7. PRINCIPLE 3: Businesses should promote the well-being of all employees.
8. PRINCIPLE 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.
9. PRINCIPLE 5: Businesses should respect and promote human rights
10. PRINCIPLE 6: Business should respect, protect, and make efforts to restore the environment
11. PRINCIPLE 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
12. PRINCIPLE 8: Businesses should support inclusive growth and equitable development
13. PRINCIPLE 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner.

3.16 CSR UNDER THE COMPANIES ACT, 2013

3.16.1 Companies within the ambit of CSR obligations

According to Section 135(1) of the Companies Act, 2013, CSR requirements are applicable to every company (qualifying company) which is having: (1) net worth of 500 crore or more, or (2) turnover of 1,000 crore or more, or (3) a net profit of 5 crore or more during any financial year.

3.16.2 Mandatory CSR obligations

The Companies Act, 2013 mandatorily requires every qualifying company:

1. To constitute a CSR Committee of the Board
2. To formulate a CSR Policy based on CSR Committee's recommendations
3. To undertake activities included in CSR Policy
4. To spend at least 2% of average net profits on CSR

3.16.3 Constitution of CSR Committee

Section 135(1) of the Companies Act, 2013 requires every qualifying company to constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Section 135(3) of the Companies Act, 2013 states that the CSR Committee shall:-

- a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in the Schedule VII;
- b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- c) Monitor the Corporate Social Responsibility Policy of the company from time to time.

3.16.4 Responsibility of the Board of Directors

As per section 135(4) of the Companies Act, 2013, the Board of every qualifying company should refer to in sub-section (1) as

(a) After taking into account the recommendations made by the CSR Committee, approve the CSR Policy for the company and disclose the contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) Ensure that the activities included in the CSR Policy are undertaken by the company.

Under section 135(5) of the Act, the Board of every company referred in sub-section (1), should ensure that the qualifying company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. However, the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR

activities. In case the company fails to spend such amount, the Board should make its report u/s 134(3) to specify the reasons for not spending the amount.

3.17 COMPANIES (CSR POLICY) RULES, 2014

The Ministry of Corporate Affairs, has issued Companies (CSR Policy) Rules 2014 on 27.2.2014. The term CSR policy relates to the activities to be undertaken by the company as specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of the normal course of business of a company. The CSR (Policy) Rules, 2014 mandate companies to formulate a CSR policy, including an overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programmes. Further, the CSR policy of the company should specify that the surplus arising out of the CSR projects or programmes or activities should not form part of the business profit of the company. The Central Government through the CSR (Policy) Rules has given directions to the companies that the Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR policy for the company and disclose the contents of such policy in its report and the same shall be displayed on the company's website as per the particulars specified.