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Indira Gandhi National Open University
School of Extension and Development Studies

MEDS-051
Fundamentals of CSR

Volume 1

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# PGDCSR: POST GRADUATE DIPLOMA IN CORPORATE SOCIAL RESPONSIBILITY

Dear Learner,

Welcome to the Programme – Post Graduate Diploma in Corporate Social Responsibility (PGDCSR). As you know, philanthropy in the form of charity has been prevalent in India since ancient times. CSR in India has come a long way from voluntary practices to a regulatory mechanism. The Companies in India are governed by Clause 135 of the Companies Act 2013 to perform their CSR activities. The CSR rules have been applicable from the fiscal year 2014-15 onwards and require companies to set up a CSR Committee consisting of their board members. CSR is a rapidly growing and evolving field of study. Large Indian companies are now transitioning from philanthropy to a rapidly evolving strategic engagement in development issues. The process of establishing and responding to the CSR agenda within an organization will require specialists in this field. This programme was developed to train people in this area with the following objectives

i) To impart knowledge and understanding about CSR through Open and Distance Learning.

ii) To expand the capacity of learners on various theoretical and practical aspects of CSR.

iii) To develop professional knowledge in formulation, implementation, monitoring and evaluation of CSR projects and programmes.

Programme Structure

The PGDCSR is a 32-credit programme comprising of four compulsory courses and one elective which can be a project work or an 8-credit course.
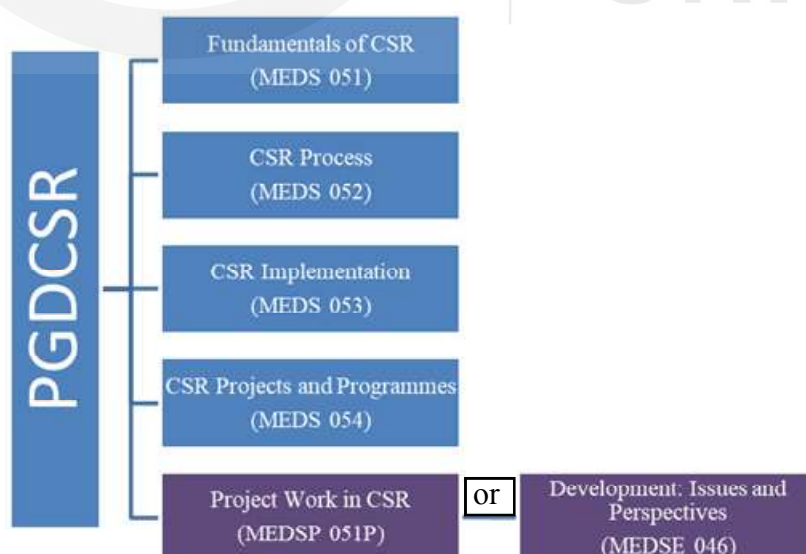
MEDS-051   FUNDAMENTALS OF CSR

Dear Learner,

Welcome to the course MEDS – 051 on 'Fundamentals of CSR'. This is the introductory course of the programme. In this course you will learn about the concept, perspectives and evolution of CSR in India and the world. It also covers the CSR legislations both in India and other countries of the world. You will also read about the various thematic areas in which CSR intervention can help in development of those sectors. It also discusses the key outcomes of CSR.

Course Structure

This course has five blocks. The contents covered under each of these blocks are as follows:

BLOCKS	UNITS
Evolution and Concept of CSR	• CSR: An Overview • Perspective in Global Context • Perspective in Indian Context
CSR Legislations and Guidelines: Global and India	• CSR Legislation in Other Countries • Companies Act, 2013 • CSR Policy Guidelines • Related Rules and Guidelines
Key Thematic Areas in CSR-I	• Poverty Alleviation • Quality of Life Improvement • Employment Generation and Livelihood • Women Empowerment
Key Thematic Areas in CSR-II	• Microfinance • Environment Protection and Biodiversity Conservation • Education and Skill Development • Awareness Creation
Key Outcomes of CSR	• Democratizing Development • Community Ownership • Connecting the Last Mile

Course Objectives

- To understand the concept and evolution of CSR and perspective of CSR both in the Indian and global context.

- To understand the legislations and guidelines of CSR both in India and in other countries across the world.

- To identify the various thematic areas in which CSR intervention can be done.

- To be able to identify the key outcomes of various CSR interventions.

Learning Outcomes

After successful completion of this course, the learners are expected to be able to:

- Give various definitions of CSR

- List out various provisions related to CSR in the Company's Act

- Discuss the importance of CSR intervention in various thematic areas

- Describe key outcomes of CSR interventions

For your convenience and easy handling, the SLM under MEDS-051 is presented in two volumes with two blocks in the first volume and three blocks in the second volume. Both the volumes are connected in such a way that after completing all 18 units, you will gain better knowledge and understanding of the fundamentals of CSR.

Block 1, Evolution and Concept of CSR with three units gives a general overview and perspectives of CSR in global and Indian context.

Block 2, CSR Legislations and Guidelines: Global and Indian with four units discusses the CSR legislations in different countries, Companies Act, 2013, CSR policy guidelines and related rules and guidelines.

Block 3, Key Thematic Areas in CSR - I with four units discusses the role of CSR in various thematic areas like poverty alleviation, quality of life improvement, employment generation and livelihood and women empowerment.

Block 4, Key Thematic Areas in CSR - II with four units discusses the role of CSR in various thematic areas like microfinance, environment protection and biodiversity conservation, education and skill development and awareness creation.

Block 5, Key Outcomes of CSR with three units discusses various outcomes of CSR like democratization of development, community ownership and connecting the last mile with the benefits of development.

MEDS-051
Fundamentals of CSR

Block

1

EVOLUTION AND CONCEPT OF CSR

BLOCK 1 EVOLUTION AND CONCEPT OF CSR

Block 1 **Evolution and Concept of CSR** consists of three units.

Unit 1: **CSR: An Overview** discusses the various definitions of CSR. It also discusses various benefits of CSR. The drivers of CSR have also been discussed. It also discusses some of the theories of CSR.

Unit 2: **Perspective in Global Context** deals with the perspective of CSR in different regions including Europe, USA, Scandinavian countries, Latin America and other developing countries. It also discusses various international initiatives related to CSR.

Unit 3: **Perspective in Indian Context** discusses about the evolution of CSR in India and models of CSR operating in India. It also discusses about the evolution of legislation on CSR. Current trends and practices of CSR in India have also been discussed. Finally, it gives a few examples of CSR initiatives of Indian companies.

UNIT 1   CSR: AN OVERVIEW

Structure

1.1   INTRODUCTION

Dear Learners,

The CSR has become one of the standard business practices of our time. For companies, the overall aim of CSR is to have a positive impact on society as a whole while it engages in maximizing the creation of shared value for the owners of the business, its employees, shareholders and stakeholders. "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ('Triple-Bottom-Line-Approach'), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO).

In this unit we will learn about how the concept of CSR (Corporate Social Responsibility) has evolved over the years. We will also learn about a few theories of CSR. After reading this unit you will be able to

- List out various definitions of CSR

- Explain the need and benefits of CSR

- Describe the drivers of CSR

- Discuss various theories of CSR

1.2   MEANING AND DEFINITION OF CSR

1.2.1   Historical Evolution of Social Responsibility

Religious philosophies dominated philanthropy during the eighteenth and the nineteenth century. During 1800s and 1900s, to protect and retain the employees, companies took steps to improve their quality of life. E.g., Macy's in USA in 1875 contributed to an orphanage. The charity during those times were accounted as miscellaneous expenses. With the intention of improving the quality of life of its employees, the Pullman Palace Car Company created model industrial community in 1893. These were the times when industrialization and urbanization

brought new challenges in labour market, for instance provision of better working conditions. This led to the formation of labour unions. With the end of World War II and with growth of business during the1940s, the companies started being viewed as institutions of social responsibility.

The period after World War II in 1950s was a period when there was a growing realization of the impact that the actions of large corporations had on the society and that there was a need to change their decision making to include consideration of their impact. Hence, this period marked the start of a new approach to management which emphasised the importance of improving the business response to its social impact. Thus, the period of 1950s and 1960s saw corporations as potential contributors to the improvement of social and economic conditions. Horward R. Bowen, Keith Davis and Joseph W. McGuire were the most famous supporters of this ideology.

Towards the end of the 60s, anti-war sentiment was on the rise and a growing sense of awareness that the corporations were not behaving in accordance to the societal expectations of that time. There were widespread anti-war and environmental campaigns and protests. In 1969, there was a major oil spill off the coast of Santa Barbara, California leading to environmental campaigns and protests which led to the 1st Earth Day Celebration in 1970. These protests called for a clean and sustainable environment and a check on such activities of the corporates which led to oil spills, toxic dumps, factories and power plants leading to environmental hazards. During early 70s, several advances were made towards environmental regulation, consumer product safety, equal employment opportunity and occupational safety and health. During the 70s, there were also several legislations in different countries that assigned broader responsibilities of various social concerns to the corporations.

During the 1980s, the debate around CSR shifted its focus from conceptualization of CSR to operationalizing CSR and its implementation. During the 1990s, with increasing globalization, the MNCs had to work in different environments abroad. The global visibility and increasing pressures, demands and expectations in the host countries increased the reputational risk of the corporations. In order to strike a balance between the challenges and opportunities of globalization, it became essential to institutionalize CSR. Also, the Rio Declaration on Environment and Development, the adoption of Agenda 21 and the United Nations Framework Convention on Climate Change (UNFCCC) (1992), and the adoption of the Kyoto Protocol (1997) led to setting of higher standards for the corporates regarding climate related issues. Some of the contributions to CSR during this decade include model of Corporate Social Performance (CSP) by Donna J. Wood, Carroll's 'Pyramid of Corporate Social Responsibility', five dimensions of strategic CSR given by Burke and Logsdon, the concept of 'The Triple-Bottom-Line', by Elkington and some alternative subjects like 'Stakeholder Theory', corporate social performance and corporate citizenship.

In the year 2000, the United Nations Global Compact was launched to fill the gaps of governance in terms of human rights and social and environmental issues and to insert universal values into the markets. It was also in the year 2000 that the United Nations adopted the Millennium Development Goals (MDGs). This was followed by the adoption of Sustainable Development Goals in 2015. International certifications like ISO 9001, ISO 14000 and ISO 26000 were also adopted. Also, during this period, strategic considerations were added to the

concept and definition of CSR. It was believed that a strategic approach could result in the creation of shared value in terms of benefits for the society while improving competitiveness of the companies.

Post 2010, the concept of CSR reflected the belief that corporations need to be responsive to social expectations and their actions should be motivated by a drive towards sustainability. Porter and Kramer (2011) called for a change in business strategies which would focus on creation of shared values as their main objective. This decade is also marked by the launch of the 2030 Agenda for Sustainable Development.

1.2.2 Evolution of the Definitions of CSR

The initial definition of CSR was given by Horward R Bowen during 1950s in his book entitled *Social Responsibilities of the Businessman* in which he defines social responsibility as: "Obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".

In the 1960s, one of the most prominent definition of CSR was given by Keith Davis who defines social responsibility as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest".

Joseph W. McGuire is another major contributor to the definition of social responsibility during 1960s. In his book, Business and Society (1963), he states that, "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations".

Thus, the definitions of social responsibility in the 1960s emphasized on the voluntarism of the corporate as an essential ingredient of social responsibility, and an acceptance of the fact that it involves cost which may not give any direct or measurable economic returns.

A new construct to the concept of CSR came from the Committee for Economic Development (CED) in 1971. CED noted that the social contract between the business and the community is changing. The period during late 1960s and early 1970s, witnessed a change in the status of issues related to environment, community, employees, work safety etc. from special interest to government regulation. CED gave a new three concentric circle definition of CSR.

"The inner circle includes the clear-cut basic responsibilities for the efficient execution of the economic function—products, jobs and economic growth. The intermediate circle encompasses responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities: for example, with respect to environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment, and protection from injury. The outer circle outlines newly emerging and still amorphous responsibilities that businesses should assume to become more broadly involved in actively improving the social environment. (For example, poverty and urban blight)."

The 1970s saw increasing mention of the terms Corporate Social Performance and Corporate Social Responsibility. In 1975, an Economics Professor, Jules Backman said that the terms social audit, social indicators and social accounting cover different facets of social performance. S. Prakash Sethi, in his article titled 'Dimensions of Corporate Social Performance" makes distinction between 'social obligation', 'social responsibility' and 'social responsiveness'. While social obligation is the response of corporate to market forces or legal obligations, social responsibility is a notch higher than obligation and brings corporate behaviour in harmony with the existing social norms or values and expectations. Sethi describes social responsiveness as the adaptation of corporate behaviour to social needs.

The concept of CSR evolved and extended to beyond economic and legal components to encompass ethical and voluntary aspects as well. Caroll in 1979 gave a definition containing all four components. "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time".

The 1980s saw a quest to widen the concept of CSR and go beyond CSR with wider acceptance of the concept of Corporate Social Performance. During this period, the focus was on attempts to measure CSR and to include alternative thematic frameworks. Thomas M Jones in 1980, extended the concept of CSR as 'a process'. He argued that CSR should not be seen as a set of outcomes but as a process. Corporate Social Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders, and beyond that which is prescribed by law and union contract. In 1985, Steven Wartick and Philip Cochran presented the *Evolution of the Corporate Social Performance Model*, which integrated the concept of responsibility, responsiveness and social issues.

The 1990s did not see any major contribution to the definition of CSR. During this period, the main focus was on various related themes like Corporate Social Performance, the Stakeholder theory, Business Ethics theory and Corporate Citizenship.

2000 onwards, has been an era of defining the activities that can be embraced as CSR activities and about regulating CSR.

1.2.3   CSR Perspectives in Selected Countries

CSR activities as a voluntary measure have been carried out in the USA for decades, and it is prevalent in many other countries like Australia, Canada, UAE etc.; it is at infancy stage in Africa. At the international level, CSR activities have been integrated as part of business strategy and corporate policy. In fact, promoters of large corporates have floated not-for-profit companies/trust, to carry out CSR activities, for example HCL Technologies Foundation, Hindustan Unilever Foundation etc.The organizations are adopting CSR as a part of their policy matters to address the concern of different stakeholders including investors and to enhance the competition to access the global market and satisfying the needs of society. The CSR perspectives of different countries are given below. Definitions for all countries, except India, are sourced from the World Business Council for Sustainable Development (WBCSD, 2000).

USA

"CSR is about taking personal responsibility for your actions and the impact that you have on society. Companies and employees must undergo a personal transformation, re-examine their roles, their responsibilities and increase their level of accountability"

THE NETHERLANDS

"CSR is about making a leadership commitment to core values and recognizing local and cultural differences when implementing global policies. It's about companies endorsing the UN Convention on Human Rights and the ILO Rights at Work"

TAIWAN

"CSR is the contribution to the development of natural and human capital, in addition to just making a profit"

THAILAND

"CSR must be locally relevant and meaningful only if backed up by action"

THE PHILIPPINES

"CSR is about business giving back to society"

BRAZIL

"CSR is about commitment to strive for the best economic development for the community, to respect workers and build their capacities, to protect the environment and to help create frameworks where ethical business can prosper"

ARGENTINA

"CSR is about a corporation's ability to respond to social challenges. It starts with developing good relations with neighbours. Companies should make a strong commitment to education, worker rights, capacity building, and job security. CSR is stimulating the economic development of a community"

GHANA

"CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government"

INDIA

"It urges businesses to embrace the "triple-bottom-line" approach whereby its financial performance can be harmonized with the expectations of society, the environment and the many stakeholders it interfaces with in a sustainable manner (MCA, Government of India, 2011).

1.2.4 Definitions of CSR

In a "free society," "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970).

"Another aspect of any workable definition of corporate social responsibility is that the behavior of the firms must be voluntary" [Manne &Wallich, 1972, p. 5)

"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, pp. 500).

"It refers to how business takes account of its economic, social and environmental impacts in the way it operates. maximizing the benefits and minimizing the downsides. CSR undertakings are the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (World Bank, 2013).

"Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO)

"Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD, 2000).

Wayne Visser uses CSR in developing countries to represent 'the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries, while remaining sensitive to the prevailing religious, historical and cultural contexts in which they operate' (Visser et al., 2007).

The International Standard Organization brought out international standard on social responsibilities of organizations (ISO 26000), first published in 2010, which defines social responsibility as:

"An organization's responsibility for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;

- takes into account the expectations of stakeholders;

- is in compliance with applicable law and consistent with international norms of behaviour;

- and is integrated throughout the organization and implemented in its relations".

Source of Section 1.2
(Carroll, 2008; Carroll, 1999; Bhaduri and Selarka, 2016)

1.3 BENEFITS OF CSR

Businesses these days can no longer limit their focus to profit maximization and be satisfied just by creating employment and paying their taxes. They are also required to address the needs of other stakeholders like creditors, employees,

shareholders, consumers, government and public. Companies these days are more vulnerable to consumer boycotts and campaigns. The companies need to be socially accountable to the communities among whom they operate. Hence, CSR as a strategy and in fact as a necessary activity, is becoming increasingly important for businesses due to the following benefits: (CII, 2013)

1) **Communities provide the license to operate:** The CSR behaviour of corporate is not just driven by their values but are also influenced by the stakeholders like government, investors, customers and community. Today's corporate understands that the license to operate in any particular area is not just given by the government but also by the communities that get impacted by the activities of these companies. A strong CSR programme provides the companies with the license to operate and to maintain the trust of the local community.

2) **Attracting and retaining employees:** CSR interventions that help the employees to participate give them a sense of belongingness to the company. Good CSR initiatives can attract employees to the company and give them the incentive to remain motivated and committed to the company.

3) **Communities as suppliers:** There are instances wherein as a part of CSR activities, the communities have been incorporated into the supply chain to enhance their livelihood. Such initiatives have helped in increasing their incomes and ensuring the companies with a steady and secure supply chain.

4) **Enhancing corporate reputation:** When the companies position themselves as responsible corporate citizens, it creates good will and a positive image, thereby helping them to enhance their brand image in the market.

Activity 1

Visit a CSR project of a company in your vicinity. Ask the employees, how according to them, CSR has benefitted the company. Write down their responses.

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1.4 DRIVERS OF CSR

According to the KPMG Survey of Corporate Responsibility Reporting 2011, around the world, corporate responsibility reporting has become a fundamental imperative for businesses. According to the KPMG survey, the top ten motivators driving corporations to engage in CSR for competitive reasons, the following have emerged:

- Economic considerations

- Ethical considerations

- Innovation and learning

- Employee motivation

- Risk management or risk reduction

- Access to capital or increased shareholder value

- Reputation or brand

- Market position or share

- Strengthened supplier relationships

- Cost saving

In simple words, the underlying reasons for business organizations to be involved in CSR are as follows:

i)   **Public Image:** CSR creates a positive brand image in the minds of the potential consumers. Effective communication of CSR activities, boosts the purchase intentions of the prospective consumers. Business can earn goodwill and reputation by performing the activities towards the welfare of the society. People prefer to purchase products of the company that engage in various social welfare programs.

   For example: Levi Strauss practices CSR in three areas i.e. the masses, climate, and its products. It's non-profit Red Tab Foundation provides aid to its employees and retirees in case of financial emergency. As a part of its contribution to the environment, it has signed the Climate Declaration and aims to use 100 percent renewable energy in order to reduce carbon emissions and other greenhouse gases. In addition, in a bid to save water, it has started production of its new denim cloth-line which has helped them save more than 1 billion litres of water since its inception in 2011.

ii) **Government Regulation:** Most companies prefer to remain a step ahead of government regulations in identifying the social needs and formulating policies to address them, out of the fear that if they don't, the government may take the responsibility, which might prove costly for the employers. To avoid government regulations businessmen should discharge their duties voluntarily. For example:-

   a) **Coca-Cola, USA** continues to make strides towards the alleviation of environmental issues. After realizing that its fleet of delivery trucks accounted for 3.7 million metric tons of greenhouse gases (GHGs) in 2014, Coca-Cola made significant changes to its supply chain like investing in trucks that are powered by alternative fuels. Those changes should support the company's goal of reducing its carbon footprint by 25 percent by 2020.

   b) **Ford, USA** is another corporation attempting to improve their environmental performance. To reduce its GHG emissions, an EcoBoost engine was developed to increase fuel efficiency and the company hopes to offer 13 new electric vehicle models in near future. In addition, American Ford dealerships now use wind sail and solar PV systems as their primary power source.

iii) **Survival and Growth:** Every business is a part of society. It utilizes the available resources of power, land, water etc. of the society, therefore it should be the responsibility of every business to spend a part of its profit for the welfare of the society.

E.g. **Amul Dairy** has launched a novel scheme "Rural Sanitation Campaign" for total rural sanitation. The dairy with the support of **District Rural Development Agency** (DRDA) will provide interest free loans to its milk producers in the districts of Anand and Kheda, to set up 'pucca' toilet blocks, which will not only help women milk producers avoid embarrassment but will ensure hygiene as well. (For more details visit http://www.amuldairy.com/index.php/component/content/category/13-csr-initiatives)

iv) **Employee Satisfaction:** Besides getting good salary and working in healthy atmosphere employees also expect other facilities like proper accommodation, transportation, education, and training.

For example, **Lemon Tree Hotels Group** ('LTH') believes that people with disabilities (whether physical, social or economic disabilities leading to an opportunity deprivation) must be provided the same opportunities as others to realize their full potential and live with dignity. Lemon Tree has defined the goal as mainstreaming 'Opportunity Deprived Indians' i.e. ODIs into its workforce. By creating a supportive environment in the organization that allows them to deliver their best, LTH helps in bringing social inclusiveness through livelihood creation. (For more details visit ttps://www.lemontreehotels.com/factsheet/LTH_CSR_Policy.pdf)

v) **Consumer Awareness:** Nowadays consumers have become very conscious about their rights. They protest the supply of inferior and harmful products by forming different groups. This has made it obligatory for businesses to protect the interest of the consumers by providing quality products at competitive prices.

For example, **Burberry** announced banning fur in its products along with other ladies' bag manufacturing companies like Gucci, Versace, Armani, Stella McCartney and others after a long campaign from the animal rights group PETA.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Give any one definition of CSR.

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2) List out the various benefits of CSR.

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1.5 THEORIES OF CSR

In this section we will discuss three basic theories of CSR. They are

i) Carroll's CSR Pyramid

ii) Triple Bottom Line CSR Theory

iii) Stakeholder Theory

i) Carroll's CSR Pyramid

Carroll talks about four obligations that businesses have towards society.

1) **Economic Responsibility:** According to Carroll, businesses have an economic responsibility towards the society that permitted them to be created and sustained. The society expects business organizations to sustain themselves to continue producing goods and services that the society needs. As a reward, the society allows them to take profits. The businesses make profit by value addition and in doing so, they benefit all the stakeholders of the business.

   Businesses need to make profit not just to reward the owners but also to reinvest the profit to grow the business further. To fulfil their economic responsibility, businesses employ several business concepts that are directed towards financial effectiveness such as attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, among several other professional concepts focused on augmenting the long-term financial success of the organization. According to Carroll, those firms that are not successful in their economic or financial sphere go out of business and any other responsibilities that may be incumbent upon them become moot considerations. Hence economic responsibility is the basic responsibility of any business and has been placed at the bottom of the CSR pyramid.

2) **Legal Responsibilities:** The society has established minimum ground rules under which the businesses are expected to function. The businesses are expected to follow fair business practices and operate within the rules and regulations laid down by the lawmakers at local and national levels. Compliance officers are employed by the Companies to ensure compliance to these rules. According to Carroll (2016), while meeting these legal responsibilities, important expectations of business include:

   - Performing in a manner consistent with expectations of government and law

   - Complying with various federal, state, and local regulations

- Conducting themselves as law-abiding corporate citizens

- Fulfilling all their legal obligations to societal stakeholders

- Providing goods and services that at least meet minimal legal requirements.

3) **Ethical Responsibilities:** Laws are essential but not enough. Society also expects businesses to operate and function in an ethical fashion. Ethical responsibilities imply that the activities, norms, standards, and practices taken up by the businesses need not necessarily be codified in law, but still the businesses are expected to follow them. The ethical expectations carry the legal expectations a step further to uphold the norms, values, principles, and standards considered important by the consumers, employees, owners, and the community at large. The activities of the businesses should also abide by the universal principles of moral philosophy such as rights, justice, and utilitarianism

While meeting these ethical responsibilities, important expectations of business include: (Carroll 1991)

- Performing in a manner consistent with expectations of societal mores and ethical norms

- Recognizing and respecting new or evolving ethical/moral norms adopted by society

- Preventing ethical norms from being compromised in order to achieve business goals

- Being good corporate citizens by doing what is expected morally or ethically

- Recognizing that business integrity and ethical behaviour goes beyond the mere compliance with laws and regulations.

4) **Philanthropic Responsibilities:** Business giving is done purely on voluntary basis. Though philanthropy is not a responsibility, it is what the public expects the business to give back to society. It is mainly guided by the desire of businesses to participate in activities that are neither mandated by law nor expected from ethical point of view. It stems out of the expectations of the citizens to be good corporate citizens as is expected from individuals as well. Various philanthropic activities in which the companies engage include gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community.

Companies are also driven by motivation to engage in philanthropy in an effort to enhance company's reputation. The philanthropic category of business giving is different from the ethical category in the sense that philanthropic giving is not necessarily expected in ethical sense. Companies will not be called unethical if they don't practice philanthropic giving. It is more voluntary in nature and companies practicing philanthropic giving are considered as practicing good 'Corporate Citizenship'.
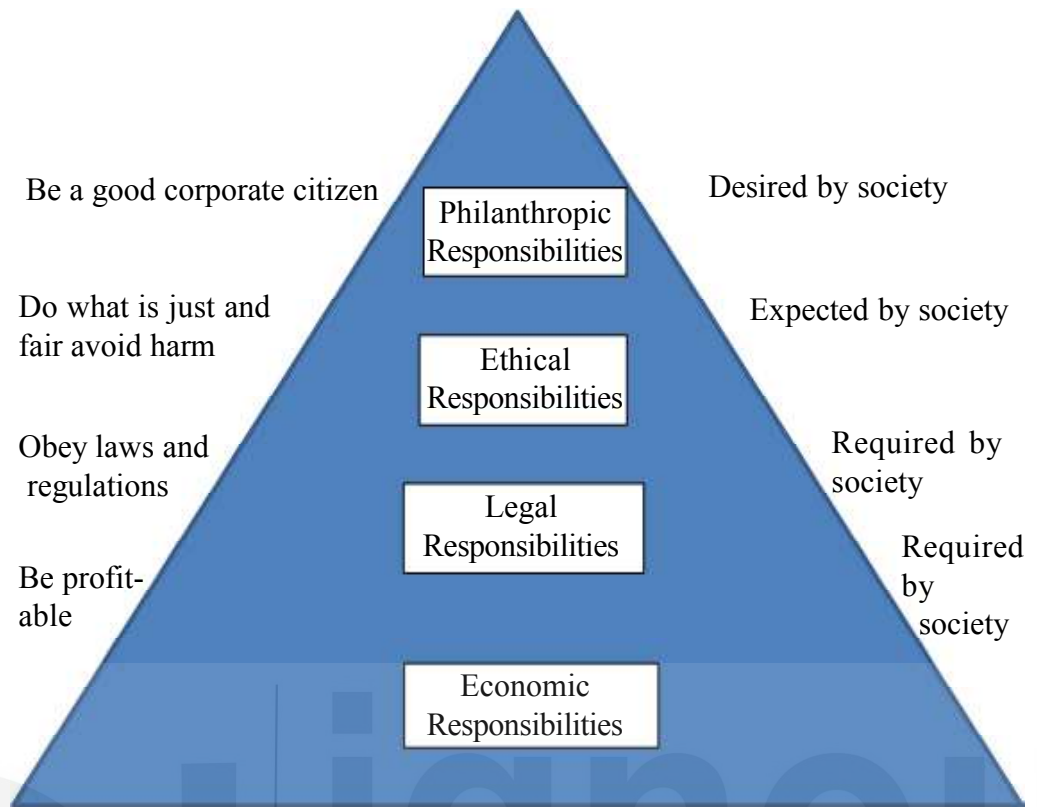
Be a good corporate citizen

Philanthropic Responsibilities

Desired by society

Do what is just and fair avoid harm

Ethical Responsibilities

Expected by society

Obey laws and regulations

Legal Responsibilities

Required by society

Be profit-able

Economic Responsibilities

Required by society

Figure 1: Carroll's Pyramid

Figure 1 shows Carroll's pyramid of CSR. The economic responsibility being the fundamental requirement in any business is placed at the base of the pyramid. The infrastructure needed for a sound CSR is based on the economic soundness and sustainability of any business. The business is expected to operate following certain laws and regulations which forms the second part of the pyramid. The existence of legal and regulatory framework in any country significantly affects the multinational investments in these countries. Thirdly, business is expected to operate in an ethical way to avoid causing harm to any stakeholder and always do what is just, fair and right. Finally, a business is expected to be a good corporate citizen and provide any financial, physical, or human resource contribution to the communities within which it operates.

ii) Triple-Bottom-Line Theory

John Elkington first coined the term triple-bottom-line in his book "Cannibals with Forks: The Triple-Bottom-Line of the 21st Century Business". Triple-bottom-line theory expands the traditional accounting framework to include three dimensions i.e. Economic, Social, and Environmental. These three bottom lines are also referred to as the 3 P's i.e. People, Planet and Profit. According to Elkington, all the three dimensions should perform sustainably.

1) **Economic Dimension/Profit:** According to the theory, the most important thing for a company, is not to make huge profits but rather, to make continuous profit on a sustainable basis over a long period of time. Sustainable profits can be achieved by drawing a strategic plan that takes into account expenditures and taxes, forecasting business climate factors, evaluate market benchmark and avoid maximum risk threats. Triple-bottom-line businesses also recognize that profit is not diametrically opposed to people or planet.

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> **Example:** Swedish furniture giant IKEA reported sales of $37.6 billion in 2016. The same year, the company turned a profit by recycling waste into some of its best-selling products. Before, this waste had cost the company more than $1 million per year. And the company is well on its way to "zero waste to landfill" worldwide. According to Joanna Yarrow, IKEA's head of sustainability for the UK, "We don't do this because we're tree huggers, we do this because it's very cost effective."
>
> Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

2) **Social Dimension/People:** According to the theory, for businesses to be sustainable in the long run, they should take up activities that satisfy the needs of the society in which they operate. According to the triple-bottom-line CSR framework, it is essential that the corporations achieve social sustainability. Since societal needs vary from one region to another, the corporations need to collect data on various social parameters including unemployment rate, female labour participation, educational services, health services etc. This will help in prioritizing the community needs and the corporations then take steps to satisfy the societal needs to the extent possible. A triple-bottom-line company also pays fair wages to its employees and provides safe working conditions.

> **Example:** 3M partners with United Way to fund STEM education across the world. This initiative is an example of "enlightened self-interest"—acting to further the interests of others, ultimately, to serve one's own self-interest. The community benefits, and 3M provides itself a well-educated source of scientists and innovators for generations to come.
>
> Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

3) **Environmental Dimension/Planet:** Environment is an important dimension of the triple bottom line approach. Corporations should pay attention to maintaining environmental sustainability. The enterprises should try to reduce ecological footprints as much as possible and the ones that harm the environment should also bear the cost. Some of the factors which help in maintaining environmental sustainability include reducing waste, investing in renewable energy, managing natural resources more efficiently, and improving their logistics.

> **Example:** Apple has invested heavily in environmental sustainability. Its massive U.S. data centres are LEED certified. In 2016, the company announced that 93 percent of its energy comes from renewable sources. These actions have nudged other tech giants like Facebook and Google as well toward using more renewable energy sources to power facilities.
>
> Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

iii) Stakeholder Theory

Stakeholder Theory was given by Dr. F. Edward Freeman, a professor at the University of Virginia, in his book, "Strategic Management: A Stakeholder Approach" which suggests that, shareholders are just one of the many stakeholders of a company. Stakeholders are described broadly by Freeman and Reed as any identifiable group or in-dividual who can affect the achievement of an organization's objectives or who are affected by the achievement of an organization's objectives. According to Dr. Freeman, the stakeholder may include

the consumers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups etc. and for a company to be successful in the long run, the concerns of all groups should be taken into account. If a company ignores the concerns of its stakeholders, it may gain profits in the short run but in the long run, once the stakeholders become dissatisfied, the company cannot survive.

According to Freeman, "If you can get all your stakeholders to swim or row in the same direction, you've got a company with momentum and real power." He goes on that, "Saying that profits are the only important thing to a company is like saying, 'Red blood cells are life.' You need red blood cells to live, but you need so much more." A company needs to be aware not just of the needs of its shareholders but also of its workers, those who live near its factories, the competitors etc. He quotes the example of 'Enron' as to how the desire to attain short term gains, led to corruption, and finally brought about the downfall of the company in 2000.

Let us now understand the functioning of various stakeholders under this theory:

1) Employee: The employees expect to be treated and compensated fairly and to be given reasonable working hours. Otherwise, there would be bad word of mouth among potential workforce and the company will be adversely impacted.

2) Suppliers: Like employees, the expectations of the suppliers in the stakeholder theory also includes fair treatment and compensation. The stakeholder theory also expects due diligence on the part of the suppliers that they will also conduct their business in a fair and ethical manner.

3) Manufacturers: With the opening of the economy, there are instances when the product or their parts are manufactured at a location away from the project, sometimes even in a different country. It is expected that the working conditions and wages should be fair for the manufacturers as well.

4) Environmentalists: People living in vicinity to the project need to be assured that the environment, power, or water will not be adversely affected due to the project. These people who are affected by the local ecology are also considered as stakeholders in the stakeholder theory and need to be apprised of the plans and developments and their views should also be taken into account while planning the project.

5) Government Bodies: Government approvals need to be sought for any project before it starts its operations. Hence government bodies and various regulating agencies are also one of the stakeholders.

6) Community: People living in the nearby neighbourhoods, are also stakeholders and the project should consider their concerns of whether it will enhance or maintain their quality of life and not impact it negatively in any manner.

Activity 2

Visit a CSR project being implemented in the city of your residence. Identify and list out the stakeholders of the project.

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iv) Some Other Views on CSR

1) Theodore Levitt's Dangers of Social Responsibility

Levitt was a critic of inclusion of CSR in the corporate objective function. He argues that when CSR is incorporated in the corporate objective function, this leaves the managers of the businesses responsible to make judgements on which social issue to purse and which not to. Levitt calls CSR a 'fashion accessory' of the self-interested businessmen who have in mind neither the health of the business nor the welfare of the society but are driven by their own political agenda or self-realization. He also argues that CSR is seen as a profitable strategy by businesses and objected to the practice of dressing up profit making objectives as philanthropic. According to Levitt, an ethical approach to CSR is to pursue CSR only when it is profitable, and admit that profit is the real motive behind any CSR activity.

The strongest argument of Levitt is that the responsibilities of public and private sectors should be kept separate. Levitt argues that it is both undemocratic and unethical on the part of the managers to assume a role in which they have no expertise and hence they are not likely to succeed in this role. According to Levitt, if the managers assume any role other than that of profit makers, they are bound to fail.

2) Milton Friedman's Shareholder Theory of Capitalism

According to Friedman, the social responsibility of business is to increase profits. Friedman originally expressed this thought in his book Capitalism and Freedom in 1962. Later in his article published in New York times he writes:-

"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

According to Friedman, shareholders are the economic engine of an organization and hence the only group to which the firm is socially responsible. He opines that a corporate executive is an employee of the owners of the business, and hence his/her primary responsibility is to them. He says that an executive spending company money on 'social cause' is in fact spending somebody else's money. For example, if a business executive refrains from increasing the price of a product to fulfil the social objective of preventing inflation or if the amount of expenditure he makes beyond what is required by the law, on reducing pollution to fulfil the

social objective of improving the environment, then he acts in a way that is not in the interest of the employers. Thus, according to Friedman, "Insofar as his actions are in accord with his "social responsibility" to reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money."

The customers, stockholders, employees of a firm could separately spend their money on any social cause they wished to. Friedman goes further to say that if a corporate executive does this, he in effect imposes taxes on one hand and decides on how to spend the tax proceeds on the other. This act raises questions at two levels: principles and consequences. As far as principle is concerned, imposition of taxes and their expenditure are government functions. However, here the businessman decides whom to tax, by how much, for what purpose and he spends the proceeds. On the grounds of consequences, he questions the corporate executive's judgement to spend the proceeds. He says that "in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions."

3)   Ackerman and Bauer's Social Issues Life Cycle Model

Ackerman and Bauer reworked the product life cycle model to produce a generic model called the 'Social Issues Life Cycle Model.' It comprises of three stages:

Stage 1: At Stage 1, the social issue is felt as a weak signal. At this stage, the challenges that need to be dealt with include establishing the social issue, assessing its relevance, and understanding the level of political support it could attract in the society. There is uncertainty about the nature and impact of the issue. At this stage, the stakeholders are not properly organized.

Stage 2: During Stage 2, the issue is emerging and unresolved but its importance amongst the general public increases. The core issues that need to be addressed at this point include how to identify and resolve the problem, identification of the stakeholders with vested interest, what new competencies need to be developed, and how can corporate be made to respond. Stakeholders are more organized.

Stage 3: In Stage 3, the problem has been characterized and the solutions to the problem have been identified. The firm is in a condition to measure the economic impact of the issue. New norms or laws have been established which have institutionalized stakeholder demands. Accordingly, socially responsible corporate behaviour has also been established.

Ackerman and Bauer also pointed out three stages involved in achieving the full integration of social issues within the firm:

In Stage 1, the CEO becomes aware of the importance of social issue and formulates policy to address the same. As all the dimensions of the issue are not properly understood, the individual divisions show their reluctance to commit themselves. The newly formed policy destabilizes the firm's structural framework and standard operating procedures. As a result, the departments adopt a wait and watch policy or there may be stiff resistance from within.

Stage 2 is a stage where the social issue has been characterized and a best fit response has been determined. Now the issue is more technical hence the firm appoints a dedicated executive, a social issue expert, who reports directly to the top management. This expert gives the necessary technical guidance to handle the issue and is responsible to push policy at the ground level.

The third and final stage, is when the organizational response is implemented. Here the CEO calls for demonstration of commitment to policy enforcement. The problems of this phase center around managerial transformation, resource allocation within and without divisions. The social issues expert takes a backseat at this stage and supports division level actions.

4) Gandhi's Philosophy of Trusteeship

"The idea of trusteeship was propounded by Mahatma Gandhi. It evolves from the belief that everything belongs to God and hence to everyone and not to any particular individual. Gandhian philosophy always aims at bringing economic equality through non-violent social change. Gandhi propounded the doctrine of trusteeship as a way to realize such change. The peaceful removal of economic inequalities is possible if the rich, after meeting their reasonable needs, hold the surplus wealth in trust for society. In this way, the rich man is not dispossessed of his surplus wealth, but he is required to use this wealth in the broader interest of the community, and not in his personal interest. The doctrine of trusteeship is based on the idea that everything is from God, and belongs to God. Therefore, it is for God's people as a whole, and not for a particular individual. If an individual possesses more than his proportionate share, he becomes a trustee of that surplus amount for God's people. As to the question of the determination of the successor of the trustee, Gandhi replied that the original trustee is to be allowed to make his choice, but that choice is to be finalized by the state. Thus, a check is put on the state as well as on the individual. A summary of Gandhi's doctrine of trusteeship is as follows:

a) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one; it gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.

b) It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its own welfare.

c) It does not exclude legislative regulation of the ownership and use of wealth.

d) Thus, under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.

e) Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that could be allowed to any person in the society. The difference between such minimum and maximum income should be reasonable, equitable and variable from time to time, so much so that the tendency would be towards obliteration of the difference.

f) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed" (Pyarelal, 1965).

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

     b) Check your answer with possible answers given at the end of the unit.

1) What is the role of Government bodies according to the Stakeholder Theory?

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2) What is Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model?

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1.6 LET US SUM UP

In this unit we have discussed about how the concept of CSR has evolved over the years. You also read about the CSR perspectives in other countries. The unit also gives different definitions of CSR given by experts. It discusses how CSR helps in building brand image, attaining competitive advantage and facilitates long term business interest. We have also discussed about various drivers of CSR. Finally, we discussed in detail the three basic theories of CSR i.e. Carroll's CSR Theory, Triple-Bottom-Line Theory and Stakeholder Theory. We have also looked into the views on CSR of some of the experts like Levitt, Friedman, Ackerman, and Gandhi's Philosophy of Trusteeship.

1.7 KEYWORDS

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

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1.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress - 1

Answer 1: Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Answer 2: Some of the benefits of CSR are

1) Communities provide the license to operate

2) Attracting and retaining employees

3) Communities as suppliers

4) Enhancing corporate reputation

Check Your Progress – 2

Answer 1: According to the Stakeholder's Theory, Government approvals need to be sought for any project before it starts its operations. Hence, government bodies and various regulating agencies are also one of the stakeholders.

Answer 2: Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model, include how to resolve the problems, identification of the stakeholders with vested interest, what new competencies need to be developed and how can corporates be made to respond. Stakeholders are more organized.

UNIT 2   PERSPECTIVE IN GLOBAL CONTEXT

Structure

2.1   INTRODUCTION

In the previous unit you have read about the concepts and definitions of CSR. You also read about various theories of CSR. We know that over the years, the understanding of CSR has undergone several changes. One of the reasons for the shift in the understanding from voluntarism to due diligence is the number of disasters that have happened at the production sites of Western companies mostly in the developing countries. The meaning of CSR varies substantially from country to country. It would be relevant here to look at the perspective of CSR from the view point of different countries and regions. In this unit you will learn about the Perspectives and drivers of CSR for different regions of the world.

After reading this unit you will be able to

- Discuss about approaches to CSR of different countries in Europe and Scandinavian Countries

- Discuss the perspective of CSR in US and Latin America

- Describe the drivers for CSR in developing countries

- Discuss various international initiatives related to CSR

2.2   CSR IN EUROPE

The European Commission in its 2011-14 strategy on CSR has defined CSR as 'the responsibility of enterprises for their impact on society'. The Commission believes in CSR being company led with public authorities playing a supportive role through a mix of voluntary policy measures and regulations.

CSR has been a subject of interest among both businessmen and governments in Europe. However, there has been contrasting positions taken by European Commission (EC) and NGO's and trade unions. While EC has been rejecting regulation and emphasizing on CSR being a voluntary initiative for business to

practice, the European parliament along with NGOs and trade unions have been demanding for regulations and compulsory reporting of the social and environmental impacts of the businesses.

The Commission promotes CSR and encourages countries to follow international guidelines and principles. The EU policy on CSR is based on various actions to support this approach. They include:

1) Enhancing the visibility of CSR and disseminating good practices

2) Improving and tracking levels of trust in business

3) Improving self and co-regulation processes

4) Enhancing market rewards for CSR

5) Improving company disclosure of social and environmental information

6) Further integrating CSR into education, training, and research

7) Emphasizing the importance of national and sub-national CSR policies

8) Better aligning European and global approaches to CSR.

A Public Consultation of CSR 2011-14 was launched by the Commission to evaluate the CSR strategy.

 Some core components of the EU's 2011 CSR strategy include:

- The development of CSR should be led by enterprises themselves.

- But public authorities should play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation, for example to promote transparency, create market incentives for responsible business conduct, and ensure corporate accountability.

- Enterprises must be given the flexibility to innovate and to develop an approach to CSR that is appropriate to their circumstances.

2.2.1 Approaches of various countries in Europe

1) Austria

Austria is a very regulated country with its Company's Act dating back to 1966. The Sustainable Strategy adopted by the Austrian government in 2002 aims at integrating economic, social, and environmental spheres. The strategy emphasizes on sustainable public procurement and concerns with ecological, social, and ethical aspects of supply chain. CSR reporting is recommended in the CSR guiding vision since 2009. Eco-efficiency and sustainable consumption are the key drivers of CSR in Austria.

2) UK

UK is considered as a leader in CSR, particularly because UK houses world's greatest thinkers, practitioners, and campaigners in this field. The amount of finances given by the companies to the society is considered as the key indicator of CSR in UK which generally is ½ to 1 percent of their pre-tax profits. UK also has a Minister of CSR, appointed by the government. To encourage CSR, UK has passed several regulations to complement the voluntary initiatives taken by companies. e.g.

- Amendment to the Pensions Act, 2000 which requires the occupational pension funds to disclose the extent of CSR issues taken into consideration while making investments.

- Companies Act, 2000 requires the companies to take into account the wider interest of the stakeholders while acting on the interest of the shareholders. It also directs the companies to disclose the policies related to environment, workplace, social and community matters and about the effectiveness of these policies.

- Modern Slavery Act, 2015 which require the companies to combat modern slavery in its business and supply chain.

3) France

In France there has been a moderate development of CSR. The labour relations in France are governed by a system of state regulations and agreements. There are also several initiatives that go beyond the legal requirements. Certain laws affecting CSR were passed in the beginning of 21st century.

- "The Law on Employment and Saving Plan of 19 February 2001, which asks fund managers to take into account social, environmental and ethical considerations in the choice of investments.

- The Law on New Economic Regulations of 15 May 2001, which requires listed companies to introduce environmental and social information within their yearly reports to shareholders.

- The Law on Retirement Reserve Funds of 17 July 2001, which requires environmental and social information to be introduced in the yearly reports of retirement funds." (Mullerat, 2013)

- In the year 2007, the 'Diversity Charter' was signed by 1700 companies. It is a business initiative which was launched to fight discrimination.

- To address environmental issues through a five-way dialogue between business, local authorities, government, NGOs and trade unions, the Grenelle Environment Forum was initiated in 2007.

- Several actions have also been launched to support the CSR initiatives of Small and Medium Enterprises in France. e.g. A group of 3300 SME managers called the "Centre des Jeunes Dirigeants" developed a methodology for "Global Performance Standard" in 2008.

4) CSR in Germany

In Germany, the Federal Ministry for Labour and Social Affairs is the lead ministry for CSR in the Federal Government of Germany. The ministry has established National CSR Forum to bring together the stakeholders to work towards social responsibility and to provide needed support to the government to develop the national CSR strategy.

2.3   CSR IN USA

According to Milton Friedman, the social responsibility of business is to increase its profit. Traditionally, the companies looked at CSR from the view point of business footprint where the companies were concerned only with making a positive impact. However, the consumers in US now expect the companies to go beyond the issues that impact their operations and take up larger societal challenges. A recent survey by Cone communication says that 87 percent of the consumers said that they purchased a product because the company advocated for an issue they care about and 76% of the consumers said that they would refuse to purchase a product if they found out that the company supported an issue contrary to their beliefs (Cone Communications, 2017). Thus, consumer expectations and behaviour in support of CSR can be called as the key driver to CSR in USA. Given similar price and quality of any product, the consumers in US are more likely to switch brands in favour of those which are associated with good causes.

The labour and capital markets in US being unregulated, the state provisions for welfare is very low. Hence, education, health and other such community issues are taken up under Corporate Social Responsibility. Both CSR activities and reporting are not considered as a regulatory compliance issue in USA. As there is no obligation to undertake social and environmentally responsible practices, CSR is usually characterized by voluntary societal engagements by businesses. Such responsible behaviour by the businesses which goes beyond financial reporting requirements is known as corporate citizenship. Businesses are obliged to engage in economic, legal, ethical, and philanthropic activities.

In US, the U.S. Bureau of Economic and Business Affairs (EB) leads a corporate social responsibility team with the primary objective of promoting responsible business, encouraging sustainable development, and building economic security. It provides the companies and the stakeholders with the needed guidance to engage in corporate citizenship. The CSR team of EB provides support on various issues including corporate citizenship, human rights, supply chains, anticorruption, health and social welfare, employment and industrial relations, environment protection, natural resource management, intellectual property, women's empowerment etc. The EB's policies are drawn majorly from OECD's 'Guidelines for Multinational Enterprises.'

Let us discuss in brief some of the EB's corporate policies (Camilleri, 2017):

1)   Corporate Citizenship and Human Rights

In US, the Bureau of Democracy, Human Rights and Labour (DRL) has a mandate of promoting and monitoring human rights. For this purpose, it has set up a Human Rights Democratic Fund (HRDF) which is used in the promotion of democratic principles. Such efforts by DRL have helped US to minimize human rights abuses and bring a positive change across the globe.

Similarly, the Office to Monitor and Combat Trafficking in Persons (TIP) focuses on corporate policy, planning, public awareness and tracing of supply chain and transparency to reduce forced labour in supply chain. The office also funds an emergency global assistance project that helps people identified as trafficked persons.

2) Labour Supply Chains

Human trafficking was made illegal in US in the year 2000. The law requires manufacturers earning revenue of more than $100 million to list out their efforts towards bringing down slavery and human trafficking in their supply chains. DRL also promotes labour rights in the supply chain by enforcing labour laws and providing due diligence.

> **For example:** EB, in cooperation with DRL and other stakeholders, has coordinated the U.S. Department of State's participation in the Kimberley Process to stem the flow of conflict diamonds and to address their traceability across supply chains (Camilleri, 2017).
>
> The Kimberly Process is a commitment to remove conflict diamonds from the global supply chain. The Kimberley Process (KP) is a multilateral trade regime established in 2003 with the goal of preventing the flow of conflict diamonds. The core of this regime is the Kimberley Process Certification Scheme (KPCS) under which States implement safeguards on shipments of rough diamonds and certify them as "conflict free". Kimberley Process (KP) defines conflict diamonds as: 'rough diamonds used to finance wars against governments' - around the world.
>
> *Source: https://www.kimberleyprocess.com/en/what-kp Accessed on 12/04/2019*

3) Anticorruption

You are all aware of the ill effects of corruption. It is not just bad for economic growth and sustainable development of any country, it also deters the foreign investors from investing in many countries. The Foreign Corrupt Practices Act was brought into effect in US in 1977. This law penalizes the US nationals and companies who indulge in bribing foreign officials in commercial transactions. The Presidential Proclamation 7750 of January 2004 also denies refuge to corrupt officials. US has also been an active participant in the United Nations Convention Against Corruption (UNCAC) and member of the OECD's Anti-Bribery Convention.

4) Health and Social Welfare

There were several exploitative practices being followed by the insurance companies in the US. Some of these practices include screening of pre-existing condition and charging higher premium in case a person has any ailment at the time of buying a policy, cancellation of insurance policy on various technicalities when illness is imminent, imposing annual or lifetime limits on the health coverage benefits that can be claimed by individuals etc. In 2010, reform on the Patient Protection and Affordable Care Act (PPACA), also known as Obamacare and the Health Care and Education Reconciliation Act (HCERA) were passed which were designed to remove the exploitative practices of the insurance companies.

5) Environmental Sustainability

US has a long tradition of environmental leadership from 1969 when the National Environmental Policy Act (NEPA) was passed with the intention of maintaining productive harmony between the requirements of present and future generations. The Environmental Protection Agency (EPA) formulates policies and instruments that would promote sustainable use of resources. Similarly, the Bureau of Energy Resources (ENR) promotes the use of secure, reliable, and clean energy in US. It

is also responsible for maintaining good governance and transparency in the energy sector.

The first National Action Plan on Responsible Business Conduct was launched by the US Government on December 16, 2016. The National Action Plan is a reflection of Government's commitment to fight corruption and promote human rights by partnering with domestic and international stakeholders. It encourages companies to follow high standards of responsible business conduct.

Activity 1

Write a comparative analysis of approaches to CSR in Europe and US.

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2.4   CSR IN SCANDINAVIAN COUNTRIES

Scandinavia is considered as the global leader in CSR and sustainability. Historically, Scandinavia referred to the countries of Denmark, Norway, and Sweden. However, in recent years, Finland is also included as a part of Scandinavia by many people. The CSR in Scandinavia stems from the notion that companies sometimes must pursue a social issue not based on the risk or cost involved or on the feasibility but for the simple reason that it is the right thing to do. The key driver of CSR in the Scandinavian countries is the long-term vision of shared value creation. Scandinavian firms like Novo Nordisk, Ikea, H&M, Norsk Hydrom Novozymes and Statoil have long demonstrated effective value creation for the company and its stakeholders (Strand, 2014).

The Scandinavian companies also perform very well in various CSR and sustainability performance measurements including Dow Jones Sustainability Index (DJSI) and the Global 100 Index. The Scandinavian countries have also figured out in the top 10 rank of the Adjusted Global Competitiveness Index published by the World Economic Forum in 2013. These countries have also consistently topped the annual Transparency International Corruption Perceptions Index. Thus, the Scandinavian countries lead in most of the CSR and sustainability performance indicators.

Let us now discuss some of the factors influencing CSR in the Scandinavian countries (Strand et. al., 2015)

1)   **Stakeholder Engagement and Corporate Reputation:** Studies have shown that there is a strong relation between the CSR performance of a firm and the level of stakeholder support and corporate reputation enjoyed by it. The impact of CSR performance has been so much so that it overshadows other considerations like financial performance, quality of goods and services and innovations. The CSR performance is directly linked to the stakeholder engagement as it is the center of effective CSR and sustainability.

2) **Creating Shared Value:** Creating shared value means creation of economic value by creating value for the society by addressing the needs and challenges of the society. This concept of creating shared value has a Scandinavian origin. The firms of Scandinavian origin have always demonstrated a shared value strategy.

> **For example:** Novo Nordisk, a Danish pharmaceutical company initiated a strategy to grow its market in China by improving diabetes care. The strategy was to increase the demand for the insulin products manufactured by the company by improving diagnosis of diabetes. For this, the company invested in physical training, patient education and local production. This would not just improve company sales but also improve the lives of Chinese citizens by improving diabetes diagnosis, care, and treatment.

3) **Institutional Influence:** The political parties in the Scandinavian countries have promoted the egalitarian policies and given due consideration to the welfare of present and future generations thus backing the virtues of stakeholder engagement. These countries have in place the institutions that would facilitate socially responsible behaviour of the companies. Some of the important influencers include mandatory representation of employees on the Boards of Directors. Also, they have a flatter pay structure in which the CEO to average worker pay ratios are very modest. Such policies lead to greater likelihood of stakeholder engagements.

4) **Cultural Influence:** Scandinavian culture is very much reflected in the Scandinavian management and is depicted in the form of consideration of well-being of stakeholders and not just shareholders, power sharing, participation, cooperation, consensus building etc. The Scandinavian countries are said to have the most feminine cultures in the world where gender roles overlap. Both men and women are supposed to display the finer qualities of being modest, tender and being concerned with the quality of life. The CSR agenda of stakeholder engagement and being concerned with the needs of the future generation aligns well with the Scandinavian feminine culture.

2.5   CSR IN LATIN AMERICA

2.5.1   What Drives CSR in Latin America?

The drivers to CSR can be classified into two:

i)   Altruism: Selfless concern for the wellbeing of others

ii)   Utilitarianism: Considers best action to be one that maximizes utility

In Latin America, the philanthropic traditions in the past have been rooted in religious beliefs. A large part of the regions tradition of charity has been derived from the region's catholic background. Thus, altruism and solidarity have been significant drivers of CSR in Latin America's private sector. Most of the business leaders, particularly from the family owned firms, speak of their commitment to the society as doing the right thing from ethical point of view

Two important utilitarian motives driving CSR in Latin America include (i) managing risks and (ii) gaining competitive advantage through image building.

Corporates may engage with the community in order to avert any identified risk. For example, Ausol, a multinational corporation in Argentina, involved in construction and maintenance of highways, works with local communities and this helps them gain community goodwill which is important as highways have several disruptive features. Improvement in the firm's image or market share is another utilitarian motive which drives its social commitments. For example, Posada Amazonas, an eco-tourism project in the Peruvian Amazon basin, invited an indigenous community to work and eventually become owners. Their participation makes it a unique experience for travellers (Pérez and Taboada, 2003). A strong blend of altruistic and utilitarian drives is most sustainable for business as a purely altruistic motive may not be favourable during economic downturns and a purely utilitarian motive may fail to establish the needed connect with the social partners.

2.5.2 How has CSR Evolved in Latin America?

There are two ways in which CSR has evolved in different countries:-

i)   Through responsible business operations which is generally governed by regulations

ii)   Community investment

In US, CSR has grown through regulations and hence is driven by responsible business operation. The details of which will be discussed in the next section. In Latin America however, regulation of responsible business operations is less common. This is mainly because Latin America does not have strong worker's organizations like trade unions or social groups like women and ethnic groups. Without pressure from society and such organized groups, the government is less likely to create standards which imply extra cost to the business organizations. In light of the lack of government framework for responsible business practices, the corporations interested in creating a common baseline for responsible business practices took it on themselves to create the standards.

> **For example**
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> Abrinq Foundation, a non-profit in Brazil, offers a logo (or a special seal) to companies committed to fighting the use of child labour. Corporations are certified through Arbinq's Child Friendly Companies Programme once they pass a series of social audits from unions, employees, and NGOs. Companies use the logo to market their corporate value to youths (Grayson and Hodges 2002).

CSR in Latin America has evolved more through community investment. The corporations in Latin America are investing in communities to create a stable society. Community investments improve the bottom line or the net earnings of the corporate as it improves the life of the communities which are the consumers of their products. There have also been incidences where the corporations have influenced government regulations to enhance the impact of CSR activities.

> **For Example**
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> In 1990, after a flood devastated the state of Chihuahua in Mexico, the business community approached the state government with a plan to give assistance

2.6 CSR IN DEVELOPING COUNTRIES

To understand how CSR is conceived, incentivized, and practiced in developing countries, let us understand what are the various drivers for CSR in these countries. In this section we will discuss the 10 drivers for CSR in developing countries as discussed by Wayne Visser (2008).

1) **Cultural Traditions:** CSR in developing countries draws its roots from the traditions of philanthropy, business ethics and community push. Kautilya, the great Indian statesman and philosopher advocated moral principles-based business practices. In the African continent, the philosophy of 'Ubuntu' or African humanism is the foundation upon which rests the modern inclusive approaches to CSR. Similarly, CSR in Nigeria is based on the religious beliefs, charitable traditions, and communalism.

2) **Political Reform:** The socio-political reform process also had a great bearing on CSR activities in the developing countries. For example, in South Africa, CSR has been driven to a great extent by the move towards democracy and reforms towards justice.

3) **Socio-economic Priorities:** A good business will always have its CSR guided by the socio-economic needs of a country. e.g. In Nigeria, the CSR is guided by the country's socio-economic challenges like poverty alleviation, education, infrastructure development, health care etc. On the other hand, the CSR in Western countries is guided by issues like climate change, fair trade, consumer protection, socially responsible production, green marketing etc.

4) **Governance Gaps:** Good governance requires a government to provide for the basic needs of the citizens like housing, education, health care, roads, electricity, etc. Many a times, in developing countries, the governments fail to provide for these basic services and in such cases, CSR is seen as a way to fill in these governance gaps. However, there are several criticisms to this approach as businesses are primarily responsible towards their shareholders. Also depending on profitability, the multinationals would disinvest from a region to invest in regions that would be more profitable. Hence the local governance should be more proactive to ensure accountability and inclusiveness and not depend on CSR to fill in the governance gaps as is the trend in many developing countries.

5) **Crisis Response:** Different crisis in the developing countries also act as a catalyst to CSR response. These crises could be natural, industrial, environmental, social, health related or economic. Catastrophic events like natural disasters also bring into play immediate CSR responses. The corporate response to tsunami in Asia is a classic example.

> **For example:** Unilever (Sri Lanka) is one of the largest and oldest multinational companies in Sri Lanka. The Asian tsunami in 2004 had resulted in mass launch of CSR programmes in Sri Lanka. Unilever played to its strength while shaping its tsunami CSR response. It used its organizational strength of wide distributional network which was made available to emergency relief operations working with the local agencies to distribute food and other necessary products. There were also employee

> donations to the central relief fund. After the initial relief work, Unilever started with its rehabilitation and reconstruction projects under which it undertook rebuilding of 150 homes in Sri Lanka.

6) **Market Access:** Another important driver of CSR is to gain market access by viewing unfulfilled needs of those at the bottom of the pyramid as an untapped market. Besides, CSR also helps the companies of the developing countries to access the markets of the developed countries. There is a strong relationship between CSR reporting and international sales and the companies from developing countries need to comply with the international stock market listing requirements in order to globalize.

7) **International Standardization:** Growing adoption of ISO 14001 and the Global Reporting Initiative's Sustainability Reporting Guidelines shows that CSR codes and standards are also important drivers of CSR in developing countries. CSR is also driven by standardization imposed by multinationals on their subsidiaries and operations in developing countries in their bid to achieve global consistency and to deal with social issues in developing countries like child labour and role of women in workplace.

8) **Investment Incentives:** Another important driver of CSR is Socially Responsible Investment (SRI) which involves investing in companies that promote environmental stewardship, consumer protection and human rights.

9) **Stakeholder Activism:** In developing countries where the government does not have strong control over the environmental, ethical, and social operations of companies, activism by stakeholder groups becomes an important driver for CSR. The development agencies, trade unions, international NGOs and business associations are the four major stakeholders which emerge as major activists for CSR in developing countries. This activism could be in the form of civil regulation, litigation against companies and international legal instruments.

10) **Supply Chain:** The ethical requirements imposed by multinationals on their supply chains acts as another significant driver for CSR in developing countries. This began with fair trade auditing and labelling of agricultural products produced in developing countries. Multinational supply chains in the developing countries especially those in sporting and clothing sector are marred with poor labour conditions and human right abuse issues. To deal with such conditions, standards like SA 8000 were developed which are used by multinationals in selecting their suppliers in developing countries.

Activity 2

Visit a CSR project being implemented in the city of your residence and discuss with the CSR project head about the key driver for the company to take up that project. Write their response.

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2.7 INTERNATIONAL INITIATIVES RELATED TO CSR

In this section we will discuss some of the international initiatives related to CSR on which the guidelines of CSR strategies of various countries have been built. Some of these initiatives are as follows:

i)   United Nations Global Compact

ii) United Nations Guiding Principles on Business and Human Rights

iii) ISO 26000 Guidance Standard on Social Responsibility

iv) International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy

v)   OECD Guidelines for Multinational Enterprises

i)   *United Nations Global Compact*

UN Secretary General Kofi Annan announced the UN Global Compact in January, 1999 and it was officially launched in July, 2000 at the UN Headquarters in New York. It was established as an organization which would work on the mandate set by the UN General Assembly to "promotes responsible business practices and UN values among the global business community and the UN System". UN Global Compact is one of the largest international corporate sustainability initiatives. It aims to mobilize sustainable companies to take up shared responsibility to create a better world. It helps the companies to align their strategies to the ten basic principles of the UN Global Compact and to take strategic action towards attaining developmental goals like the Sustainable Development Goals. It also acts as driver of change across various aspects of corporate sustainability including **12 social issues** like child labour, children's right, education, forced labour, human rights, indigenous people, labour, migrant workers, persons with disabilities, poverty, gender equality, women's empowerment; **five environmental issues** like biodiversity, climate change, energy, food and agriculture, water and sanitation and **three issues related to governance** like anti-corruption, peace and rule of law. The UN Global Compact inspires guides and supports companies to do responsible business.

The ten principles of the United Nations Global Compact are:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: https://www.unglobalcompact.org/what-is-gc/mission/principles

Case Study UN Global Compact Initiative

Empowering Refugee Women Project Brazil is receiving increasing numbers of refugees from African and Middle Eastern countries. In response, Global Compact Network Brazil, in partnership with UNHCR and UN Women, has teamed up with local and foreign companies and NGOs to help women refugees navigate the job market. Over the course of the project, the partnership has succeeded in raising awareness about the issues women refugees face in Brazil, with more than 10 companies having offered employment and training opportunities to over 80 women refugees. As an example of the WEPs in action, this project is demonstrative of the collective action that can be taken to build an employment pipeline for marginalized women.

Source: Women's Empowerment Principles Global Trends Report, 2018

ii) *United Nations Guiding Principles on Business and Human Rights:*

Commonly known as the UNGPs it is a list of 31 principles implementing the 'Protect, Respect and Remedy' framework. These principles provided the first global standards to address the issue of adverse impact of business activity on human rights. It was developed by the Special Representative of the Secretary General, John Ruggie and was unanimously endorsed by the United Nations Human Rights Council, making it the first corporate human rights responsibility initiative to be endorsed by the United Nations.

The UN Guiding Principles help the businesses to fulfil their obligations towards respecting human rights and complying with the existing laws. It helps prevent risks of human rights violation in business activities. It also lays down remedies for any breach of the existing laws.

These principles are based on three pillars:

a) The State's duty to protect human rights: It is the duty of the state to protect the human rights of its subjects through various mechanisms like policy making, regulation and enforcement.

b) The corporate responsibility to respect human rights: The guiding principles states that the private sector has an important role in protecting and upholding the human rights. In order to avoid infringing on the rights of the individuals, the corporate must act with due diligence.

c) Access to remedies when the rights are breached: The third pillar states that it is the state's responsibility to provide access to remedy to the individuals whose human rights have been infringed upon. For this, the state may use judicial, administrative, and legislative means. It is also the responsibility of the corporates to prevent and remediate any infringement of human rights for which they are responsible.

In this unit we will restrict to the principles related to corporate responsibility to respect human rights. Out of the total 31 principles, a total of 14 principles are related to the corporate responsibility to respect human rights. The principles under this head are classified as foundational and operational principles. Let us look at each of them:

Foundational Principles

1) Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.

2) The responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

3) The responsibility to respect human rights requires that business enterprises: a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

4) The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership, and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise's adverse human rights impacts.

5) In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including: a) A policy commitment to meet their responsibility to respect human rights; b) A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; c) Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

Operational Principles

6) As the basis for embedding their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that: (a) Is approved at the

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most senior level of the business enterprise; (b) Is informed by relevant internal and/or external expertise; (c) Stipulates the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services; (d) Is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties; (e) Is reflected in operational policies and procedures necessary to embed it throughout the business enterprise.

7) To identify, prevent, mitigate, and account for how they address their adverse human rights impacts, business enterprises should carry out human rights' due diligence. The process should include assessing actual and potential human rights impacts, integrating, and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence: (a) Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships; (b) Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations; (c) Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise's operations and operating context evolve.

8) To gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should: (a) Draw on internal and/or independent external human rights expertise; (b) Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.

9) In order to prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action. (a) Effective integration requires that: (i) Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise; (ii) Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts. (b) Appropriate action will vary according to: (i) Whether the business enterprise causes or contributes to an adverse impact, or whether it is involved solely because the impact is directly linked to its operations, products, or services by a business relationship; (ii) The extent of its leverage in addressing the adverse impact.

10) In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should: (a) Be based on appropriate qualitative and quantitative indicators; (b) Draw on feedback from both internal and external sources, including affected stakeholders.

11) In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. In all instances, communications should: (a) Be of a form and frequency that reflect an enterprise's human rights impacts and that are accessible to its intended audiences; (b) Provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved; (c) In turn not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality

12) Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.

13) In all contexts, business enterprises should: (a) Comply with all applicable laws and respect internationally recognized human rights, wherever they operate; (b) Seek ways to honour the principles of internationally recognized human rights when faced with conflicting requirements; (c) Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue wherever they operate.

14) Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.

iii) ISO 26000 Guidance Standard on Social Responsibility

The ISO Committee on Consumer Policy was the first to identify the need to work on social responsibility standards in 2001. ISO 26000 provides guidance on how businesses can operate in a socially responsible way. It is concerned with the issues organizations need to address in order to function in a socially responsible way and with the best practices in social responsibility. ISO 26000 cannot be used as a certification standard as the provisions in it are only voluntary guidance and not requirements.

The guidance in ISO 26000 is based on the best practices developed by existing private and public sector social responsibility initiatives. It is consistent with various international conventions and declarations including International Labour Organization (ILO), United Nations Global Compact Office (UNGCO), Organization for Economic Co-operation and Development (OECD).

The core subjects on which guidance is given are:

i)   Organizational Governance

ii)   Human Rights

iii) Labour Practices

iv)   The Environment

v)   Fair Operating Practices

vi) Consumer Issues

vii) Community Involvement and Development

iv) ***International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy (MNE Declaration)***

The MNE Declaration provides guidance to enterprises on responsible and inclusive workplace practices. It facilitates outreach and understanding of Decent Work Agenda in the private sector. It is the only instrument that has been widely adopted by governments, employers, and workers around the world. It was adopted 40 years ago and has been amended twice in 2000 and 2006 and revised in 2017. Its principles are based on international labour standards and cover areas such as employment, training, conditions at work, industrial relations etc.

The MNE Declaration lays down principles in the fields of employment, training, conditions of work and life, and industrial relations which governments, employers' organizations, workers' organizations, and multinational enterprises are recommended to observe on a voluntary basis.

What Does MNE Declaration Contain

The MNE Declaration consists of *General Policies* laid down for all the parties concerned with the declaration including guidelines for multinational enterprises and governments of hosts countries. It also contains guidelines related to various aspects of *Employment, Training, Conditions of Work and Life and Industrial Relations.*

1) Employment

Under this section, the declaration sets guidelines on various aspects. We will be looking at some of the key points under each section

i) Employment Promotion: These are a set of instructions or guidelines to multinational enterprises for employment promotion in the host countries. It says that

"Multinational enterprises, particularly when operating in developing countries, should endeavour to increase employment opportunities and standards, taking into consideration the employment policies and objectives of the governments, as well as security of employment and the long-term development of the enterprise." (ILO, 2017).

It instructs the MNEs to work in harmony with the national social development policies. It also instructs them to give priority to the employment of nationals of the host country.

ii) Social Security: It instructs the governments to establish social security as a fundamental element of national security systems. It instructs Multinational Enterprises to complement the public social security systems through their employer sponsored programmes.

iii) Elimination of forced or compulsory labour: It instructs the Governments to take steps to eliminate forced labour and protect the victims of forced labour and help them get compensation and rehabilitation and sanction

the perpetrators of forced labour. The governments should provide support to the employers to take measures to identify, prevent and mitigate forced labour. It also instructs enterprises to take measures to prohibit and eliminate forced labour in their operations.

iv) Effective abolition of child labour- minimum age and worst forms: It instructs the governments to have national policies in place to prohibit and eliminate child labour and raise the minimum age for employment to a level consistent with complete physical and mental development of young persons. It also instructs multinational enterprises to abide by the minimum age for employment and prohibit and eliminate child labour in their operations.

v) Equality of opportunity and treatment: Government policies should promote equality of opportunity and treatment in employment and eliminate any discrimination based on race, colour, sex, religion, social origin etc. Government should promote equal pay for both men and women. Multinational enterprises should also be guided by the principle of non-discrimination in their operations.

vi) Security of Employment: It instructs the governments to study the impact of multinational enterprises on employment in various industrial sectors. It also instructs the multinational enterprises to make efforts to provide stable employment for workers employed by them. It also instructs them to notify to the concerned government authorities about changes in operations that may have major employment effects like mass layoffs in case of closure of the operation.

2) **Training**

It instructs the governments to develop national policies for employment linked vocational training and guidance. It also instructs multinationals to provide relevant training to workers at all levels to develop useful skills, promote lifelong learning and development. It also instructs the multinational enterprises to provide services of the expertise of their skilled personnel for training programme organized by governments.

3) **Conditions of Work and Life**

i) Wages, benefits, and conditions of work

The wages, benefits and conditions of work provided to the workers by the MNEs should be comparable to those provided by comparable employers in the host country. It instructs the MNEs to take into consideration the needs of workers and their families, cost of living, living standards of various social groups, social security benefits and other economic factors. It also instructs the governments to ensure that the activities of MNEs provide as much benefit as possible to lower income groups and less developed areas.

ii) Safety and Health

It instructs the Governments to ensure that MNEs provide adequate safety and health standards and provide safe and healthy working environments to their employees. International labour standards and ILO codes of practices and guidelines on occupational safety and health

should be taken into account. They should provide information on safety and health standards relevant to their operations to all concerned including workers, worker organizations and other competent authority in the countries they operate.

4) Industrial Relations

MNEs should observe standards of industrial relations

i) Freedom of association and right to organize

It instructs the MNEs to uphold the right of their employees to join organizations of their choice, subject to the rules of the organizations concerned and protect them against acts of anti-union discrimination. It also instructs the governments of the host countries that when they offer special incentives to attract foreign investment these incentives should not limit worker's freedom of association and right to organize and bargain collectively. It instructs that the representatives of workers should have the freedom to hold meetings for consultation or exchange of views.

ii) Collective Bargaining

The workers of MNEs should have the freedom to form representative organizations for collective bargaining. It instructs the MNEs to authorize representative of workers to conduct negotiations with the representatives of management who are authorized to take decisions of the issues under negotiation. It instructs the governments to provide the worker's organizations with the information on the industries in which the enterprise operates which would help them in laying down objective criteria in the collective bargaining process.

iii) Consultation

It instructs MNEs to allow mutual consultations on matters of mutual concern between employers, workers, and their representatives.

iv) Access to remedy and examination of grievances

It instructs the governments to protect the workers in their territory against business related human rights abuses. MNEs should use their leverage to encourage their business partners to provide effective means to enable remediation of human rights abuses. It also instructs the MNEs to respect the rights of the workers and have a proper grievance redressal mechanism in place.

v) Settlement of industrial disputes

It instructs the governments and the MNEs to make available a conciliation machinery to assist in settlement of industrial disputes between the employers and workers.

5) OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are a set of recommendations for responsible business conduct addressed by Governments adhering to the guidelines to the multinational enterprises operating in and from these adhering countries. The guidelines were first adopted in 1976 and have been revised 5 times since then, the latest being in 2011.

What Do the Guidelines Contain?

There are 11 chapters to the guidelines. The first chapter on *Concepts and Principles* deals with the concepts and principles which are the backbone of these guidelines. The second chapter on *General Policies* contains a set of recommendations in the form of policies which are the basis for various principles. This chapter deals with various provisions like dealing with adverse impacts, implementing due diligence, stakeholder engagement etc. The third chapter in *Disclosures* contains recommendations to the enterprises to be transparent in their operations and responsive to the increasing demand for information. The fourth chapter on *Human Rights* deals with the recommendations for the enterprises to meet their responsibilities towards various internationally recognized human rights. This chapter is aligned with the UN "Protect, Respect and Remedy" Framework and 'Guiding Principles on Business and Human Rights.' The fifth chapter on *Employment and Industrial Relations* deals with the role of the Guidelines in promoting the observance of International Labour Standards as set by the ILO by the enterprises. The sixth chapter on *Environment* reflects on the 'Rio Declaration on Environment and Development' and 'Agenda 21'. It provides recommendations for the enterprises to contribute towards environment protection through better planning and management. Chapter Seven on *Combating Bribery, Bribe Solicitations and Extortion* provides recommendations for enterprises to fight and eliminate bribery from the system. The eighth chapter on *Consumer Interests* draws its recommendations from the OECD Committee on Consumer Policy and Committee on Financial Markets and other international organizations. It calls on enterprises to ensure quality and reliability of the products produced by them by following fair trade, marketing, and advertising practices. The ninth chapter on *Science and Technology* aims to promote transfer of technology to the host countries. The tenth chapter on *Competition* focuses on the importance of enterprises carrying out their activities in consonance with the competition laws and regulations and refraining from anti-competitive activities and agreements. The eleventh chapter on *Taxation* covers recommendations on fundamental taxation.

The policies on which the guidelines are based focus on two aspects: (i) Positive contribution of multinational enterprises to sustainable development and (ii) avoiding adverse impacts. Let us discuss some of the important policies on which the guidelines are based:

1) Adverse Impacts: Enterprises should avoid causing adverse impacts on matters covered by the guidelines either through their own activities or through activities linked to the enterprise by business relationships like business partners, supply chain or other entities linked to the business operations.

2) Due Diligence: This means to make identification and prevention of adverse impacts an integral part of business decision making and risk management systems of an enterprise. The enterprises with large supply chains are expected to identify the general areas where there is a risk of adverse impacts and prioritize suppliers for due diligence.

3) Stakeholder Engagement: During planning and decision making of the projects, the enterprises should engage the stakeholders specially when the project is going to impact them. For example, if the project involves

extensive use of land or water or any such resource which could adversely impact the local community, their views need to be taken into account.

4) Fostering Confidence and Trust: Enterprises should develop a relationship of mutual trust and confidence with the communities in which they work. They are also required to work within the statutory frameworks of human rights, environment, health and safety, taxation etc. and not seek undue exemptions.

5) Human Capital Formation and Capacity-building: Enterprises should work closely with the local community and create employment opportunities for the locals. To build their capacities, it should also provide training to the employees. Promoting awareness and compliance with the company policies and Guidelines is also encouraged.

6) Corporate Governance: Supporting and upholding good corporate governance principles is recommended. The practices of good corporate governance are drawn from the OECD Principles of Corporate Governance and OECD Guidelines of State-Owned Enterprises.

Implementing the Guidelines

The guidelines are implemented in different countries through the National Contact Points. During instances of conflict the interested party could submit a 'Specific Instance' to the NCP regarding the non-observance of the Guidelines.

National Contact Points: The governments adhering to the Guidelines are obliged to set up National Contact Points (NCPs) whose main role is to undertake promotional activities, handle inquiries and resolve issues arising out of non-compliance to the Guidelines. The NCPs report to the OECD investment committee and meet on a regular basis and share their experiences.

Specific Instances: The NCPs are not judicial bodies but focus on problem solving by mediation. In case of any non-observance of guidelines, the interested party can submit a specific instance to the NCP. Once a specific instance has been submitted, it is subjected to three phases.

Phase 1: Initial Assessment: This phase involves initial analysis of the issue and to determine if it requires further examination.

Phase 2: Offer of Good Offices: If the matter requires further investigation, the NCPs facilitate access to consensual means to resolve the issues. For this matter, it consults with the parties and if necessary, it asks for advice from the relevant stakeholders. It also offers mediation whereever relevant to help resolve the issue.

Phase 3: Conclusion: Finally it issues a report if the agreement is reached, a statement if the party is not willing to participate in the procedures or if no agreement is reached or if the specific instance does not require any further examination after the initial assessment . The UN initiative for CSR specially also include the Sustainable Development Goals adopted in 2015. This has been discussed in detail in Block 4 of Course 2.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

      b) Check your answer with possible answers given at the end of the unit.

1)   Write any two principles of UNGC.

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2)   What are the core subjects on which guidance is given under ISO 26000?

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2.8 LET US SUM UP

The perspective on CSR varies from country to country. In this unit you have read about the perspectives of some of the European countries including Austria, Germany, France, and UK. You have also read about the CSR initiatives in US, Latin America, and Scandinavian countries. This unit also discusses about various drivers for CSR in developing countries. There are several international initiatives which are key expressions of the broader systems of public and private governance from which the private initiatives emerge. In this unit you have also read about such initiatives like United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy and OECD Guidelines for Multinational Enterprises.

2.9 KEYWORDS

Drivers of CSR	:	Drivers are the factors that encourage companies to be more socially responsible.
Shared Value	:	Shared Value is based on the idea that companies can increase profits and enhance competitiveness by solving societal problems.
Collective Bargaining	:	Collective bargaining is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working conditions, benefits, and other aspects of workers' compensation and rights for workers.

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2.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress – 1

Answer 1: The EU policy on CSR is based on various actions to support this approach. They include:

1) Enhancing the visibility of CSR and disseminating good practices

2) Improving and tracking levels of trust in business

3) Improving self and co-regulation processes

4) Enhancing market rewards for CSR

5) Improving company disclosure of social and environmental information

6) Further integrating CSR into education, training, and research

7) Emphasizing the importance of national and sub-national CSR policies

8) Better aligning European and global approaches to CSR.

Answer 2: Factors influencing CSR in the Scandinavian countries:

5) Stakeholder Engagement and Corporate Reputation

6) Creating Shared Value

7) Institutional Influence

8) Cultural Influence

Check Your Progress-2

Answer 1: Two principles of UNGC are:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Answer 2: The core subjects on which guidance is given are:

viii) Organizational Governance

ix) Human Rights

x) Labour Practices

xi) The Environment

xii) Fair Operating Practices

xiii) Consumer Issues

xiv) Community Involvement and Development

UNIT 3   PERSPECTIVE IN INDIAN CONTEXT

Structure

3.1   INTRODUCTION

In this unit we will read about the evolution of CSR in India over time. India has a long tradition of philanthropy since ancient times. During the preindustrial period, philanthropy was largely motivated by religion. The merchants also used to help the society to get over various natural calamities like famines and floods. During the colonial rule, the industrial families used to contribute to social causes. During independence movement, the notion of 'Trusteeship' introduced by Mahatma Gandhi put pressure on the industrialists to contribute towards nation building and social development. Post-independence, with the coming up of Public Sector Undertakings (PSUs), private sector took a backseat and public sector became a key driver of development. However, the limited effectiveness of the public sector, shifted the expectation back to the private sector for socio-economic development of the country. The economic liberalization in the 1990s helped the Indian companies to grow rapidly. This increased their willingness to contribute towards social causes. The companies started getting involved in various CSR programmes like building schools and hospitals, empowering rural youth by providing vocational trainings, organizing health camps etc. Corporates also started joining hands with NGOs to use their expertise in bringing about a positive change in the lives of the people. With the passing of the Company's Act 2013 and the New CSR Rules 2014 which have come into effect since April 2014, CSR has become binding under legislation.

This unit aims to help you to understand the evolution of CSR in different stages of India's development. After reading this unit you will be able to:

- Discuss the evolution of CSR in India

- Explain the models of CSR operating in India

- Discuss the current trends and practices of CSR in India

3.2 CSR IN INDIA: HISTORICAL BACKGROUND

3.2.1 The Phases of Development of CSR in India

The mention of the concept of CSR in India dates to the Vedic period. Rigveda mentions about sharing of wealth by the rich with the poor. Ancient texts like Manu Smriti also talks of the nature of business done which should be for the good of the society and for the good of the business in the long run. It also instructs that the means of wealth that is acquired should be in line with the principles of *dharma*. One form of giving is through the religious institutions. Prior to the evolution of modern philanthropy, religious institutions were the most important sources serving the poor either through temple trusts, waqfs, gurudwaras and churches. For instance, schools were established by Tirumala Tirupati Devasthanams (TTD), the trust managing Tirumala Venkateshwara Temple in Andhra Pradesh, way back in 1876.

The book 'Beyond Business: From Merchant Charity to Corporate Citizenship' gives an account of philanthropic practices in India. This section draws on that book. According to Sundar (2000), the development of CSR in India can be divided into four phases.

Phase 1 (CSR driven by Charity and Philanthropy): This phase is from 1850 to 1914. CSR in the initial phase was driven by culture, traditions, family values, industrialization, and religion. Religious obligations and traditions based on charity and philanthropy like dan, seva and zakat have been followed in India since ancient times. In 1850s, the merchants, driven by the purpose of committing themselves to the society for religious purposes made huge donations for construction of temples. During times of famines and epidemics, the merchants also helped the society in overcoming these calamities by donating food and money.

Industrialization was pioneered in India in the 19th century by a few families like Tatas, Birlas, Godrej, Shriram, Singhania, Lalbhai, Sarabhai, Mahindra, Modi, Bajaj and Annamali. These business houses were committed to CSR, however, while doing so they also had motives such as business considerations, supporting of specific communities and political objectives. During this phase, all the donations were done for the construction of schools, hospitals, temples etc. without any consideration of the long-term impact of these donations.

Phase 2 (CSR driven by Social Development): The second phase of CSR in India is from 1914 to 1960. This period was dominated by India's struggle for independence. The CSR during this period was greatly influenced by Gandhi's theory of trusteeship. Established family businesses had trusts for building of schools, colleges, scientific and training institutions etc. These trusts also involved themselves in various social causes initiated by Mahatma Gandhi like abolition of untouchability, women's empowerment, and rural development. During this phase, the business houses were drawn to the political fight for independence. Not only did they participate in the economic and social development of the country, they perceived the economic development of the country as the fight against the British rule. The vision of living in a free country was the driving force which led to involvement of corporate sector in the development of the country.

Phase 3 (CSR in the Mixed Economy): The third phase of CSR in India is from 1960 to 1980. The role of state in development increased greatly after independence. This phase was characterized by emergence of several public enterprises. Several legislations on corporate governance, labour and environmental standards also came into existence during this phase. Heavy regulations and License Raj replaced the self-regulatory activities of the corporate. However, the state failed to eradicate poverty and support economic development. The expectation shifted back to private sector and their involvement in the socio-economic development of the country became very essential. Businesses were expected to be more transparent, socially accountable and have regular stakeholder dialogues. Inspite of all these efforts, the CSR failed to match the expectations in its contribution to development.

Phase 4 (Interface between Philanthropic and Business Approaches): This phase starts from 1980s till the present day. During this phase, the companies started viewing CSR as a sustainable business strategy and started adopting multi-stakeholder approach. With the liberalization of the economy in 1990s, India became integrated with the global markets. With the abolition of the license systems, there was a boom in the economy. The growth in the economy has helped the Indian companies to grow rapidly which has increased their willingness to participate more actively in the socio-economic development of the country. India has now become an important production and manufacturing base for many of the transnational companies as a result of which, the Indian companies involved in production and export of goods to developed countries are required to comply with various international standards of labour, environment etc.

3.3 MODELS OF SOCIAL RESPONSIBILITY OPERATING IN INDIA

A report by The Energy and Resource Institute (TERI) (Kumar et al., 2001) mentions four models of CSR that are present in India.

1) **The Ethical Model:** This is based on the Gandhian Model of Trusteeship. The philosophy of Trusteeship propounded by Mahatma Gandhi believes that the rich should use their wealth for the welfare of the poor and the underprivileged. In India, poverty and inequality still is a structural problem and unless businesses come forward to strengthen the society, these problems will continue to create conflict of interest among different segments of the society. The Gandhian model of Trusteeship is based on the principle that the surplus wealth should be kept in trusts for the greater good of the society. The business while being economically viable should also uphold their ethical values to create sustainable livelihoods for all. The Gandhian model provides directions for transforming an unequal society into an egalitarian society. Some corporate are huge in terms of their size and the number of lives they impact and hence can be instrumental in bringing about structural changes in the society. When the corporate governance and finance are in order, they can generate social reforms.

2) **The Statist Model:** This model came into being with the adoption of socialist and mixed economy by Jawahar Lal Nehru. In this model, the corporate responsibilities were governed by state ownership and legal requirements. The Labour Laws and Management Principles had in them the basic elements

of corporate responsibility, particularly those related to community and worker relationships. Most of the public sector companies even today follow the statist model of state sponsored corporate philosophy.

3) **The Liberal Model:** This model was propounded by Milton Friedman. According to Friedman, the social responsibility taken up by the corporate distorts economic freedom of the shareholders as they have no say in deciding how their money will be spent in these activities. He argued that corporations should engage in activities that would generate revenue and profit. However, in doing so they should abide by the law and follow ethical customs. Friedman in his article in New York Times in 1970 titled *The Social Responsibility of business is to increase its profits* says that "… there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game, which is to say, engages in open and free competition, without deception or fraud."

In his argument he says that the Directors of corporation or other executives should not take up socially responsible programmes as they do not have any incentive for prudent spending of the shareholder's money.

4) **The Stakeholder Model:** The Stakeholder Model was propounded by Edward Freeman. The theory argues that the company should be driven by the welfare of the stakeholder and not stockholders alone. Stakeholders include shareholders, employees, consumers, suppliers, competitors, related government agencies and local communities. This model considers itself with not just profit earning but also the impact upon major stakeholders. In support of this model Freeman argues that when a firm is responsive towards the concerns of the stakeholders, they become more resilient themselves. It also results in better long- term performance of both the firm as well as the society.

Activity 1

Discuss with elderly members in your family/society about how philanthropy was carried out during their times. Ask if they had contributed to any of the philanthropic/charity activities. Write about it.

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Check Your Progress 1

Notes: a) Write your answers in about 50 words.

      b) Check your answer with possible answers given at the end of the unit.

1)   What are the characteristics of the third phase of development of CSR in India?

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2)   Discuss the statist model of social responsibility.

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3.4 EVOLUTION OF A LEGISLATION ON CSR: VOLUNTARY PRACTICES TO REGULATORY MECHANISM

The corporation in India, have a long tradition of philanthropy and have been engaged in social activities. CSR started becoming a topic of interest for the policy makers and corporate in the late 1990s. At policy level, CSR was first formalized in India with the issuance of Corporate Social Responsibility Voluntary Guidelines in 2009 by the Ministry of Corporate Affairs. It included the basic elements of CSR like ethical functioning, human rights, worker's right, environmental considerations, stakeholder welfare etc. This was followed by another guidelines called the National Voluntary guidelines of Social, Environmental and Economic Responsibilities of Business, issued in 2011 by the Ministry of Corporate Affairs. These guidelines urged the corporate to adhere to the nine principles of CSR and the adherence to the guidelines was based on the 'apply or explain' approach. With the enactment of Section 135 of the Companies Act 2013, India became the first country to make CSR spending and disclosure mandatory for large companies with specific turnovers.

The Department of Public Enterprises (DPE) has also been issuing guidelines on CSR for Central Public Sector Enterprises (CPSE) from time to time. The guidelines on Corporate Governance for CPSEs was given in 2010 to bring more transparency and accountability in the functioning of CPSEs. These guidelines pertain to both listed and unlisted CPSEs and give clear directions in terms of the composition, functional roles of Board of Directors, Audit Committee, Remuneration Committee, Subsidiary Companies, Disclosures, Report,

Compliance and Schedule of implementation. DPE also issued the guidelines on Corporate Social Responsibility and Sustainability for CPSEs. These guidelines spell out the sustainability initiatives the CPSEs are expected to take. The CPSEs Conclave held in April, 2018 recommended utilization of CSR funds in a focused manner by adopting a theme based approach. It was proposed that a common theme be identified each year for undertaking CSR by CPSEs. School education and health care were identified as the theme for focused intervention for the year 2018-19. Sixty percent of the annual CSR expenditure of the CPSEs was required to be for the thematic program. A list of 112 aspirational districts was identified by NITI Aayog which were to be given preference.

3.4.1 The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business

The National Voluntary Guidelines (NVGs) were laid down by the Ministry of Corporate Affairs to provide guidance to the companies to work in accordance with the national policies of inclusive growth and climate change. The guidelines help the corporate to formulate objectives keeping in consideration their impact on stakeholders and environment.

The NVGs are based on nine principles which are as under

The Nine Principles of National Voluntary Guidelines

1) Businesses should conduct and govern themselves with ethics, transparency, and accountability.

2) Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycles.

3) Businesses should promote the wellbeing of all the employees.

4) Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

5) Businesses should respect and promote human rights.

6) Business should respect, protect, and make efforts to restore the environment.

7) Businesses when engaged in influencing public and regulatory policy should do so in a responsible manner.

8) Businesses should support inclusive growth and equitable development.

9) Businesses should engage with and provide value to their customers and consumers in a responsible manner.

(Source: Khandelwal, 2011)

3.4.2 The Companies Act 2013 and CSR

(Source: mca.gov.in)

The Act

The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the government's efforts of equitably delivering the benefits of

growth and to engage the Corporate World with the country's development agenda. The Companies in India are governed by Clause 135 of the Companies Act 2013 for performing their CSR activities.

Section 135

Section 135 of the Companies Act 2013 lays down that:

- The companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of 5 crore INR and more shall constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director.

- The CSR Committee will be responsible to

    i)   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 Schedule VII;

    ii) recommend the amount of expenditure to be incurred on the activities referred to in (i); and

    iii) monitor the Corporate Social Responsibility Policy of the company from time to time.

- The Board of every company shall

    i)   after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and place it on the company's website, if any, in such manner as may be prescribed; and

    ii) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

- It is also the duty of the Board to ensure that the company spends two percent of the average net profits made by the company in the preceding three financial years and while spending the CSR amount, giving preference to local areas where it operates.

- If the company fails to spend the amount, the Board in its report shall specify the reasons for not spending the same.

Though section 135 makes CSR spending and reporting mandatory, it gives flexibility to the companies to choose the CSR activities from the list of activities that the corporate can potentially undertake.

The CSR Rule, 2014

Source: mca.gov.in Companies Act Notification 2014, Ministry of Corporate Affairs

A set of rules framed under section 135 of the Act, came into force on 1st April, 2014. It lays down rule for the following:

CSR Activities

●   The CSR activities taken up by the companies will be as per the stated CSR policy and activities taken up by the company under its normal course of business will be excluded from CSR activities. A company can implement the CSR activities approved by the CSR committee either on its own or through a non-profit foundation set up by the company to facilitate this initiative or through an independently registered non-profit organization that has a record of being into such activities for at least three years or in collaboration with other companies.

●   The activities undertaken in India will only be considered under the CSR activities.

●   Spending on activities that benefit only the employees of the company, also known as self-serving expenditure will not be considered as CSR spending. The companies are free to spend on capacity building of their employees but the expenditure should not be more than 5 percent of the total CSR expenditure in any particular year.

●   Contribution to political parties will also not be considered as CSR activity.

●   The income generated from the CSR activities should be credited back to the community or CSR corpus and this would be over and above the mandatory 2% of profit.

CSR Committee

●   The companies which are bound by the CSR clause are required to constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director. A private company with only two directors on its Board will have only two directors in the CSR Committee and in case of foreign company, the Committee will have at least two persons of which one will be an authorized person residing in India and the other will be nominated by the foreign company.

CSR Policy

●   The CSR policy of a company will include

    –   List of projects or programmes within the Schedule VII of the Act which the company will undertake, along with the implementation schedules and other modalities.

    –   Monitoring process of these programmes.

●   The policy will also specify that the surplus generated from the CSR programmes will not be a part of the business profit of the company.

CSR Expenditure

●   All expenses including contribution to the corpus for programmes relating to CSR activities approved by the board will be included as CSR activities provided, they are in conformity with the activities which fall within the purview of Schedule VII of the Act.

CSR Reporting

- The rules also provide a format for the board report on CSR which includes reasons for spending of less than 2 % of the average net profits of previous three years and a responsibility statement stating that the company's CSR policy, implementation and monitoring mechanism are in accordance with the CSR objectives. The report is signed by the CEO, MD, or Director of the company.

Display of CSR Activities on its Website

- The Board of Directors shall disclose the content of the CSR policy in its report as well as on the company's website as per the particulars specified.

Schedule VII

Source: www.mca.gov.in

The Schedule VII of the Companies Act provides a list of activities which can be included by companies in their CSR policies where the CSR spending can be done. These activities relate to:

i) Eradicating extreme hunger and poverty;

ii) Promotion of education;

iii) Promoting gender equality and empowering women;

iv) Reducing child mortality and improving maternal health;

v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria, and other diseases;

vi) Ensuring environmental sustainability;

vii) Employment enhancing vocational skills;

viii) Social business projects;

ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities, and women; and

x) Such other matters as may be prescribed.

Activity 2

Visit a CSR office of a company in the city of your residence. Find out the various CSR projects undertaken by the company. Identify which of the activities mentioned in Schedule VII do these projects correspond to.

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3.5 CURRENT TRENDS AND PRACTICES OF CSR IN INDIA

Prior to Companies Act 2013, CSR clause was voluntary for companies, they were however required to disclose their CSR spending to their shareholders. After the amendment to Companies Act 2013, made in April 2014, India became the first country in the world to make CSR mandatory.

Some of the emerging trends that the CSR in India is expected to witness are:

(Sharma and Gupta, 2019)

1) NGOs Will Adapt and Get Better at Working with the New Type of Funders – Corporates

Traditionally, the NGOs have been collaborating with government agencies and the international aid agencies. However, in recent years NGOs have found new collaborators in the large Indian companies and multinational corporations. There is an increasing trend of MNCs partnering with the NGOs to execute their social responsibility initiatives in areas like education, sanitation, sustainability, health, water etc. This partnership with corporates has better equipped the NGOs not just in terms of higher funds but also with the required technological and intellectual resources required in implementing the projects. The role of NGOs has become more focused on aspects like impact, deliverables, adhering to timelines, doing diligent reporting etc. Now the focus is more on measurable outcomes.

2) Corporates Will Start Thinking of CSR as Another Pillar of Their Corporate Strategy, Instead of as Philanthropy

Sustainability issues and social responsibility have become a key consideration for business leaders and decision-makers in the corporate sector, in the last couple of years. Companies these days think of CSR as an integral part of their managerial process, decision making and overall strategy with an aim to position themselves not just as philanthropic but also as socially responsible organizations. Companies view CSR as an investment to build sustainable societies which have a significant positive impact on the societies. Companies have seen a shift from having a separate CSR strategy to having a corporate strategy which incorporates CSR.

3) More Companies Will Comply and Engage in Long-term Partnerships with NGOs

NGOs have the expertise and experience in working in a variety of development sectors like environment, education, health, gender issues etc. Each of these sectors is different from the other and needs a different approach to deal with its set of challenges and issues. Also, measurable impacts of various interventions take a long time to achieve. With companies having very little or no knowledge of working in the development sector, they seek to engage in long term collaborations with NGOs to be able to make a greater on-ground impact.

4) For-Profit Social Ventures Will Emerge as a Major Force of Social Good

Other than the non-profit organizations working in the social sector, there are several for-profit ventures that have emerged in the past few years that are tackling

social issues through innovative products and services. One such example is of women entrepreneurs manufacturing low cost sanitary napkins which are made accessible to semi-rural and urban areas. For-profit ventures are also equipped with better managerial and technical skills needed to address some major issues in the social sector. They are also helping corporate sector to build effective organizational and governance models.

5) **Technology and Innovation Will Play a Major Role in Addressing Structural Issues in the Social Sector and Building NGOs' Organizational Capabilities**

Technology has proven to be useful to both social sector as well as the corporates. Technology has helped the social sector to move away from the traditional mode of operating to a more efficient and transparent way by digitizing and automating workflows and streamlining the way the organizations interact with each other. Technology can also help corporate to assess the consistency between the ethical value the company endorses and their actions supporting the same by collating, accessing and analysing relevant data.

3.6   CSR INITIATIVES OF INDIAN COMPANIES

Some of the CSR initiatives of Indian companies are listed below:

1) **Tata Chemicals Ltd.**

Tata Chemicals Ltd. has spent 25.68 crores for CSR in 2018-2019 which was much higher than the prescribed amount of 19.86 crores. Improving the quality of life and fostering sustainable and integrated development in the communities where it operates is central to Tata Chemicals' corporate philosophy. In order to do so Tata Chemicals established Tata Chemicals Society for Rural Development (TCSRD) in 1980 as a society and trust. It lays emphasis on the spirit of participatory development by involving the beneficiaries at each stage of the development process which ensures viability and sustainability of the programmes (Fernandes, 2019). Around 30 percent of the TCSRD funds are spent of wildlife conservation. The amount is distributed over three places the company operates - Mithapur in Gujarat, Haldia in West Bengal and Babrala in Uttar Pradesh.

2) **Infosys Ltd.**

Infosys Limited had established the Infosys foundation in 1996 to implement its social development projects. During 2019, the company had spent INR 342 crores against the prescribed 340 crores towards various CSR schemes. The major works of the Foundation included the introduction of Aarohan Social Innovation Awards, restoration of water bodies in Karnataka, supporting the construction of a metro station in partnership with Bangalore Metro Rail Corporation Limited, enabling the pursuit of access and excellence in sports through the GoSports Foundation, and relief efforts in Tamil Nadu, Karnataka, and Kerala (Fernandes, 2019).

3) **Bharat Petroleum Corporation Ltd.**

BPCL as a part of its CSR initiatives, focuses on imparting holistic education by facilitating usage of technology and infrastructural facilities. Additionally, BPCL's CSR philosophy also includes participation in projects of national importance like the Swachh Bharat Abhiyan involving creation and maintenance of toilets,

associated sanitation facilities, waste management initiatives leading to overall health and hygiene for the communities.

4) Mahindra & Mahindra Ltd.

Among the various development programmes supported by Mahindra and Mahindra Ltd. are Nanhi Kali programme to provide educational support to underprivileged girls in India. It sponsors Lifeline Express (hospital on train) to provide medical care, treatment, and surgical intervention to individuals. Through Mahindra Hariyali 0.95 million trees were planted which contributed to improving green cover and protecting bio-diversity in the country.

5) Vedanta Ltd.

The CSR portfolio of Vedanta Ltd. has diverse projects based on 10 broad thematic areas running across various locations. The Nandghar project is the flagship initiative which aims at rebuilding Anganwadis to ensure health and learning of children in rural areas and for skilling and empowering women.

6) Indian Oil Corporation Ltd.

Indian Oil Co. Ltd. has been involved in various social development activities across the nation. Most of these projects are for improving the quality of life of the marginalized and underprivileged sections of the society. The key thrust areas of the company include Safe drinking water and protection of water resources, Healthcare and sanitation, Education and employment-enhancing vocational skills, Empowerment of women and socially/economically backward groups.

7) Hindustan Unilever Ltd.

Hindustan Unilever Limited (HUL), believes in long term sustainable growth achieved by reducing environmental footprints and increasing its positive social impact. The various CSR programmes of the company include Handwashing Behaviour Change Programme, Plastic Waste Management, Project Prabhat, Water Conservation Project, Swachh Aadat Swachh Bharat, Project Shakti, Domex Toilet Academy, Asha Daan, Sanjeevani and Supporting Healthcare.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What does Section 135 of Companies Act, 2013 lay down?

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2)   List out the emerging trends of CSR in India.

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3.7   LET US SUM UP

In this unit you read about the evolution of CSR in India. You read about how CSR evolved from being driven by charity and philanthropy in the 19th Century to CSR being a sustainable corporate strategy. You have also read about the four models of CSR present in India – The Ethical Model, the Statist Model, Liberal Model and Stakeholder Model. You have also read about how Indian CSR shifted from voluntary practices to a regulatory mechanism with the inclusion of CSR mandate in the Companies Act 2013. Further, the unit discusses some of the emerging trends that the CSR in India is expected to witness. Finally, the unit briefs about some of the CSR initiatives by few leading companies.

3.8   KEYWORDS

Philanthropy	:	The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes.
Schedule VII	:	The Schedule VII of the Companies Act provides a list of activities which can be included by companies in their CSR policies where the CSR spending can be done.
National Voluntary Guidelines	:	The National Voluntary guidelines were laid down by the Ministry of Corporate Affairs to provide guidance to the companies to work in accordance with the national policies of inclusive growth and climate change.

3.9   BIBLIOGRAPHY AND SELECTED READINGS

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3.10 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: The third phase of CSR in India is from 1960 to 1980. The role of state in development increased greatly after independence. This phase was characterized by emergence of several public enterprises. Several legislations on corporate governance, labour and environmental standards also came into existence during this phase. Heavy regulations and License Raj replaced the self-regulatory activities of the corporate. However, the state failed to eradicate poverty and support economic development. The expectation shifted back to private sector and their involvement in the socio-economic development of the country became very essential. Businesses were expected to be more transparent, socially accountable and have regular stakeholder dialogues. Inspite of all these efforts, the CSR failed to match the expectations in its contribution to development.

Answer 2: The statist model came into being with the adoption of socialist and mixed economy by Jawahar Lal Nehru. In this model, the corporate responsibilities were governed by state ownership and legal requirements. The Labour Laws and Management Principles had in them the basic elements of corporate responsibility, particularly those related to community and worker relationships. Most of the public sector companies even today follow the static model of state sponsored corporate philosophy.

Check Your Progress 2

Answer 1: Section 135 of the Companies Act 2013 lays down that:

• The companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of 5 crore INR and more shall constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director.

Answer 2: Some of the emerging trends that the CSR in India is expected to witness are:

1) NGOs will adapt and get better at working with the new type of funders – corporates

2) Corporates will start thinking of CSR as another pillar of their corporate strategy, instead of as philanthropy

3) More companies will comply and engage in long-term partnerships with NGOs

4) For-profit social ventures will emerge as a major force of social good

5) Technology and innovation will play a major role in addressing structural issues in the social sector and building NGOs' organizational capabilities