CORPORATE SOCIAL RESPONSIBILITY
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**History of CSR in India:** Pre-Independence Period, Post-Independence India, Liberalization and CSR, Emerging CSR Trends, Contemporary Scenario: Achievements, Theories of CSR: Friedman’s Theory/Fundamentalist Theory, Social Contract Theory, Social Justice Theory, Rights Theory, Deontological Theory, Stakeholder Theory, Gandhi’s Trusteeship Theory.

**Corporate Social Responsibility:** The Pyramid of Corporate Social Responsibility, Generations of CSR, Changing Trends: Philanthropy, Strategic Philanthropy, CSR Arguments against CSR, The Business Case for CSR, Importance of CSR for India: Current Business Scenario in India-Contemporary Drivers for CSR.

**Developing A CSR Strategy:** Steps in Designing CSR Strategy, Develop a Working Definition of CSR, Review Corporate Documents, Processes and Activities, Developing a CSR Strategy: Build Support with Senior Management and Employees, Research what others are doing, Prepare a Matrix of Proposed CSR Actions, Develop Options for Proceeding and Develop the Business Case for CSR Action, Decide on Direction, Approach and Focus Areas Implement CSR Commitments: Develop an Integrated CSR Decision-making Structure, Prepare and Implement CSR Business Plan, Set Measurable Targets and Identify Performance Measures, Engage Employees and Others to Whom CSR Commitments Apply, Design and Conduct CSR Training, Establish Mechanisms for Addressing Problematic Behaviour, Create Internal and External Communication Plan.

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**CSR Monitoring and Measurement:** Focus of Measurement, Measure Fewer Things Better, Measure What Matters, Communicate Fewer Metrics in Multiple Ways, What is Monitoring?, Internal Compliance Monitoring, External Monitoring and Measurement Importance.


**Role of Government And Voluntary Codes In CSR:** Role of Government, Government Support at International Level, Voluntary Codes in CSR: OECD Guidelines for Multi-national Corporations, ILO Conventions, ISO 9000 & ISO 14000, SA8000, UN Draft Principles for Behaviour of Trans-national Corporations, LEED, GRI, DOW Jones Sustainability Index, FTSE4GOOD, Smart Growth Network, Equator Principles, UN Global Compact, Coalition of Environmentally Responsible Economies (CERES).

**Corporate Ethics and Governance:** What is Corporate Governance, Constituents of Corporate Governance, The Corporate Governance Debate, Theories and Responsibilities of Corporate Governance, Global Growth of Corporate Governance, History of Corporate Governance in India, The Current State of Corporate Governance in India, Board Composition in India, Corporate Governance: Need to Strengthen: How to Improve Corporate Governance, Benefits of Corporate Governance, Efforts to Improve Corporate Governance, Corporate Governance and CSR.
1.1 Introduction

1.2 Globalisation and its Impacts
   1.2.1 Economic Impacts
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1.8 Descriptive Questions

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CORPORATE SOCIAL RESPONSIBILITY MAKES SOUND BUSINESS SENSE

“We have been in business for 150 years and we will be in business for more. So we made clear we will always do the right thing for the long term. I believe that's part of the reason why the company has been more successful than most of our competitors.”

– Paul Polman, CEO, Unilever

Unilever has been a true epitome of sustainability giving out the good-for-society-is-good-for-business gospel in letter and spirit. The company 2012 sales crossed euro 50 billion. Unilever has been successful in combining what is good for business with what is good for society. Even under tumultuous times, Paul Polman, the CEO of the company has hinged his growth agenda around 'Unilever Sustainable Living Plan', a blueprint that is leading to the company doubling in size while halving its carbon footprint. It was a growth agenda and the world needed that because the 2008 crisis showed many shortcomings in the global economic system. 2008 was a crisis of short-termism and greed. Guidance and quarterly reporting were done away with. The compensation system was reviewed for a longer term and clear signals were given to tell people that while there might be a crisis they were investing for a long term. When others were cutting costs, shutting down factories, Unilever was investing. Now they are 4-5 years further, their business is up by 30 per cent and their share price has more than doubled. The Unilever Living Sustainable Plan is now seen as a very good example of responsible business. And in most countries that they operate in they are now the preferred employer because the purpose is strong enough to attract a lot of young people. There are challenges, the world is moving very fast, but they are prepared to be playing a good role for a long time to come.

Paul Polman recently opined in an interview to Economic Times that: “...75 per cent of American CFOs would not take the right decisions if it would result in missing the quarterly guidance. That’s why you see that average lifespan of a listed company is only 18 years. We have been in business for 150 years and we will be in business for more. So we made clear we will always do the right thing for the long term. I believe that’s part of the reason why the company has been more successful than most of our competitors. We try to be a more gender diverse organisation, a truly global organisation. It starts with respect and dignity of everybody, everywhere, at any level, and then focusing out there on improving the common good and not just worrying about yourself.”

In economically tumultuous times, there has been an outcry from CSR pundits on doing well by doing good to society. While there are many versions of and definitions of CSR, in the global context it refers to building a model of business that is sustainable even...
in times of crises, so that stakeholders of the company continue to invest their trust in it. Unilever on this account has embraced sustainability and CSR in the same breath by avoiding the lust for quick fix solutions and building a business model that shall enable them to navigate through challenges.

After studying this chapter, you should be able to:

- Understand the globalisation and its varying economic, social and environmental impacts
- Know about the need for integrating the goal of sustainable development into business
- Understand the Indian Companies Act, 2013 and CSR
- Discuss the World Bank Group’s Goals by 2030

1.1 INTRODUCTION

Globalization is both the cause and effect of a stream of economic, social, political and technological changes. It has given rise to the concept of “the flat world”. A flat world or a borderless world has seen the rise and rise of business enterprises that span across borders and operate across national boundaries.

The Carnegie Endowment for International Peace defines globalization as

“..."A process of interaction and integration among the people, companies, and governments of different countries, a process driven by international trade and investment and aided by information technology. This process affects the environment, culture, political systems, economic development and prosperity, and physical human well-being in societies around the world.”

Business leaders and enterprises look at it as the softening of economic borders. The impact of globalization has been varied across regions of the globe (Refer Table 1.1).

<table>
<thead>
<tr>
<th>Regions of the World</th>
<th>Perceived Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Badly hit by globalisation because of unfair rules, foreign debts, HIV/AIDS, poverty &amp; migration have aggravated due to poor governance and inability to attract foreign investments to tackle the problems.</td>
</tr>
<tr>
<td>Arab &amp; Israeli</td>
<td>Overshadowed by war &amp; continuing Arab- Israeli conflict. Dominated by oil exports &amp; migration and the fears for the impact on cultural identity and local traditions.</td>
</tr>
</tbody>
</table>

Contd...
Asia
In India and China, globalisation resulted in poverty reduction, decrease in unemployment, spurred economic growth and industrial productivity. Although not for all more than one billion people (approximately) have seen no reward. In fact, globalisation has undermined their traditional livelihoods, social security systems and resulted in increased rural-urban intra-regional inequalities. In Philippines, much of the globalisation impact was superficial. In fact, it resulted in increased conflict among communities due to liberalisation of investments and the capital flows were badly affected by the Asian crises.

Latin America & the Caribbean
Volatile global financial markets badly hit the ‘middle class’ because of inadequate government policies and poor understanding of local conditions by the International Monetary Fund (IMF) and foreign banks. Legal and illegal migration also increased to a large extent. On a positive note, it brought about public awareness on issues such as gender inequality, human rights, sustainable development and acceptance of other universal values and ethics.

Russia, Poland
In Russia, there were increased investment flows, expanded export markets and newer opportunities for higher growth. There was thus increased need for enforcement of labour legislations, greater employment generation, reform of the educational system and control of migration. Poland became a part of the European Union to reap the benefits of globalisation, but there was large unemployment due to restructuring of industries and the farm sector.

Western Europe & North America
In Western Europe, liberalisation increased trade, capital flows and international competition, but consequently it also increased income disparities. Due to export of jobs to lower-cost countries and higher international tax competition, it resulted in severe restraints on the finance of the welfare state. It also led to the formation of the European Union as a response to the pressures of globalisation.

In North America, the impact of globalisation was more or less positive, except for new pressures on companies to be more competitive, which lead to squeezing wages and corporate mergers, and loss of low-skilled jobs to other countries.

Source: ILO Report (n.d.)
GLOBALISATION AND ITS IMPACTS

1.2.1 ECONOMIC IMPACTS

- Economic growth rate is the economic metric most affected by globalization. Globalization has seen the narrowing of the gap between the economic growth rates of the developed and developing countries. This has been referred to as the convergence hypothesis. Asian tigers like Taiwan, South Korea, Hong Kong, China and India have shown remarkable rise in economic growth rates as measured by Gross Domestic Product (GDP).

- Liberalisation and expansion of international trade has led to increase in Foreign Direct Investment (FDI). Global foreign direct investment inflows were estimated at US $ 745 billion in the first half of the year 2013. Moreover, it is also remarkable that over 60% of the foreign capital inflow volumes were driven by a rise in cross border mergers and acquisitions in south Asian and central American economies like India and Brazil.

- Recent data published by the World Bank also verifies the fact that major host countries like USA, France and Germany have experienced a decline in FDI. The United Kingdom is the only exception to sustain an upward trend in FDI volumes among the developed countries, further testifying the convergence hypothesis.

- Globalisation has also brought a change in the governance structure of the global financial system with an increase in influence of private actors such as banks, hedge funds, equity funds and rating agencies.

- Revolution in information and communications technology and declining transportation costs have resulted in multi country based production of goods and services, which are technically and economically feasible.

- Business models are increasingly getting global. Corporations are increasingly embracing models, which preach production in low cost manufacturing hubs, leveraging of capital from low financial markets with low costs of capital, and sales in markets where the profits are the highest. Companies like Infosys have premised their Global Delivery Model on the same proposition.

2. The integration of financial markets after the fall of Bretton Woods system lead to (i) unification of exchange rates, (ii) removal of controls over the allocation of credit in the domestic market, (iii) opening up of capital accounts, (iv) revolution in technology improving the speed of knowledge of foreign markets, (v) development of new financial transactions, and (vi) emergence of new financial instrument: derivatives. The integration of the financial markets resulted in private financial flows and investments from North to South in “emerging markets”.
3. Ibid, p. 34
Globalization has seen the integration of economies by means of rapid advances in the ICT (information, communication and entertainment) sectors. There has been a surge in employment generation in emerging economies due to offshoring of services such as software development, financial services and call centres accessible from different countries around the globe. Technology has not only enabled economic globalisation but has also helped in increasing connectivity among civil societies, governments and individuals.

1.2.2 SOCIAL IMPACTS

The issue of social impact of globalization continues to invite mixed responses from business leaders and policy agents across the world. While emerging economies have witnessed rise in per capita income, GDP and other metrics of economic growth, data on rising economic inequality cannot be ignored. With regard to rural and informal economies, unskilled, illiterate and asset-less labour remain on the margins, resulting in persistent poverty. Credit Suisse numbers released in October 2010 show that the richest 0.5 percent of global adults hold well over a third of the world’s wealth. Consequently, this has resulted in widening of income gaps between the rich and the poor leading to large-scale income inequality within and amongst countries. The world’s 1,210 current billionaires, Forbes reported in March 2011, hold a combined wealth that equals over half the total wealth of the 3.01 billion adults around the world who, according to Credit Suisse, hold under $10,000 in net worth.

It is difficult to assess the impact of globalisation on poverty. Though people living in poverty have decreased in China, it has increased in Sub-Saharan Africa, Europe and Central Asia (82 million), Latin America (14 million) and the Caribbean (8 million). Relative poverty has increased in majority of the countries as an effect of globalisation. Due to this, migration (both in-migration and out-migration) has increased across the globe. Migrants from all regions particularly women are driven into an illegal economy in countries of destination leaving them vulnerable to exploitation and trafficking. There has been an increase in illicit cross-border activities like tax evasion, money laundering, sex and drug trades. The fall in transportation costs and growth of mass tourism has made smuggling of people and drugs difficult to detect and punish.

Though the increased influence of private institutions has led to better financial resource allocation, it has also led to corporate scandals, manipulations, and over extension of credits to

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4. Spread of internet, e-mail, low cost telephone services, mobile phones, electronic conferencing
6. Relative Poverty is defined in relation to the overall distribution of income or consumption in country.
unstable local banks and firms resulting in financial crises of increasing frequency and severity. Private financial institutions are exerting power over emerging markets in designing their economic policies.

1.2.3 ENVIRONMENTAL IMPACTS

Globalization has affected the natural environment. Ecological imbalances and climate change have occurred because of the following factors associated with globalization: (i) increase in trade (ii) larger corporations with centralised distribution (iii) poor pollution control mechanisms of MNCs in foreign markets and (iv) extractive industries using natural resources non-judiciously. Globalisation has disrupted the ecological balance, thereby creating a (i) carbon-constrained and water-constrained world. Climate change may be attributed to sub optimization of scarce natural resources by multi-national and trans-national corporations. Climate change is the scientific face of sustainability issues that facing global corporations.

® SELF ASSESSMENT QUESTIONS

Fill in the blanks:
1. .................... and expansion of international trade has led to increase in FDI investments.
2. The social impacts of globalisation across the globe have varied .................... impacts.
3. Due to globalisation .................... have been impacted because of their inability to access capital, credit, information and extension services thereby aggravating the problem of unemployment.

ACTIVITY

Visit the website of ILO and find out the information provided by them regarding the impact of globalisation on Indian society.

NOTE

The process of globalisation has resulted not only in increased global competition and efficiency but also in building convenient sources of transportation, machinery to churn out goods faster, better communication facilities, etc. The key economic characteristics of globalisation clearly indicate that though development in global systems have got us closer together economically, the social impacts of globalisation across the globe has varied negative impacts.
1.3 SUSTAINABLE DEVELOPMENT

The concept of sustainable development, which was first coined by the Nobel Laureate Simon Kuznets, has assumed larger meaning in the context of corporate social responsibility. In the context of globalization sustainable development is closely intertwined with the concept of trans-national externalities. Operations of global citizens are not restricted by national boundaries. Thus, there exists a scope to drive a wedge between vanguards of economic efforts and beneficiaries/victims of environmental outcomes. In this context it makes good sense to suggest that sustainable development must look forward to striking a fair trade off between economic outcomes in the present and those in the future. In other words, sustainable development when tied to corporate social responsibility seeks to achieve an inter-temporal balance in the judicious use of resources for economic gain.

Thus sustainable development being one of the greatest global challenges in this era has not escaped worldwide notice. Political and business leaders at the international and national levels are stressing the need for global sustainable development. In the broader sense of the term, corporations and business leaders need to develop and implement business models that tend to optimize economic gains without discounting the same for future generation by adopting economic and technological means to use natural resources judiciously.

Sustainable development takes three-pronged view by integrating social, economic and environmental factors.

**SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

4. The aim of sustainable development is to reduce relative poverty.

5. It is the government of the country which can lead sustainable development.

6. Sustainable development calls for minimising current demands.

**ACTIVITY**

Your client is one of the users of kerosene products. Profits have been declining for some time due to increased cost of kerosene. Suggest ways to the client to reduce the cost by adopting other products.
NOTES

Sustainable development is defined by the Brundtland Commission as “Development that meets the need of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 8).

1.4 ROLE OF BUSINESS IN SUSTAINABLE DEVELOPMENT

Responsible business has always contributed for societal development. Various competing schools of thought have scrutinized the role of business in sustainable development. Business leaders the world over have recognized the need to strike a balance between the corporate goals of efficiency and social goals of effectiveness. While technical and economic efficiency do not necessarily contribute to social effectiveness, sound business models seek to capture the two in one metric and thus create win-win situations. Looking from this macro perspective, the private sector has already contributed to the reduction of poverty at the global level during the past decade.

However the challenges of sustainable development in the new millennium are a new imperative for governments, businesses, and society to collaborate and work to strengthen each sector and create a qualitatively better world to live in. As per the United Nations, the World Bank and other international organisations FDI investments by private companies should enhance a process of sustainable growth that minimises the damaging effects on the environment. To quote Paul Polman, the CEO of Unilever “We do not have to win at the expense of others to be successful. Winning alone is not enough it’s about winning with purpose.” Such words and sentiments have been echoed by several business leaders and corporations. While a corporation is essentially an economic entity, it has to operate in an environment that is shaped by the interaction of social, political and technological factors. The entire premise for economic reforms and greater participation of the corporate sector is premised on the developmental aspect of corporations. The ability of corporations to create value for its customers, investors and employees is intertwined with its developmental role. It is in this respect that sustainable development has acquired tremendous importance.

The Government alone cannot deal with the issues of sustainable development. Collaborative partnership amongst governments, businesses and civil societies is the call of the day. It is therefore essential to take the agenda of developing collaborations to address the issues of sustainable development and poverty in the new millennium. In September 2000, world leaders belonging to the government, businesses and NGOs in the gathering at the United Nations adopted eight specific, measurable, time-bound targets called the Millennium Development Goals (MDGs). 189 United Nations member states and
at least 23 international organisations have agreed to achieve MDGs by the year 2015.

World leaders met again on the sidelines of the World Sustainability Forum in November 2012. These efforts show the development of a consensus among business leaders to participate in issues pertaining to sustainable development.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

7. Statistics reveal that ................. from the private sector into developing countries collectively has exceeded the amount of financial aid granted by governments.

8. Social upheavals impact the entire society in ................. and business in particular.

9. ................. United Nations member states and at least 23 international organisations have agreed to achieve MDGs by the year 2015.

**ACTIVITY**

Find out more about the contribution of MDGs in the formulation of CSR policies and make a presentation.

### 1.5 MILLENNIUM DEVELOPMENT GOALS AND UN POST 2015 DEVELOPMENT AGENDA

This section will help you to understand Millennium Development Goals (MDGs) and UN post 2015 development agenda.

### 1.5.1 MILLENNIUM DEVELOPMENT GOALS

The MDGs promote poverty reduction, education, maternal health, and gender equality, and also aims at combating child mortality, AIDS and other diseases.

Table 1.2 provides a list of the MDGs, which have been accepted at the global level.

<table>
<thead>
<tr>
<th><strong>TABLE 1.2: MILLENNIUM DEVELOPMENT GOALS</strong></th>
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<tr>
<td><strong>Goal 1:</strong> Eradicate extreme poverty and hunger</td>
</tr>
<tr>
<td><strong>Target 1:</strong> Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day.</td>
</tr>
<tr>
<td><strong>Target 2:</strong> Halve, between 1990 and 2015, the proportion of people who suffer from hunger.</td>
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Goal 2: **Achieve universal primary education**

Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3: **Promote gender equality and empower women**

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015

Goal 4: **Reduce child mortality**

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: **Improve maternal health**

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6: **Combat HIV/AIDS, malaria, and other diseases**

Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS.

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7: **Ensure environmental sustainability**

Target 9: Integrate the principles of sustainable development into country policies and program and reverse the loss of environmental resources.

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Target 11: Have achieved, by 2020, a significant improvement in the lives of at least 100 million slum dwellers

Goal 8: **Develop a global partnership for development**

Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction – both nationally and internationally). Some of the indicators listed below will be monitored separately for the least developed countries, Africa, landlocked countries, and small island developing states.

Target 13: Address the special needs of the least developed countries (includes tariff-and quota-free access for exports enhanced program of debt relief for Heavily Indebted Poor Countries (HIPC) and cancellation of official bilateral debt, and more generous Official Development Assistance (ODA) for countries committed to poverty reduction)

Contd...
Target 14: Address the special needs of landlocked countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)

Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Source: World Bank Group, (n.d.)

1.5.2 INDIA AND MDGs

Business leaders and policy agents in India have agreed on the need to look beyond economic growth and the short-term vision that is associated with maximizing economic growth without figuring the costs that are imposed on society and natural environment. Many countries have replaced Gross Domestic Product by Gross National Happiness as a key indicator of macroeconomic performance. The most widely used indicator of economic development though is the Human Development Index. The Human Development Index (2013) puts India at 136 among 186 nations because a large part of the population lacks access to education, health and social services.

<table>
<thead>
<tr>
<th>Target No.</th>
<th>Target Description</th>
<th>Progress Signs</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Halve, between 1990 and 2015, proportion of Δ population below national poverty line</td>
<td>Δ</td>
</tr>
<tr>
<td>2.</td>
<td>Halve, between 1990 and 2015, proportion of Θ people who suffer from hunger</td>
<td>Θ</td>
</tr>
<tr>
<td>3.</td>
<td>Ensure that by 2015 children everywhere, boys ΔΔ and girls alike, will be able to complete a full course of primary education</td>
<td>ΔΔ</td>
</tr>
<tr>
<td>4.</td>
<td>Eliminate gender disparity in primary and Δ secondary education, preferably by 2005, and in all levels of education no later than 2015</td>
<td>Δ</td>
</tr>
<tr>
<td>5.</td>
<td>Reduce by two-thirds, between 1990 and 2015, ΘΔ the under-five mortality rate</td>
<td>ΘΔ</td>
</tr>
<tr>
<td>6.</td>
<td>Reduce by three quarters, between 1990 and ΘΔ 2015, the maternal mortality ratio</td>
<td>ΘΔ</td>
</tr>
<tr>
<td>7.</td>
<td>Have halted by 2015 and begun to reverse the Δ spread of HIV/AIDS</td>
<td>Δ</td>
</tr>
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The Human Development Index (HDI) takes into account three basic dimensions of human development: the right to live a long and healthy life, to acquire knowledge, and to have a decent standard of living.

HDI Rank of India: 128

Contd...
8. Have halted by 2015 and begun to reverse the $\Theta\Delta$ incidence of malaria and other major diseases

9. Integrate the principles of sustainable $\Delta\Delta$ development into country policies and programmes and reverse the loss of environmental resources

10. Halve, by 2015, the proportion of people without $\Delta\Theta$ sustainable access to safe drinking water and basic sanitation

11. In cooperation with the private sector, make $\Delta\Delta$ available the benefits of new technologies, especially information and communication

$\Delta$: Moderately/almost nearly on track considering all indicators
$\Theta$: Slow/almost off-track considering all indicators
$\Delta\Delta$: On-track or fast considering all indicators

Source: [http://www.in.undp.org/content/india/en/home/mdgoverview/](http://www.in.undp.org/content/india/en/home/mdgoverview/)

1.5.3 INDIAN COMPANIES ACT, 2013 AND CSR

The Companies Act, 2013 has mandated companies having net worth of ₹ 500 crore or more, or turnover of ₹ 1,000 crore or more, or net profit of ₹ 5 crore or more during a year to formulate a CSR policy to ensure that it spends at least 2 percent of its average net profits during the immediately preceding three financial years on CSR activities as may be specified by the company legislation. The directors shall be required to make suitable disclosures in this regard to the members. Historically, it may be for the first time in the world that a country has mandated expenditure for public good. Such mandating has become necessary notwithstanding criticism by many corporate bigwigs because in 2006, despite its economic boom, Indian companies have spent only 5 billion dollars (i.e. 0.6 percent of GDP) on corporate responsibility. In 2009, the government issued voluntary guidelines suggesting two percent expenditure on CSR but India Inc. remained unfazed. The company legislation has also obliged the companies to constitute a corporate social responsibility committee and to approve a CSR policy.

India’s mandatory provision on CSR is considered as unpalatable as high taxes since the companies can incur the expenditure to reap business benefits from it. Mandatory CSR will force companies to be conscious of their social responsibilities. The mandate will level the playing field and give companies the desire to engage in CSR. Finally the mandatory CSR provision is a unique product of India’s complex set of economic pressures rather than being a legal transplant from a dissimilar economic context.
SELF ASSESSMENT QUESTIONS

State whether the following statements are true or false:

10. A company may also implement its CSR programs through not-for-profit organisations that are not set up by the company itself.

11. Mandatory CSR will force companies to be conscious of their social responsibilities.

12. As per the Companies Act, 2013, every organisation which is having net worth of ₹ 500 crore or more in every financial year, should spent at least 5 per cent of the average net profits.

ACTIVITY

Visit the website www.companiesact.in and make a report on the highlights of the Act in relation to CSR.

1.5.4 UN POST 2015 DEVELOPMENT AGENDA

With the business contribution to UN goals and objectives at an all-time high, and the UN in a process of determining its development framework as targets of the Millennium Development Goals expire in 2015; this is an opportune moment for business and the Global Compact to help shape the future priorities of the UN.

Delivering a better future for all requires action by all – Governments, corporations, citizens, consumers, workers, investors and educators. Undoubtedly, the private sector has a central role to play. As the world’s main source of economic activity, business is at the heart of virtually any widespread improvements in living standards.

Markets are essential for creating and diffusing solutions that will drive the changes our world needs. But, this will not happen through business as usual. Investment and business activity must be sustainable – delivering value not just financially, but also in social, environmental and ethical terms.

Business is increasingly forming alliances to address the world’s most urgent development issues. Recognizing the importance of shared values, some of these collaborations have reached significant scale in areas such as water, gender equality and climate change.

Assessing the issues that comprise the UN development agenda and providing a role for business in the post-2015 process will help the Global Compact achieve its mission – to make corporate sustainability a transformative force in achieving a shared, secure and sustainable future.
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UN Process

Member States are currently discussing the possibility of a new set of Sustainable Development Goals (SDGs), to complement or replace the MDGs. According to the mandate laid down by Governments at Rio+20 in 2012, the proposed SDGs would be consistent with the post-2015 development agenda, and would be centered on the principles of sustainable development.

Interest in partnerships and the role of business in this process is growing among member states. Since the Rio+20 Corporate Sustainability Forum in June 2012 the Global Compact has been positioned to convey the business perspective to the post-2015 development process.

The UN Global Compact Action Plan, Looking Ahead to 2015

The following activities underway will form the basis for input submitted in the coming year to the UN Secretary General’s synthesis report and to member states’ deliberations:

- The UN Global Compact is conducting consultations among its Local Networks – found in 100+ countries around the world – on two key themes:
  - how elements of the UN’s post-2015 development agenda apply to specific national settings.
  - in collaboration UN Industrial Development Organization, how business can best support priorities likely to be found in post-2015 agenda and the SDGs.

- A task force from LEAD – a group of 50 highly engaged companies in the UN Global Compact – is focusing on the means of implementation, including measurability, accountability and the role of small and medium-sized enterprises.

- UN Global Compact issue work streams are engaging thousands of businesses in these global priorities.

- The UN Global Compact is conveying the voice of responsible business through key intergovernmental processes including: the President of the General Assembly, the Open Working Group on the SDGs and the Economic and Social Council. The UN Global Compact is also a part of One Secretariat, and is supporting the Secretary-General’s Special Advisor on Post-2015 Development Planning.

- With other global corporate sustainability organizations, the UN Global Compact is developing tools to help companies understand the most material sustainable development issues for its sector, identify the most relevant business solutions, measure and communicate impact, and set targets for its specific contribution to the realization of global sustainable development goals.

1.6 WORLD BANK GROUP GOALS BY 2030

The World Bank along with other apex institutions based in Washington D C, have time and again reaffirmed their commitment to achieving goals of economic development by leveraging the free market economy system. In doing so the World Bank intends to integrate goals of business growth with those of economic and social development. This approach of the World Bank is referred to as the Washington Consensus. Although poverty has declined rapidly over the past three decades, humanity still faces urgent and complex challenges. More than 1 billion people worldwide still live in destitution, a state of affairs that is morally unacceptable given the resources and the technology available today. Moreover, rising inequality and social exclusion seem to accompany the rising prosperity in many countries. Under these circumstances, the World Bank Group’s overarching mission of a world free of poverty is as relevant today as it has ever been.

The World Bank Group has established ambitious but achievable goals to anchor its overarching mission and to galvanise international and national efforts in this endeavour. Accordingly, the institution will strive to (i) end extreme poverty at the global level within a generation and (ii) promote what may be called “shared prosperity”: a sustainable increase in the well-being of the poorer segments of society. This second goal reflects the fact that all countries aspire to rapid and sustained increases in living standards for all of their citizens, not just the already privileged.

These two goals and their respective indicators can be summarised as:

- **End extreme poverty**: The percentage of people living with less than $1.25 a day to fall to no more than 3 percent globally by 2030.
- **Promote shared prosperity**: Foster income growth of the bottom 40 percent of the population in every country.

Ending extreme poverty within a generation and promoting shared prosperity must be achieved in such a way as to be sustainable over time and across generations. This requires promoting environmental, social, and fiscal sustainability. They need to secure the long-term future of the planet and its resources so future generations do not find themselves in a wasteland. They are also aiming for sustained social inclusion and limit the size of economic debt inherited by future generations.

They are aware that these two monetary indicators do not adequately accommodate all the dimensions of poverty that represent their mission. But to insert every dimension explicitly into a limited number of measures is to risk creating such complex indicators that they will be ill-understood. Each of the monetary indicators they have adopted has the advantage of capturing the key elements of welfare in a single, compelling measure. While these monetary measures will
define their goals, they will continue to maintain a strong focus on multiple dimensions of welfare.

Ending poverty and promoting shared prosperity are unequivocally also about progress in non-monetary dimensions of welfare including education, health, nutrition and access to essential infrastructure, as well as about enhancing voice and participation of all segments of society in economic, social and political spheres.

The goals which have been articulated are not solely for the World Bank Group to achieve but rather are goals that are consistent with those of 188 member countries. The goals will guide the World Bank Group’s strategy as they continue their transformation into a “Solutions Bank” by influencing what the organisation does and how, and by helping it become more selective and focused in its activities. The goals are well-aligned with the overall objectives of the Millennium Development Goals (MDGs) process and reiterate their unwavering commitment to support it and to helping shape the Post-2015 Agenda.


1.6.1 INDIA AND WORLD BANK GROUP COUNTRY PARTNERSHIP STRATEGY

The World Bank Groups New Country Partnership Strategy (CPS) for India (2013-2017) proposes a lending program of $3 billion to $5 billion each year over the next four years.

Sixty percent of the financing will go to state government-backed projects and half of this, or 30% of total lending, will go to low-income or special category states (where public services face high delivery costs). Under the previous strategy, 18% of lending went to these states.

The World Bank’s India strategy outlines a scenario in which India improves the inclusiveness of the economic growth to that achieved by its best performing states. This would cut poverty to 5.5% of the population by 2030 from 29.8% in 2010 and increase the share of people living above the threshold where they are at risk of falling back into poverty to 41.3% from 19.1%. If India were to grow as it did from 2005 to 2010 without making growth more inclusive, poverty would fall to only 12.3% while 33.6% would remain above the vulnerability threshold by 2030.

“India’s seven low-income states, with 60% of India’s poor, are now growing faster than the average, and so investments there have the potential for greater impact,” said Onno Ruhl, World Bank country director in India.

In their 60 years of working with India, the country has made great strides in overcoming poverty, and India is the first country strategy to have these goals to reduce poverty and increase shared prosperity.
They hope these goals will stretch them and their partners to make even greater efforts to help India’s 1.2 billion citizens enjoy a better future.

India has the largest number of poor people in the world, as well as the largest number of people who have recently escaped poverty but are still vulnerable to falling back. The objective of the World Bank Group’s Country Partnership Strategy (CPS) for the period FY2013-17 is to support poverty reduction and shared prosperity in India which is closely aligned with the vision for development outlined in the country’s 12th Five-Year Plan (FY2013-17), which calls for “faster; sustainable, and more inclusive growth” focusing on poverty reduction, group equality, regional balance, empowerment, environmental management and employment. The World Bank Group will support efforts to help India and its people reap the benefits of urbanization, while also improving agricultural productivity. The strategy seeks to help India lay the foundation for achieving a long-term vision for 2030, a vision of the nation as a global economic powerhouse where more and more people share the benefits of growth and where no more than 5.5 percent of the population lives in poverty and 41.3 percent of the population is no longer vulnerable to falling back.

To help achieve the vision for India in 2030 and contribute to its ongoing transformation, the WBG strategy focuses on three broad areas of engagement: integration, rural-urban transformation and inclusion.

In the next five years the strategy will focus on three key areas: integration, transformation and inclusion. A common theme across these areas will be improved governance, environmental sustainability and gender equality.

- **Integration:** The focus will be on improving infrastructure needs both through public and private investments. Reforms are needed in the power sector to rationalise energy pricing and improve the capacity and reliability of the generation, transmission and distribution system. A vibrant manufacturing sector – especially small and medium size enterprises – require reforming labour laws, and improving access to land and finance. Better integration would result in more balanced growth among Indian states, helping low-income states converge more quickly with their faster-growing neighbours.

- **Transformation:** By 2031, it is projected that 600 million people will live in India’s cities. The World Bank Group’s engagement on the rural-urban transformation and particularly on urbanisation is expected to intensify over the strategy period and beyond and represents a significant shift in the World Bank Group’s strategy. It will focus on supporting the efforts of national, state, and city governments to improve the management and liveability of medium-sized cities.

- **Inclusion:** Economic integration and rural-urban transformation can benefit a large share of India’s population only if there is a
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stronger focus on human development and on policies that help make growth inclusive. India’s weak health care system and poor nutritional outcomes undermine its competitiveness. The World Bank Group will support the national government and states in strengthening the nutrition policy as well as systems and capacities to improve nutrition. It will support government efforts to improve education mainly at the secondary and tertiary levels, with a more pronounced focus on quality. It will also work to improve access to finance and to enhance social protection coverage for more than 90% of the labour force, which currently works in the informal sector.


Fill in the blanks:

13. The World Bank’s India strategy outlines a scenario in which India improves the inclusiveness of the ................. growth to that achieved by its best performing states.

14. The two goals of the World Bank by 2030 are to end extreme poverty at the global level within a generation and to promote what may be called .................

SELF ASSESSMENT QUESTIONS

ACTIVITY

Make a presentation on the goals of World Bank Group by 2030.

SUMMARY

- The impact of globalisation on society is largely from technological and social change.
- The world faces unprecedented ecological and social challenges in the 21st century which cannot be tackled by yesteryear’s rule of governance anymore.
- Today’s world is interdependent where problems of poverty, unemployment, inequality, environmental degradation and social disintegration are concerned.
- The trend worldwide is to tackle the problems by adopting collaborative and consultative models through a judicious mix of government, businesses and non-government initiatives.
- ‘Net Profit’ for the section 135 and these rules shall mean net profit before tax as per books of accounts and shall not include profits arising from branches outside India.
1.8 **DESCRIPTIVE QUESTIONS**

1. How do you think globalisation has impacted trade and finance around the world?
2. What in your opinion can be done to mitigate the negative social impacts of globalisation?
3. What is sustainable development? How can business contribute towards promoting sustainable development?
4. What are the Millennium Development Goals? How can business contribute towards achieving these goals?
5. Discuss the provisions of Companies Act, 2013 with respect to CSR.
6. Discuss India’s progress on the MDGs for 2015.

1.9 **ANSWERS AND HINTS**

**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Globalisation and Its Impacts</td>
<td>1.</td>
<td>Liberalisation</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Negative</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Small enterprises</td>
</tr>
<tr>
<td>Sustainable Development</td>
<td>4.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>6.</td>
<td>True</td>
</tr>
<tr>
<td>Role of Business in Sustainable Development</td>
<td>7.</td>
<td>FDI</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>General</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>189</td>
</tr>
<tr>
<td>Millennium Development Goals and UN Post 2015 Development Agenda</td>
<td>10.</td>
<td>True</td>
</tr>
</tbody>
</table>
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11. True
12. False

World Bank Group’s Goals by 2030

13. Economic
14. Shared prosperity

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 1.2
   Globalisation has brought a change in the governance structure of the global financial system with an increase in influence of private actors such as banks, hedge funds, equity funds and rating agencies.

2. Refer 1.2.2
   The issue of social impact of globalization continues to invite mixed responses from business leaders and policy agents across the world.

3. Refer 1.3
   In the context of globalization sustainable development is closely intertwined with the concept of trans-national externalities.

4. Refer 1.5.1
   The MDGs promote poverty reduction, education, maternal health, and gender equality, and also aims at combating child mortality, AIDS and other diseases.

5. Refer 1.5.3
   The 2013 Act has introduced several provisions which would change the way Indian corporates do business and one such provision is spending on Corporate Social Responsibility (CSR) activities.

6. Refer 1.5.2
   Business leaders and policy agents in India have agreed on the need to look beyond economic growth and the short-term vision that is associated with maximizing economic growth without figuring the costs that are imposed on society and natural environment.

1.10 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


**E-REFERENCES**

INTRODUCTORY CASELET

STAKEHOLDER ENGAGEMENT AT HUL

On 20th November 2013, Hindustan Unilever Limited launched Project Sunlight. The company aims to reach out to 2 million children through its on-going partnerships, in India, Brazil, USA, Indonesia and the UK. The company shall actively participate in the distribution of food to nearly 500,000 children in Indian schools through the World Food Programme, collaborating with the UNICEF. The goal of the program is to provide clean drinking water, healthy food and improved hygiene through the UNICEF. This is the latest instance of the company being involved in a series of programs to ensure stakeholder engagement in countries in which it does business.

Hindustan Unilever has a rich history of creating value for its stakeholders through its business. Take for example, the Mahakumbh Mela, which witnesses the congregation of millions of devotees at Allahabad. The Mahakumbh last year saw a record-breaking number of people turning out to take a holy dip in the waters of the Ganges. In an event of such large scale, the risks of epidemics cannot be discounted. HUL, essayed a small yet important footnote to create awareness on health and hygiene among the pilgrims. Every day at least 10,000 chapattis were imprinted with a message reminding pilgrims to wash their hands with Lifebuoy soap before taking food. It was a proactive way to fight health and hygiene disorders at the venue of the event. Thanks to HUL, the number of casualties arising from health and hygiene issues was at a record low in the last edition of the mela.

While other companies are busy selling soaps, HUL offers a way to good health and hygiene. HUL follows a very simple algorithm for its stakeholder engagement – identify an external problem, focus on innovation to offer a solution and then internalise the solution. The internalisation of the solution assumes the form of a great product offering. Moral of the story is to look beyond the conventional periphery of stockholders to create value. What is good for society when offered intelligently can be good for business.
After studying this chapter, you should be able to:

- Know about a meaningful coexistence of business and society
- Understand the need and responsibility to create a conducive environment for business
- Understand stakeholder typologies and their significance in business
- Underline the role of communication in stakeholder management
- Appreciate the need for stakeholder contribution in decision making
- Recognise the need for effective communication in CSR initiatives

2.1 INTRODUCTION

A business entity is a unit made up of several units. Each of these units has its unique function and yet none of these units act like water tight compartments. There is strong linkage among these units. It requires the support and integration of elements like employees, customers, creditors, debtors, society and government to run smoothly. All these elements which belong to a larger unit, society, are the stakeholders of a business. Business has a very important role to play in development of society.

2.2 BUSINESS AND SOCIETY

Business is one of the most dominant institutions in society. In economics, business refers to organizing and maintaining collective productivity toward accomplishing a set of creative and productive goals. Businesses vary in size and impact. They range from a small enterprise to huge Corporations like BPCL, which employs more than 534,780 people as on 2013.

India also has a vibrant capital market comprising of 21 stock exchanges with over 9000 listed companies. Bombay Stock Exchange is the second largest after the New York Stock Exchange (NYSE). It is significant that India has the third largest investor base in the world.

The term society refers to a group of people that form a semi-closed social system, in which most interactions are with other individuals belonging to the group. More abstractly, a society is defined as a network of relationships between social entities. Specifically the term society is used to refer to segments of humankind such as members of a specific caste, community, group, nation and so on.
Sociological studies on society view society a systems perspective. Human society consists of various subsystems which has distinct roles and functions like the judiciary system, police system, education system and so on. Business forms one of the major subsystems of the society, which is dependent on the society for sustaining itself. For instance it gets manpower, raw materials, financial and other resources from the society. It also needs the larger society to facilitate the exchange of its finished products and services. In return businesses help in contributing to the GDP of the nation, provide employment, aid in infrastructure development and improve the quality of life of the people. The above point illustrates that business and society are highly interdependent. Positive and negative business activities impact society; and the actions by governments and other subsystems in society continuously affect businesses. Therefore an understanding of the organisations key relationships with its environment and assessment of the impact of managerial decisions on the larger society will assist managers to manage these interdependencies.

Fill in the blanks:

1. Society refers to a group of people that form a ................. social system.
2. India has the ............. largest investor base in the world.

Visit the BSE website www.bseindia.com and find out the information provided by them about different markets.

2.3 BUSINESS ORGANISATIONS AS SYSTEMS

The systems theory helps managers to look at organisations from a broader perspective. It has brought a new perspective for managers to interpret patterns and events in their organisations. In the past, managers typically took one part of the organisation and focused their attention on that and subsequently moved their attention to another part. In this organisations could have wonderful departments.

A system is a collection of parts (or subsystems) integrated to accomplish an overall goal (a system of people is an organization). Systems have input, processes, outputs and outcomes, with ongoing feedback among these various parts. If one part of the system is removed, the nature of the system is changed. Systems range from very simple to very complex. There are numerous types of systems. For example, there are biological systems (e.g. heart.), mechanical systems (e.g. thermostat), human/mechanical systems (e.g. riding a bicycle,), ecological systems (e.g. predator/prey), and social systems (groups, supply and demand, friendship, etc.) Complex systems, such as social systems comprise of numerous subsystems as well. These subsystems are arranged in hierarchies, and integrated to accomplish the overall goal of the overall system. Each subsystem has its own boundaries of sorts and includes various inputs, processes, outputs and outcomes geared to accomplish an overall goal for the subsystem.
that operated well by themselves but did not integrate well together. Consequently, the organisation suffered as a whole.

In 1940 the General Systems Theory was introduced. This theory highlights that all organisations are open to and interact with their external environment. The theory emphasises the ways in which organised systems (human and non-human) respond in an adaptive way to cope with significant changes in their external environments so as to maintain their basic structures intact. As applied to business management discipline, the system's concept implies that business firms are embedded in a broader social structure (external environment) with which they constantly interact.

Systems theory models of decision-making in human groups and organisations emphasise their interaction with “outside” actors and organisations and concentrate on identifying the particular elements in the environment of the group or organisation that significantly affect the outcomes of its decision-making. To understand what an organisation did, try to find out what threat or opportunity it was responding to and how its pre-existing response mechanisms worked to do this.

In contemporary society more managers are beginning to recognise the existence of the various parts of the organisation, and in particular, the interrelations of the parts.

Example: The coordination of central offices with other departments, engineering with manufacturing, supervisors with workers, etc.

Managers now-a-days focus more attention on ongoing matters of the organisation and feedback. They diagnose problems, not by examining what appear to be separate pieces of the organisation, but by recognizing larger patterns of interactions. Managers maintain perspective by focusing on the outcomes they want from their organisations. They focus on structures that provoke behaviours that determine events – rather than reacting to events as was the practice in the past.

**Self Assessment Questions**

State whether the following statement is true or false:

3. The general systems theory highlights that all organisations are open to and interact with their external environment.

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**2.4 FROM SHAREHOLDER THEORY TO STAKEHOLDER THEORY**

Every organisation attempting to accomplish something has to ask what is their purpose? And to whom are they responsible?
According to the Ownership Theory of the Firm, the primary duty of those who manage a firm is to maximise the interests of the firm’s shareholders; that is, to maximise profits.

This theory has further made way for the theory of financialisation. Both these theories emphasise on a single point agenda to maximise share holder value. Accordingly the corporation is supposed to bear the interests of its share holders as supreme. The corporate law commits managers solely to the maximisation of profits for the benefit of the firm’s owner/shareholders. Shareholders are the “residual” owners of the firm’s assets. Maximizing their returns should provide the most efficient outcome for the firm and society. According to shareholder theorists such as Nobel laureate economist, Milton Friedman, managers ought to serve the interests of the firm’s owners, the shareholders. In fact the Chicago school of corporate social responsibility of which Freidman is one of the pioneers categorically asserts that the only business of a business is to do business. Social obligations of the firm are limited establishing contractual relations, obeying the law, and adhering to ordinary moral expectations.

The growth of industries from technological age to information age has produced large business enterprises, but it has also spawned the social problems that are associated with industrial firms, such as deforestation, environmental degradation, urban blight, unemployment, migration, sweatshops, and child labour. Most economists focused on the economic benefits of these enterprises, but they could not explain why they caused such social upheaval, at least not in rational economic terms. For many, these social dislocations were simply the price of progress. The manifestations of the above events put the relationship between managers and other firms and constituencies, including the public, in particular focus.

The society at large emphasised that the benefits of legally sanctioned business organisations – limited liability and perpetual existence – come at some cost. The price of these benefits is a responsibility to the public that goes beyond simply maximising the wealth of investors. Businesses are basically outcomes of social creation and hence they must be responsible to their stakeholders including the society at large. In this context R. Edward Freeman propagated the Stakeholder Theory. The theory holds that managers ought to serve the interests of all those who have a ‘stake’ in (that is, affect or are affected by) the firm. Stakeholders include shareholders, employees, suppliers, customers, and the communities in which the firm operates – a collection that Freeman terms the ‘Big Five.’ The very purpose of the firm, according to this view, is to serve and coordinate the interests of its various stakeholders. It is the moral obligation of the firm’s managers to strike an appropriate balance among the ‘Big Five’ interests in directing the

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2. Other constituencies of the firm include employees, suppliers, and customers.
3. A stakeholder is any individual or organisation that is affected by the activities of a business. They have a direct or indirect interest in the business, and may be in contact with the business on a daily basis, or just occasionally.
activities of the firm. This theory treats the firm as a social creation that must operate for the benefit of society. This understanding of the firm’s purpose and its management’s obligations diverges sharply from the understanding advanced in the *Shareholder Theory* of the firm.

### Self Assessment Questions

Choose the appropriate answer:

4. Which theory believes that the firm is a social creation and it works for the benefit of society?
   - (i) Stakeholder Theory
   - (ii) System Theory
   - (iii) Ownership Theory
   - (iv) Societal Theory

### Activity

Do a comparative analysis of the different theories and make a presentation on it.

### 2.5 Stakeholder Concept

It is important to distinguish between a stakeholder and a shareholder. They sound the same – but the difference is crucial. Shareholders hold shares in the company – that is they own part of it. Stakeholders have an interest in the company but do not own it (unless they are shareholders).

A stakeholder is any individual or organisation that is affected by the activities of a business. They may have a direct or indirect interest in the business, and may be in contact with the business on a daily basis, or may just occasionally.

The main stakeholders in businesses are:

- **Shareholders**: They will be interested in their dividends and capital growth of their shares.
- **Management and employees**: They may also be shareholders. They will be interested in their job security, prospects and pay.
- **Customers**: They are interested in fair price and safe products.
- **Suppliers**: Their interests are regular business and prompt payments.
- **Banks and other financial organisations**: They lend money to the business.
- **Government**: Their special concerns are revenue, customs and excise, as they will be collecting taxes from businesses.
2.5.1 STAKEHOLDERS VERSUS SHAREHOLDERS

Often the aims and objectives of the stakeholders are not the same as shareholders and they come into conflict. The conflict often arises because while shareholders want short-term profits, the other stakeholders’ desires tend to cost money and reduce profits. The owners often have to balance their own wishes against those of the other stakeholders or risk losing their ability to generate future profits.

Example: The workers may go on strike or the customers refuse to buy the company’s products.

Choose the appropriate answer:

5. Stakeholders who have their interests in regular business and prompt payments are:
   (i) Customers
   (ii) Suppliers
   (iii) Trade Unions
   (iv) Employees

2.6 TYPOLOGY OF STAKEHOLDERS AND THEIR INFLUENCE

A business firm’s relationship with its stakeholders depends upon its interface. There are two types of stakeholders, i.e., Primary and Secondary Stakeholders. Primary social stakeholders have a direct stake in the organisation and its success, and therefore are influential.

Example: Shareholders and investors, employees and managers, customers, local communities, suppliers and other business partners. Each relationship is based on a specific transaction between the firm and the stakeholder.

Secondary social stakeholders may be extremely influential, especially in affecting reputation and public standing, but their stake in the organisation is more representational than direct.

Example: Government and regulators, civic institutions, social pressure groups, media and academic commentators, trade bodies, competitors.

Mitchell, Agle, and Wood (1997) developed a theory of stakeholder identification and salience based upon stakeholder possession of one
or more of the three attributes: power, legitimacy, and urgency. The authors define salience as the degree to which managers give priority to competing stakeholder claims. It is assumed that managers who wish to achieve particular end will pay attention to the various classes of stakeholders, and that managers’ perceptions dictate stakeholder salience. In addition, the various classes of stakeholders might be identified based upon the possession of one, two, or all the three attributes of power, legitimacy, and urgency. Each stakeholder group has unique concerns, influence and relationship with the organisation.

The stakeholder classes resulting from possessing the attributes is illustrated in the Figure 2.1 below. The authors group the stakeholders into the following classes: (a) latent or low salience (Areas 1, 2, and 3), (b) expectant or moderately salient (Areas 4, 5, and 6), and (c) definitive or highly salient (Area 7). Individuals or entities possessing none of the attributes are non stakeholders (Area 8).

![Figure 2.1: Types of Stakeholders](image)

**Source:** Mitchell et al., (1997), p. 874.

Latent stakeholders are those that possess only one of the attributes and thus have low salience. Managers may not recognise their existence or may do nothing about these stakeholders. Latent stakeholders are not likely to give any attention to the firm. Three types of latent stakeholders exist, namely, dormant, discretionary and demanding.

Dormant stakeholders possess the power to impose their will on the firm but as they lack a legitimate or an urgent claim, their power is

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4. **Power:** A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise do. Power can be based upon force or threat, incentives, or symbolic influences.

5. **Legitimacy:** A generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definition that is based on the individual, the organization, or society.

6. **Urgency:** The degree to which the stake holder’s claim or relationship call for immediate attention, and it exists when a claim or relationship is of a time sensitive nature and when that claim or relationship is important or critical to the stakeholder (1997, 289-293).
not exercised. These stakeholders have little or no interaction with the firm but may become more salient if they acquire one or both of the other two attributes. Thus, managers do not ignore dormant stakeholders.

A second type of latent stakeholder is discretionary (Area 2). These stakeholders possess legitimacy but not power or urgency. Because of the absence of power and urgency, managers are not under any pressure to engage in a relationship with the stakeholder although they may choose to do so. The third type of latent stakeholder is demanding (Area 3) and possesses the urgency attribute. As these stakeholders lack power and legitimacy, they are merely troublesome but not dangerous, and warrant only passing management attention (Mitchell et al., 1997).

In recent years, a wider variety of goals have been suggested for a business. These include the traditional objective of profit maximisation (in other words, the shareholder concept has not been abandoned). However, they also include goals relating to earnings per share, total sales, number of employees, measures for employee welfare, manager satisfaction, environmental protection and many others.

A major reason for increasing adoption of a Stakeholder concept in setting business objectives is the recognition that businesses are affected by the “environment” in which they operate. Businesses come into regular contact with customers, suppliers, government agencies, families of employees, and special interest groups. Decisions made by a business are likely to affect one or more of these “stakeholder groups”. Some examples are given in Table 2.1 below.

<table>
<thead>
<tr>
<th>Business Decision</th>
<th>Stakeholders Affected</th>
</tr>
</thead>
</table>
| Relocation of automobile manufacturing plant from Singur to Sanand | - **Employees in Sanand**: potential redundancies; concerns about family; housing; change in “living standards”
- **New employees in Sanand**: job opportunities; training
- **Customers**: impact on supply of product or service;
- **Suppliers**: impact on supply costs; loss of trade for Mumbai-based suppliers
- **Government agencies**: regional development agencies; agencies providing other grants; employment training agencies
- **Other groups**: environmental impact in Sanand (e.g. carbon emissions) |
The stakeholder concept suggests that the managers of a business should take into account their responsibilities to other groups – not just the shareholder group - when making decisions. The concept suggests that businesses can benefit significantly from cooperating with stakeholder groups, incorporating their needs in the decision-making process. (See Table 2.2)

**TABLE 2.2: EXAMPLES OF STATED BUSINESS OBJECTIVES THAT INCORPORATE THE STAKEHOLDER CONCEPT**

<table>
<thead>
<tr>
<th>Company</th>
<th>Stakeholder Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Telecom</td>
<td>We aim to be at the heart of the information society – a communications-rich world in which everyone, irrespective of nationality, culture, ethnicity, class, creed or education, has access to the benefits of information and communications technology (ICT). In practical terms, it means we are committed to doing business in a way that:</td>
</tr>
<tr>
<td></td>
<td>✓ Maximises the benefits of ICT for individuals</td>
</tr>
<tr>
<td></td>
<td>✓ Contributes to the communities in which we operate</td>
</tr>
<tr>
<td></td>
<td>✓ Minimises any adverse impact that we might have on the environment</td>
</tr>
<tr>
<td></td>
<td>✓ It means doing business in a way that will persuade customers to buy from us, investors to back us, the best people to work for us, and communities to have us around. If we had to say what we believe in a single sentence, it would be this: ‘Better communications help create a better world’.</td>
</tr>
<tr>
<td>Marks &amp; Spencer</td>
<td>Our commitment to society is nothing new. We’ve always known that besides providing the right products, a sustainable retail business needs the support of healthy communities and a high quality environment. Since the 1930s, Marks &amp; Spencer has been actively involved in improving the quality of life for a wide range of communities. We’ve always tried to make an active contribution to the needs of our stakeholders, whether as customers, employees, investors, suppliers, partners or neighbours. Entering the 21st century our commitment remains as strong as ever, but the world is changing. Business is becoming global, society more diverse and our environment is under greater threat than at any time before. Companies have to consider how their actions impact on an increasingly connected set of issues. We aim to be the most trusted retailer wherever we trade by demonstrating a clear sense of social responsibility and consistency in our decision-making and behaviour.</td>
</tr>
</tbody>
</table>
GlaxoSmithKline is one of the world’s leading pharmaceutical companies. Their mission is to help people do more, feel better, and live longer. The business is focused around the delivery of three strategic priorities which aim to increase growth, reduce risk and improve the long-term financial performance. These priorities are: grow a diversified global business, deliver more products of value, and simplify the operating model.

Operating responsibly and ensuring their values are embedded in their culture and decision-making helps them better meet the expectations of society.

**SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

6. The stakeholder concept suggests that the managers of a business should take into account their responsibilities to other groups – not just the shareholder group - when making decisions.

7. Dormant stakeholders possess legitimacy.

**ACTIVITY**

Mr. Black is a latent stakeholder in ABC Ltd., the management is not giving him the concerned priorities though he possess the power to impose his will on the firm but lacks a legitimate or an urgent claim. Suggest him ways to resolve his problem.

**NOTE**

Acceptance of Stakeholder Concept

*Latent Stakeholders*

- **Dormant**: A fired or laid-off employee speaking out against the firm or filing wrongful dismissal suit.
- **Discretionary**: Recipients of discretionary corporate social responsibility.
- **Demanding**: Lone picketer opposing actions of firm.

*Expectant Stakeholders*

- **Dominant**: Shareholders and creditors who expect to receive management’s attention.

Contd...
- **Dangerous:** Employees who are involved in wildcat strikes or sabotage, or interest group terrorism or blockages.

- **Dependent:** Local residents or the environment that depend on a dominant stakeholder, often the government.

**Definitive**

- **Definitive:** Shareholders voting to replace management.

**Non-stakeholder**

- **Non or Potential:** Individuals or entities processing none of the attributes.

### 2.7 STAKEHOLDER ENGAGEMENT

With increasing frequency, corporations are facing demands from their stakeholders. Investors, regulators, customers, employees, suppliers, and the public are focused on corporate governance and business ethics, environmental performance, workplace health and safety, human rights, impact on communities and reporting transparency. When deciding future strategy for the short and long term, stakeholder views must be considered. Stakeholders must be engaged in a dialogue, which will facilitate the functioning of the firm.

(See Box 2.1 for ITC’s stakeholder engagement statement)

**BOX 2.1: ITC’S STAKEHOLDER ENGAGEMENT STATEMENT**

ITC believes that its Vision, Values and Vitality have created a sustainable organisation that is future-ready with a growing contribution to creating large scale societal value. ITC’s credo of “Let’s Put India First” underlines the philosophy of the organisation to put “Country before Corporation” and the “Institution before the Individual”. ITC’s vision to create larger societal capital is inspired by the Company’s strong values of Trusteeship, Transparency, Empowerment, Accountability and Ethical Corporate Citizenship, which are the cornerstones of its Corporate Governance philosophy.

ITC recognise that the Company’s capacity to create societal value will crucially depend on the continued robust growth of our businesses. ITC’s aspiration to be a strong engine of growth for the Indian economy is manifest in the strategy to create multiple drivers of growth that will make a substantial and ever growing contribution to its stakeholders and the nation. By investing in the creation of world-class brands, supported by extensive R & D shaped at the ITC Life Sciences and Technology Centre and by leveraging all its enterprise strengths, the Company will continue to offer competitive and superior value propositions to its customers. ITC’s world-class brands will ensure that larger value is created, captured and retained in the country for national development and growth.

*Contd...*
This Sustainability Report with its continuing theme - “For All our Tomorrows” - embraces within its covers our inspiration and endeavours to create enduring value for a better, more sustainable and secure future. It is with this commitment that we move into the future to create new horizons of shared progress and prosperity.


2.7.1 STAKEHOLDER ENGAGEMENT STRATEGIES

There are various techniques of stakeholder engagement like issue, interest and power matrices, applied to different situations quoted in literature. Keeping as a corner stone the interactions between business and their stakeholders’ vis-à-vis their impacts on the poor, the company can attempt using diverse approaches including participatory ones (generally used in the development sector) in analyzing stakeholder engagement processes of businesses. They are in the form of

- Creating and implementing policy
- Checklists
- Quantitative and qualitative research methods
  - Secondary data
  - Participatory assessments (PA)
  - Surveys
  - Public meetings
  - Focus groups (FG)
  - Interview
- Livelihoods framework (SLF)
- Asset mapping
- Stakeholder analyses
- Participatory vulnerability analyses
- Gender analyses
- Institutional analyses (IA)
- Problem analysis/cause and effect
- Partnerships
- Memorandum of understanding
- Communication strategies

For understanding the relationship between their business activity and vulnerable people, businesses need to: have a better understanding of the political, historic, social and cultural environment (including its complexities) in which business operates and brings commercial benefit to business; have an awareness that engagement with “voiceless” or marginalised stakeholders can have significant commercial benefit; assess vulnerability to ensure that the possible
negative impacts of business are minimised; attempt to ensure that their activity is seen to be part of a wider development process and not viewed in isolation; clarify the roles and responsibilities of other actors. It is increasingly apparent that it is in the interests of business to monitor and influence other actors in the discharge of their duties; invest resources in overcoming the challenge of physical isolation and ensure effective communications. In this way they can minimise the risk of ineffective Management Information Systems (MIS), ensure that policy is implemented and that appropriate staff is recruited; recognise that stakeholder engagement effectively presents a major challenge to the business. Creating an internal culture that is able to respond to these challenges is vital.

To engage stakeholders effectively, businesses need to fulfil the following requirements:

**Policy Formulation**

Effective engagement of vulnerable groups requires a clear policy statement and commitment on the part of the company. This policy should evolve out of the understanding gathered earlier.

Staff should be engaged in its design and the policy should be disseminated to all levels of the organisation.

**Policy Execution**

The ability to engage effectively with vulnerable groups is dependent upon institutional capacity to implement policy decisions. An awareness of institutional strengths and weakness can help to fashion an engagement strategy that is sustainable and effective. Getting the right staff in the right position to manage a process of engagement is crucial to the success of the process.

Use of external support agencies can be invaluable but care should be taken to ensure that quality support is attained.

Encourage imaginative and innovative management responses. Successful engagement strategies often require individuals creating imaginative solutions to very complex problems.

**Information and Communication**

To overcome the problems of geographic remoteness and institutional weakness, effective MIS systems are vital to ensure that good information of the reality on the ground is available at all levels of the organisation. Simplify indicators and ensure that they reflect social dimensions.

Ongoing, appropriate and effective communication is vital to ensure that vulnerable groups are effectively engaged, e.g., use local languages and culturally appropriate means; maximise human contact.

**Recognise the Stakes**

Unless a business incentive is clearly established, the commitment of sufficient resources to ensure that business effectively engages
stakeholders is unlikely. This must be disseminated and supported by senior management.

Unless stakeholders see a clear benefit from engaging with the company they will not invest the resources (time, money and goodwill) to build the necessary relationship.

Encourage stakeholder “ownership” in the project. Involvement in design and benefit from its success is vital to maximise the chances of a project’s success.

**Verification**

Transparency and credibility are vital to sustain effective dialogue and engagement with vulnerable groups. Seek external verification of company performance.

(See Table 2.3 for summary of various key stakeholders, mode of engagement, key sustainability concerns and the initiatives taken by ITC).

<table>
<thead>
<tr>
<th>Stakeholder &amp; Mode of Engagement</th>
<th>Key Sustainability Concerns</th>
<th>Initiatives by the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Providers of financial capital:</strong></td>
<td>♦ Continued profitability and growth of the organisation ♦ Transparent and effective communications ♦ Investor servicing</td>
<td>♦ Consistent growth and profitability; sustainable development initiatives integrated with business strategies ♦ Uninterrupted dividends ♦ Dissemination of business performance, vision and outlook through annual reports, quarterly financial results, press releases and corporate website <a href="http://www.itcportal.com">www.itcportal.com</a>. ♦ Services through Investor Services Centre</td>
</tr>
<tr>
<td>♦ Annual General Meeting with the Board of Directors being present ♦ Exclusive section in Corporate Website on ‘Shareholder Value’ which serves to inform and service shareholder ♦ An exclusive e-mail id: <a href="mailto:isc@itc.in">isc@itc.in</a> for direct interaction with shareholders ♦ Shareholder Satisfaction Survey</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. Customers:</strong></td>
<td>♦ Fair and competitive pricing ♦ Product/service quality ♦ Adequate information on products</td>
<td>♦ Robust Quality Assurance systems, supported by process innovations, adoption of green technology, lean management, six sigma and TPM, for providing high quality cost competitive products and services</td>
</tr>
<tr>
<td>♦ Market surveys ♦ Personal contacts/visits ♦ Personalised lifestyle privilege programme ♦ Customer satisfaction surveys</td>
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Contd...
3. **Employees:**
- Induction programmes/ Training workshops
- Individual performance appraisal
- Employee engagement survey
- Grievance handling processes

- Personal development and growth
- Work culture that ensures high performance level
- World class learning experience
- Caring and empowering work environment
- Work place safety
- Grievance resolution
- Competitive compensation
- Career

- Joint development and improvement projects
- Key account management
- Multi-level interfaces at dealer-customer-end use

- Product/service availability
- Timely delivery of product/service
- Maintenance of privacy/confidentiality

- Significant investments in R&D to develop newer products/variants
- Timely delivery of quality products/services at competitive prices
- Transparent disclosure of product information in line with statutory/regulatory requirements
- Continuous improvement on product/service quality based on customer feedback

- Fostering a culture that rewards performance, continuous learning, collaboration and capacity development across the organisation to be future ready and effectively meet the challenges posed by ever changing market realities.

- Ensuring a safe and healthy working environment coupled with a target of zero accidents at workplace.

- Structured grievance handling process for addressing employee concerns and enabling grievances, if any, to be resolved in a just and equitable manner.

- ITC’s remuneration strategy recognises performance and meritocracy, whilst remaining competitive and sustainable.

- Development of systems and procedures for implementation of Board approved policies on Freedom of Association, Diversity and Equal Opportunity, Prohibition of Child Labour, Prevention of Forced Labour at the Workplace etc.

*Contd...*
### Supply chain partners:
- Manufacturers’ Meet
- Vendor Meets
- Pre-agreement negotiations
- Agreements for all procurement activities

| Knowledge and infrastructure support | Policies, processes and best practices that ensure that procurement activity is conducted in an open, transparent and non-discriminatory manner |
| Regular communication and updates on business plans | Competitive pricing |
| Inclusion of local medium and small scale enterprises in vendor base | Timely payment and changes or cancellation of orders in line with terms and conditions agreed upon |
| Competency development of local vendors | Timely supply of products to dealers, retailers etc. |
| Stability/tenure of relationship | Avoidance of sole sourcing (to the extent possible) and retroactive contracting |
| Ordering and Payment Routines | Sourcing of specialised production machinery across large, medium and small scale sectors. Utility machinery such as boilers, generator sets, air conditioning and refrigeration machinery and electrical and electronic systems are sourced largely from Indian or India based suppliers. Competent service providers from India carry out construction and renovation of new manufacturing facilities, hotels, warehouses and offices. |
| Purchasing prices | Strong processes to identify/develop and qualify vendors on the basis of supply assurance, innovation quotient, product quality and value for money considerations |
| Changes or cancellation of orders | Testing of contracts for regulatory compliance and vendor deliverables cognising for environmental, health and safety legislation. |
| Transparency | Setting up sourcing centres in rural India for several of its product categories, both directly and in collaboration with various State agencies and NGOs to assist in the creation of sustainable livelihoods. |

Contd...
5. **Farmers:**
- Regular formal/informal talks
- Agreements for all procurement activities
- e-Choupal and Choupal Pradarshan Khets (demonstration farms)
- Inputs on agricultural best practices
- Know-how on improvement of productivity and profitability
- Consistent increase in income generation from ITC
- Capacity development for further investment
- Co-creation of the e-Choupal initiative with farmers to provide information and knowhow on agricultural best practices, transmission of market signals, transparent discovery of prices, timely and relevant weather information, access to quality inputs, and most importantly, efficient market access
- Working closely with farmers to enhance agri and farm productivity through demonstration farms and customised extension services
- Creation of physical infrastructure in the form of integrated rural services hubs
- Continuous engagement with policy makers for enabling a balanced and pragmatic policy framework that not only removes restrictive conditions on the efficient functioning of agri businesses but also facilitates the establishment of market-based institutions that can raise agricultural productivity and optimise transaction costs across the value chain
- Integrated Watershed Management Initiative and Social and Farm Forestry Programmes

6. **Government and Regulatory Authorities:**
- Representations on policy issues through industry associations and other bodies
- Participation in policy advocacy discussions at various forums
- Regulatory compliance
- Tax Revenues
- Materials & Energy Efficiency, Recycling and Efficient Waste Management
- Water Conservation
- Post-consumer waste management
- At the Corporate level, association with CII, FICCI and other industry bodies to engage with the policy makers in Government and Regulatory Authorities and with the CII-ITC Centre of Excellence for Sustainable Development to promote thought leadership, recognise sustainability champions and enhance awareness as well as build capacity on issues related to sustainable development and inclusive growth

Contd...
NOTES

7. Local Communities:
- Community needs assessment activities undertaken in collaboration with independent parties/Civil society organisations
- Participation in village functions
- Public hearings during greenfield/expansion projects
- Assessment of direct and indirect impacts of ITC’s social investments on communities
- Community development programmes based on local communities’ needs
- Grievance redressal process
- Environmental pollution
- Consistent efforts towards creation of positive environmental impacts aligned with National Action Plan on Climate Change
- Co-ordinated initiatives to manage post-consumer waste
- Development of systems and procedures for implementation of Board approved policies on Life Cycle Sustainability, Responsible Sourcing, Environment, Health and Safety, Responsible Advocacy
- Forging a long and enduring partnership with rural communities through ITC’s agri businesses and CSR programmes
- Village-level institutional mechanisms which help transform rural communities into vibrant economic organisations and empower stakeholders with enhanced livelihoods
- Development of systems and procedures for implementation of Board approved policy on Stakeholder Engagement
- Robust environmental management systems in accordance with international standards to ensure pollution prevention at all ITC Units.

8. Civil Society:
- Partnership in implementation of CSR Programmes under Mission Sunehra Kal
- Discussions on Community Issues with Civil Society Organisations
- Financial support for community development programmes
- Managerial support
- Environmental pollution prevention
- Safe products and services
- Responsible Corporate Citizenship
- Creation of sustainable livelihoods under Mission Sunehra Kal programmes
- Strict compliance to legal norms related to safety aspects of products and services
- Robust environmental management systems in accordance with international standards to ensure pollution prevention at all ITC units

Contd...
9. **Media:**
   - Advertisements/Promotions
   - Press Conferences
   - Interviews with Senior Managers
   - Transparent and accurate disclosure to stakeholders
   - Responsible Corporate Citizenship
   - Transparent disclosure of Triple Bottom-Line performance through Business Responsibility Report and Sustainability Report published annually
   - Consistent sustainable development initiatives
   - Promotion of products


### 2.7.2 KEY CHALLENGES IN STAKEHOLDER ENGAGEMENT

- Assessing who the key stakeholders are, as well as their needs and concerns;
- Designing an effective engagement programme on strategy and operations, and then deciding how to measure and communicate performance;
- Having a mechanism to properly collect and respond to stakeholder views;
- Providing information on the real performance of your organisation rather than on the perception people might have;
- Developing and communicating the organisation’s values through the engagement process;
- Restoring and enhancing reputation/trust when it has been damaged;
- Finding a cost effective approach to monitor and report performance;
- Ensuring data sources are reliable and information provided to stakeholders is consistent and accurate;
- Deciding how to get assurance for the data used;
- Developing a relationship with the strategic stakeholders based on commitment and accountability.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

8. When deciding future strategy for the short and long term ........... views must be considered.

9. To overcome the problems of geographic remoteness and institutional weakness, effective ........... systems are vital to ensure that good information of the reality on the ground is available at all levels of the organisation.

Contd...
10. Developing and communicating the organisation’s ............ through the engagement process is one of the key challenges in stakeholder engagement.

**ACTIVITY**

Companies tend to take the view that costs associated with CSR practices might make them uncompetitive, which has an impact on their stakeholder involvement. Find out more about the steps taken by the Indian companies to engage stakeholders.

### 2.8 DYNAMIC ENVIRONMENT OF BUSINESS

The end of the last century has taught us many lessons about the relationship between business and society, which perhaps was not perceived so clearly at the beginning of the 90s. We have understood the impact of lack of synchronicity between political and economic cycles, the viscosity of institutional change, technological and market change, and other related factors. These incidences have brought home the truth that expanding markets can go hand in hand with shrinking social space. Above all, firms and corporations today are defined by their social cultural environment as much as they define that environment themselves.

Much of the ado over business and its stakeholders arises from the fact that global corporations today are seen not only as vehicles of economic growth but also as movers of social development. It is being increasingly realized that governments alone cannot take on the challenges of development. For a corporation to grow in the global market it has to be recognized as a global citizen. The recognition of being a global citizen comes from its participation in community building. It makes business sense to integrate the interests of the local population, government and other groups in mainstream business decision making. Businesses today face several major challenges. They are increasingly facing a rise in public expectations partly because of the decline of the State and partly because of the erosion of a common framework for dialogue between businesses, which are global, and communities that remain local. They also face a challenge through the new individualism, which is already impacted on the State and on political institutions and this new individualism impacts on firms and their market environment in a series of ways. This affects product markets because it impacts on consumer demand as individual values and ethical considerations are given market expression. We have examples of human rights, environment, child labour, all of which affect consumer choice. It also affects business reputations in terms of boycotts or media disasters or corruption scandals. Moreover, employee concerns for participation, greater transparencies and ethical behaviour affects the internal labour markets of companies, as these are important powerful dynamic elements within the
organisations, which force them to change. Capital markets also get affected through investor preferences and new types of performance rating and accounting and how business strategies can and profit considerations be reconciled with these changing and growing social demands. This question has been sharpened by the inexorable drive towards greater shareholder value and hyper competition, and by growing consumer power.

As markets and businesses have gone global, so has the recognition that viable and long-term business growth can no longer be separated from the well-being of societies abroad and from the way in which we deal with problems and challenges that transcend national boundaries. Staying aloof is no longer a choice we can afford. Building a culture of responsibility and becoming more actively engaged in finding solutions to broader societal challenges is one way forward. See Box 2.2 to understand how Wipro has developed integrity in business relationship.

**BOX 2.2: INTEGRITY IN BUSINESS RELATIONSHIPS – WIPRO LTD.**

As an international business, we are required to interact and transact with a variety of business organisations and even governments and international organisations in different jurisdictions. The world today is moving towards ethical business strategies, whether it’s our Customers, investors, suppliers, employees or any other stakeholders, everyone is looking for dependability and protection of their interests in these turbulent times, hence honesty is not only the best policy but it is the best business policy. So, corporate integrity is at the foundation of our business conduct code. Wipro’s business transaction policies clearly outline procedures to be followed by the employees strictly while dealing with the company’s customers like committing to obtaining and conducting business legally and ethically.

When entering into any business commitment, it is important to define the rights and obligations of each party in appropriate written contracts. Employees dealing with Wipro customers, are required to understand and abide by Wipro contracting policies and guidelines including proper Authorisation, ensuring against Sham Transactions, Accepting or receiving bribes or gifts that could compromise the company’s interests, Comply with all legal and contractual obligations in dealing with governments.

Contributions without the prior approval of the management of Wipro, any fund or other assets belonging to Wipro for political purposes in any territory or country are prohibited.

Source: http://www.wiprocorporate.com/ombuds/integrity_business_relationships.asp
Choose the correct option:

11. Which of these is less likely to affect consumer's choice?
   (i) Human rights
   (ii) Environmental issues
   (iii) Child labour
   (iv) Firm's profits

Take an example of a company and show how they have changed over the years to adapt to the new business environment. Include facts related to major contributions that benefited the stakeholders like society, employees and government.

2.9 SUMMARY

- Business is to organise and maintain collective productivity to achieve a set of productive and creative goals.
- The term society refers to a semi-closed in which most of the interactions are with the other members belonging to the group.
- Business activities impact the social environment, therefore the managers need to understand this relationship and assess the impact of business decisions on society.
- Systems Theory helps managers to look at organisations from a broader perspective. This theory states that open to (interact) with the external environment.
- Ownership Theory of the Firm stresses that the primary duty of a firm is to maximise shareholder's profits. On other hand the Stakeholder Theory states that the firm should act in the interest of all its stakeholders.
- Shareholders own shares in the company so they own a part of the company but stakeholders (except shareholders) have interest in the company but do not own it.
- Stakeholders can be divided into two: primary stakeholders – who have direct stake in a company like employees, suppliers, local communities, business partners etc. and secondary stakeholders – who don’t have direct stake like media, social groups, civic bodies etc.
- While deciding future strategies-whether short term or long term-stakeholders views must be taken into consideration.
Business: Legally recognised organisations that provide goods and services to customers

Definitive Stakeholders: Shareholders who can vote and replace the management.

Latent Stakeholders: Have low salience and give low attention to the firm.

Salience: Degree to which managers give priority to competing stakeholders claim.

Shareholders: Owners of a firm, who owns shares in a firm.

Society: Network of relationships between social entities.

Stakeholders: Have vested interest in the firm but do not own it.

2.10 DESCRIPTIVE QUESTIONS

1. Distinguish between stakeholders and shareholders.

2. Discuss the various typologies of stakeholders and the influences that they have on business.

3. What factors comprise a business environment and how do they impact business?

4. Compare Ownership Theory and Stakeholder Theory. According to you, which is better from a firm’s point of view?

5. Why do you think that the interests of shareholders and stakeholders come into conflict?

2.11 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and Society</td>
<td>1.</td>
<td>Semi-closed</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Third</td>
</tr>
<tr>
<td>Business Organisations as Systems</td>
<td>3.</td>
<td>True</td>
</tr>
<tr>
<td>From Shareholder Theory to Stakeholder Theory</td>
<td>4.</td>
<td>(i)</td>
</tr>
<tr>
<td>Stakeholder Concept</td>
<td>5.</td>
<td>(ii)</td>
</tr>
<tr>
<td>Typology of Stakeholders and their Influence</td>
<td>6.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>7.</td>
<td>False</td>
</tr>
<tr>
<td>Stakeholder Engagement</td>
<td>8.</td>
<td>Stakeholder</td>
</tr>
</tbody>
</table>
NOTES

9. MIS

10. Values

Dynamic Environment of Business

11. (iv)

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 2.5.1

Often the aims and objectives of the stakeholders are not the same as shareholders and they come into conflict. The conflict often arises because while shareholders want short-term profits, the other stakeholders’ desires tend to cost money and reduce profits.

2. Refer 2.6

Mitchell, Agle, and Wood (1997) developed a theory of stakeholder identification and salience based upon stakeholder possession of one or more of the three attributes: power, legitimacy, and urgency.

3. Refer 2.8

For a corporation to grow in the global market it has to be recognized as a global citizen. The recognition of being a global citizen comes from its participation in community building.

4. Refer 2.4

According to the Ownership Theory of the Firm, the primary duty of those who manage a firm is to maximise the interests of the firm’s shareholders; that is, to maximise profits whereas according to shareholder theorists such as Nobel laureate economist, Milton Friedman, managers ought to serve the interests of the firm’s owners, the shareholders.

5. Refer 2.4

The corporate law commits managers solely to the maximisation of profits for the benefit of the firm’s owner/shareholders.

2.12 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


**E-REFERENCES**

- http://jblair.ba.ttu.edu/5374/Week11/StakeholderArticleAME.pdf
# Chapter 3

## From Philanthropy to CSR: Historical and Theoretical Perspective

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CORPORATE PHILANTHROPY IN INDIA

India has a long-standing tradition of philanthropy. The evolution of philanthropy through ages sets the tone for modern day corporate philanthropy. The concept of corporate philanthropy in India traces its roots to the Vedic period. The practice of “daan” finds mention in the Vedas. Corporate philanthropy intends to work for social uplift and yet is rooted in the interests of the business. In this context then the purpose of corporate philanthropy assumes a complex nature. The practice of giving goods, services or money in lieu of nothing, is called “daan.” The modern day equivalent of this is philanthropy. The practice of giving goods or services in exchange of other goods and services or money amounts to “dakshina”, the modern equivalent of which is price or wage. This is the usual norm of business in the marketplace. The last concept is that of “bhiksha”. It is the practice of goods, services or money done in order to legitimize existing social, political and economic equations between a public or private institution and its subjects. Corporate philanthropy integrates these three ancient concepts. It serves the cause of economic and social uplift while furthering the interests of the business.
After studying this chapter, you should be able to:

- Understand the origin and growth of CSR in India
- Get oriented to the theoretical framework and generations of CSR
- Know the contemporary CSR approach adopted by businesses
- Discuss the drivers of CSR in the present scenario
- Discuss the changing trends of CSR

3.1 INTRODUCTION

Social responsibility of corporations has been a question for academics and business executives since the beginning of the 1950s, but it actually has a much older history. The underlying concept of CSR, that of an implied social contract between business and society, dates back to the writings of the Greek philosopher Epictetus in the first half of the seventeenth century” (Anshen, 1970, p.8). The importance of socially responsible behaviour in the 20th century was reported as early as 1938 (Barnard, 1938), however, the modern era of CSR is generally traced to the publication of Bowen (1953).

Socially responsible corporate behaviour as envisaged in the modern era has its roots in Protestant Christianity. “Protestant Ethic and The Spirit of Capitalism” by Max Weber asserts that the Calvinist sect of Protestants laid emphasis on the need for business institutions to serve society through employment generation, product offerings and fulfilment of obligations to creditors and investors.

It is worthwhile to note that many of the emerging economies of the modern era share a common past of being colonised in their first brush with free market economics. A US Federal Court verdict in 1933 described corporate institutions as Frankenstein’s monsters capable of doing evil. In such circumstances, there was a pressing need for corporation to systematise a protocol of business behaviour to reduce the trust deficit. The post liberalisation period expects businesses to adopt the triple bottom line approach as an inseparable part of their strategy to attain both shareholder as well as societal value.

India has one of the world’s richest traditions of business involvement in social causes for national development. To understand the current status of Corporate Social Responsibility (CSR) in India, it is important to map out the CSR format institutionalised by old and new public and private sector undertakings. Long-established old private sector industrial dynasties, such as the Birlas and the Tatas, have integrated the concepts of nation building and trusteeships long before CSR become a popular cause. In fact, it is interesting to note that some of the most active players on the CSR circuit in India
are family held business institutions with a long-standing history of philanthropy – something that is at odds with the Western concept of industrial democracy and publicly held companies being more socially responsible.

Post-independence, India witnessed active participation of public sector companies in the economic and social reconstruction of India. The engagement of public sector companies like SAIL, GAIL, CCL, BEML, HMT and others was largely based on the Nehruvian prescription of the “commanding heights” philosophy. Pre-liberalisation India was a command economy in essence and thus the role of public sector in social uplift and institution building was over emphasised on.

### 3.2 HISTORY OF CSR IN INDIA

Historically, the Philanthropy of Indian businessmen is deeply rooted in religious belief. Merchants’ charity in the ancient India took various forms, such as treasury chests for the needy, providing relief in times of famine or floods, provision of drinking water, building temples, water tanks, wells, ponds, supporting schools and so on. Merchants contributed towards charity both individually as well as collectively through their business and social organisations. At an individual level they gave alms to the poor and needy, arranged for their feeding, set up traditional schools (pathshalas), constructed night shelters for the poor and travellers, built water tanks and bathing areas (ghats), made provision for drinking water during summer, gave access to their private granaries in times of famine, commissioned artists to prepare religious texts and other works of art for temples, provided for dowries and marriage expenses of poor girls, and so on. As part of collective charity, a group of families or all the inhabitants of the town would collect voluntary offerings and present them according to different needs of the community, such as health, sanitation, education and other like aspects of general welfare. There was a strong tradition of charity in almost all the business communities of India. Studies conducted by European and Indian researchers\(^1\) have pointed to the use of Philanthropy by merchants to gain political power, economic gain, personal status, and honour. The tradition of merchant’s charity has continued down the ages, even to present times, where it is still visible among individual businessmen and the unorganised sector.

#### 3.2.1 PRE-INDEPENDENCE PERIOD

The arrival of the East India Company in 1620 AD was a milestone in the history of trade and socio-political environment of India. Over the next 200 years, the initial trade and business interest of the East India Company changed to the social and political management of the country by the company executives until 1885, when India came under

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the British crown. The business leaders of the emerging indigenous industry remained rooted in the tradition of Philanthropy, which gradually metamorphosed into businesses consciously contributing to social development to liberate India. The period between 1850 to early 1900 witnessed businesses setting up trusts and endowment funds.

The single most important factor influencing business Philanthropy in the pre-independence period was the emergence of Mahatma Gandhi as a political and social leader. Gandhiji reinterpreted the traditional concept of “charity” (dana) in his theory of trusteeship, which he held up as an ideal to be approximated by business. Founders of business families supported schools, colleges, hospitals, orphanages and the promotion of art and culture. By the third decade of the nineteenth century, merchant charity began to change from being largely religious, ameliorative in nature and confined to members of their own community, caste or religion towards being more secular, more inclusive in terms of caste, creed and community and more oriented towards bringing progress to society through western style modern institutions. Though the more enlightened merchants began to diversify their charitable giving in content and intent, they continued the older forms of gifting as well.

### 3.2.2 POST-INDEPENDENCE INDIA

Post-independence, India struggled to stand on her own feet through indigenous manufacturing and creation of jobs. Industries were termed as “Temples of Modern India.” The colonial hangover left an indelible impression on the minds of the policy makers. The brush with capitalism and free market in the pre-independence era had fomented a sense of disbelief towards private business enterprise. Social and economic reconstruction had to be undertaken. Two schools of thought emerged. The Gandhian school sought to motivate industrialists to voluntarily participate in programs of institution building. The Nehruvian school stressed on laying out a governmental recommendations and regulations so as to control corporate behaviour.

The credit for integrating social responsibility with the conscience of business goes principally to business leaders like JRD Tata, Ramakrishna Bajaj, Arvind Mafatlal and Kasturbhai Lalbhai. As champions of free enterprise, they feared that irresponsible behaviour by the business community would lead the government to encroach on their freedom. They felt that the business community is an essential ingredient of the democratic society and it has a duty not only to create wealth but also to promote the ethical and social goals of the community. Unless it fulfils both these functions, it will not be able to ensure its own survival.

In 1965, the Seminar on Social Responsibilities of Business highlighted that the concept of social responsibility was broader than charity. It specified that business social responsibilities comprised of:
The cumulative result of all these influences was that the industry accepted social responsibility as an inherent part of management of the enterprise itself. The community development and social welfare program of the premier Tata Company, Tata Iron and Steel Company commenced with the integration of the concept of “Social Responsibility.” The last decades of the twentieth century witnessed a swing away from mere charity and traditional philanthropy towards designing interventions in the areas of ecology, consumer education, developing rural markets and so on and direct engagement of business in mainstream development. Many of the old multinationals such as ICI, Hindustan UniLever Ltd. and ITC became Indianised and began to feel the same responsibility as the indigenous businesses.

STATEMENTs

1. The single most important factor influencing business philanthropy in the pre-independence period was the emergence of Pt. Nehru as a political and social leader.
2. The last decades of the twentieth century witnessed a swing away from mere charity and philanthropy towards designing interventions in the areas of ecology, consumer education.

ACTIVITY

Make a presentation on the comparative analysis of pre and post independence period with reference to CSR.

3.3 LIBERALISATION AND CSR

Since 1991, with increased foreign direct investments, India has been extremely successful in achieving a yearly growth rate of four to eight percent as part of its reform policies in the market economy. Corporate India under the influence of increased FDI from western countries expected itself as heading towards a “social market economy with a human face” by incorporating CSR as its main business strategy for creating both shareholder as well as societal value. The objective now is to strike a balance between directly productive activities that yield

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economic growth and social overhead capital that fosters social uplift. The social market economy concept embraces the need for economic growth through primary business functions of investment and production of goods and services while catering to the requirement of institutional capacity building. The understanding of the fact that wealth creation must precede wealth distribution has propelled this shift of focus from the public sector to the private sector. Moreover, the World Bank and its affiliate organisations came forward in 1991 to posit that over reliance on the state sector to achieve social uplift and horizontal equity must make way for larger private sector participation. This has been referred to as the Washington Consensus. The ‘World Business Council for Sustained Development’ has coined the definition of CSR as “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. The definition implied that business should exhibit the ethical behaviour towards its internal and external stakeholders (customers as well as employees) as well execute its responsibility towards the environment and society in which it operates. The western driven CSR approach clearly differentiated between corporate Philanthropy and CSR, which referred to the integration of environmental, social and governance factors into business strategies and operations for attaining business and societal sustainability.

The fundamental objective of the economic reforms was to bring about rapid and sustained improvement in the quality of life of the people of India. Central to this goal was the rapid growth in incomes and productive employment (Chaudhuri, 2001:8). However, analysts of economic reforms in India argue that the expectations from economic reforms have not had much success, as decline in incomes and employment continues unabated. India’s HDI ranking as published in the UNDP Report of 2014 reflects a fallacy of composition. With a Human Development Index of 0.554 and a ranking of 136, India falls under the bracket of countries with medium human development. It reflects a paradoxical if not subversive situation where India has been unable to translate its economic growth into economic development. India’s performance in attaining the Millennium Development Goals (MDGs) is mixed, with the country lagging behind the MDG targets, among others, on enrolment for girls in primary school and elimination of gender disparity in secondary education. Recent research by economists Jean Dreze and Amartya Sen suggests a high proportion of deaths in women owing to lack of basic health and hygiene and the sexually transmitted diseases. Sen has capsuled his findings on women disempowerment in the “Missing Women Mystery” and the “entitlements and capabilities” approach. Sen has referred to “high tech sexism” the usage of technology to detect women foetuses and abort those (2001). High unemployment with inequity in distribution of wealth and opportunity, lower access to and standards of health,
education, nutrition, sanitation, safe drinking water and the likes continue to remain crucial challenges for India, as for any other developing country.

With India facing a plethora of developmental challenges and particularly with the State retreating from economic activity, the urgency for the business community to take up wider social responsibilities towards society is growing. Alongside issues related to developing ethical and responsible work place, market place and environmental practices to develop sustainable business also has started gaining its due attention. Corporate social responsibility emphasises the responsibility of companies towards the stakeholders as against their earlier focus on profit-making alone. Fears of global warming, the constant exhaustion of natural resources etc. is urging the corporate world to take social initiative with a new perspective.

**NOTE**

In 2013, as per the World Investment Report of the United Nations Conference on Trade and Development (UNCTAD), FDI is on the rise in structurally weak economies. FDI inflows to least developed countries (LDCs) hit a record high, an increase led by developing-country TNCs, especially from India and the BRICS countries (Brazil, the Russian Federation, India, China and South Africa) continued to be the leading sources of FDI among emerging investor countries. Flows from these five economies rose from $7 billion in 2000 to $145 billion in 2012, accounting for 10 per cent of the world total.


**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

3. The urgency for the business community to take up wider social responsibilities towards society is .......... 

4. The fundamental objective of the economic reforms was to bring about rapid and sustained ............. in the quality of life of the people of India.

### 3.4 EMERGING CSR TRENDS

In the past few years, some surveys\(^3\) have been conducted in India by different organisations to understand the perception of CSR among

\(^3\) Some of the prominent surveys include ‘Corporate Involvement in Social Development in India’ by Partners in Change (PiC), ‘Altered Images: the 2001 State of Corporate Responsibility in India Poll’ by Tata Energy Research Institute (TERI), ‘Corporate Social Responsibility: Perceptions of Indian Business’ by Centre for Social Markets (CSM), and ‘Corporate Social Responsibility Survey, 2002 ‘India’ presented jointly by the British Council, UNDP, Confederation of Indian Industries and PriceWaterhouse Coopers.
companies and their different stakeholders, and to define the drivers and barriers of CSR in India. The 2001 survey of 536 companies across India, conducted by Partners in Change (PiC) reveals that Philanthropy is the most significant driver (64 per cent) of CSR, followed by image building (42 per cent), employee morale (30 per cent) and ethics (30 per cent) respectively. The survey showed that there are, appreciably, several cases of companies in India involved in diverse issues such as healthcare, education, rural development, sanitation, micro-credit and women empowerment, arts, heritage, culture, and conservation of wildlife and nature, etc.

However, given the economic progress and increase in corporate profits on the one hand, and reality of human-poverty and development indicators in India on the other, analysis of the surveys quoted suggest that though many companies in India have taken on board the universal language of CSR, it seems to be in a confused state. Individual companies define CSR in their own limited ways and contexts. The end result being that all activities undertaken in the name of CSR are merely Philanthropy, or an extension of Philanthropy. Creating trusts and foundations seem to be a favourite route of CSR practice by Indian companies, but largely such trusts and foundations work at an arm’s length from the company preventing the mainstreaming of CSR into the core business processes and limiting CSR to community development only. Nearly all companies with CSR embedded in the core corporate activity do so because of company tradition rather than a company strategy leading to ad hoc and largely CEO-driven CSR policy.

According to the survey, four models of CSR co-exist in India: (a) The ‘ethical model’ as suggested by Mahatma Gandhi, where companies voluntarily commit to public welfare and participate in nation building; (b) The ‘statist model’ propounded by Jawaharlal Nehru which calls for adopting responsible practices by State interventions in economic activities and protecting stakeholders through legislation; (c) The ‘liberal model’ by Milton Friedman which discusses CSR being limited to private owners or shareholders, and (d) The ‘stakeholder model’ championed by R Edward Freeman, which calls for companies to respond to all stakeholder needs.

The survey further highlighted that belief in the company’s role in CSR activities was directly co-related with its age and turnover; particularly, as older companies with greater turnover were more likely to believe in their role in CSR activities. The survey, however, also revealed that Indians are not yet judging companies according to these criteria, and the public opinion is still focused on brand-quality and reputation of companies. The survey thus confirms a prior finding by Environics International in 2001, that the demand for CSR is low in India (Kumar et al., 2001).

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4. Source: www.cii.in
The CSR survey conducted in 2002 by British Council et al. revealed that many companies are still steeped in an amalgamation of transition from trusteeship/ethical model to the statist model, and highlighted growing recognition among companies that passive Philanthropy is no longer sufficient in the realm of CSR (British Council et al., 2002).

The survey conducted by Center for Social Markets (2004) highlighted that the primary reason for changing attitudes of businesses towards social and environmental issues was the pressure exerted by the international business code of conduct, and protecting reputations, given that the fundamental expectation of the public from companies was that they should provide good quality products at low prices, treat employees well without discrimination, protect the environment, help bridge the gap between the rich and the poor, and help in social and economic development. The 2004 PiC survey findings present a marked increase in the number of companies developing and adopting CSR policy as against the earlier survey findings. This may be attributed to an enabling corporate environment that is more conscious of the implications of involvement of business in CSR activities with specific reference to the Indian context.

A comprehensive picture of the state of CSR in India based on the Karmayog 2008 CSR Ratings highlights that 49% of the 1000 companies studied across 35 sectors have not undertaken any CSR activity. The CSR ratings from level ‘0’ (lowest) to level ‘5’ (highest) were measured on two aspects: (a) steps taken by the company to reduce the negative effects caused by its products and processes on the environment, and (b) positive steps a company takes using its resources and core competence for the benefit of society. The study highlights that banking sector is one of the best performing sectors and CSR initiatives, are largely undertaken due to the mandatory regulations on social sector expenditure for PSUs. The Construction sector is one of the sectors with very low CSR activity. Only ten companies have got a Level 4 rating.

The CII’s Centre of Excellence for Sustainable Development (CESD) has released the findings of survey of top 200 companies in India, in a report called ‘Business Responsibility India Survey 2013.’ The release of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) in 2011 and the CSR Section 135 in the Companies Act, 2013 have led to a larger discussion amongst the stakeholders about the linkage between them. However, perceptions and practices vary and businesses continue to engage in a range of ways on these issues across the spectrum. Key findings of the report are as follows:

- Strong areas in Business Responsibility (BR) are environment, employee affairs, and governance
- Areas of concern are human rights, corruption and supply chain
- About 25% companies surveyed spend at least 2% of PAT on CSR activities
Women are under-represented at the workplace. Women employees account for less than 10% for more than half of the top 200 companies.

Nearly 50% companies have no women in the top management or on the Board.

About 48% of the companies have or are in the process of conducting ecosystem footprint.

3.4.1 TRIPLE BOTTOM LINE APPROACH

Triple bottom line approach is an extension of the criteria to measure the success of the firm. Traditionally, a business is considered to be successful if it has generated huge profit, but the triple bottom line approach takes into account the three criteria for assessing the success of the firm i.e. economic, social and environmental.

Triple Bottom Line (TBL) Approach is popularly described by the 3Ps: People, Planet and Profit.

- People (The social bottom line)
- Planet (The environmental bottom line)
- Profit (The economic bottom line)

Therefore TBL approach considers firm’s sustainability in social community, environment and business.

We use the term corporate social responsibility interchangeably with corporate citizenship, corporate responsibilities and corporate sustainability.

The largest CSR initiative in the world, i.e. UN Global Compact and its 10 principles cover all three bottom lines: 6 principles on human rights which includes core labour rights, 3 principles on the environment and 1 principle on the Economic Bottom Line.

Triple bottom line reporting makes business decisions and actions more transparent and allows people to gain a thorough understanding of a business’ level of corporate social responsibility. It also helps the manager to assess and compare their performance across all three criteria against business objectives and long term goals.

**SELF ASSESSMENT QUESTIONS**

Choose the correct answer:

5. Which of these is not a model enumerated by PiC survey that exists in India
   (i) Ethical model
   (ii) Statist model
   (iii) Shareholder model
   (iv) Liberal model

Contd...
6. Triple Bottom Line Approach considers which of the following
   (i) People
   (ii) Planet
   (iii) Profit
   (iv) All of the above

**ACTIVITY**

Visit the website www.global-csr.com and find out more about the CSR and TBL.

### 3.5 THEORIES OF CSR

Since the second half of the 20th century a long debate on corporate social responsibility (CSR) has been taking place. In 1953, Bowen (1953) authored wrote the seminal book, ‘Social Responsibilities of the Businessman.’ Since then there has been a shift in terminology from the social responsibility of business to CSR. Some consider CSR merely as compliance or legal responsibility; to others, it means socially responsible behaviour in the ethical sense; to still others, the meaning transmitted is that of ‘responsible for’ in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for legitimacy in the context of belonging or being proper or valid; a few see a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large (Votaw, 1972, p. 25). In order to contribute to a clarification of the field of business and society, it is important to map the territory in which most relevant CSR theories and related approaches are situated. The theories of CSR are developed on the basis of the extent of interaction between business and society.

#### 3.5.1 FRIEDMAN’S THEORY/FUNDAMENTALIST THEORY

Friedman’s position is captured in his pronouncement 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 within the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (Friedman, 1983). Friedman’s reference to the “rules of the game” suggests that social responsibility is derived from the general economic environment or context in which business operates. Friedman’s position on CSR has been characterised as “fundamentalism” and gathered under what has been called the “legal recognition” view. “According to the legal recognition view, the corporation is an autonomous entity, ... owned and run by a freely constituted group.... It is not a creation of society” (DeGeorge, 1990). Thus the corporation has no special moral or social obligations. Corporations are fully private, economic institutions
designed only to make money. According to Friedman, the “business of business is business.”

Believers in Friedman’s view consider investing marginal costs with regard to decisions regarding labour, waste management, installing environmental systems and so on. Hence, it is likely that in order to minimise the expenses of the firm, they may take decisions that can normally create negative externalities on the larger society like creating environmental hazards, exploitation of labour and so on. To amend these externalities we need government policies or other market-correcting interventions to restore the socially optimal equilibrium.

3.5.2 SOCIAL CONTRACT THEORY

The central tenet of social contract theory is that society consists of a series of explicit and implicit contracts between individuals, organisations, and institutions. These contracts evolved so that exchanges could be made between parties in an environment of trust and harmony. According to social contract theory, corporations, as organisations, enter into these contracts with other members of society, and receive resources, goods, and societal approval to operate in exchange for good behaviour. Davis (1960) was one of the first to explore the role of power that business has in society and the social impact of this power. In doing so, he introduces business power as a new element in the debate of CSR. He held that business is a social institution and it must use power responsibly. Additionally, Davis noted that the causes that generate the social power of the firm are not solely internal of the firm but also external. Their locus is unstable and constantly shifting, from the economic to the social forum and from there to the political forum and vice versa.

Davis formulated two principles that express how social power has to be managed: “the social power equation” and “the iron law of responsibility”. The social power equation principle states that “social responsibilities of businessmen arise from the amount of social power that they have” (Davis, 1967, p. 48). The iron law of responsibility refers to the negative consequences of the absence of use of power. In his own words: “whoever does not use his social power responsibly will lose it. In the long run those who do not use power in a manner which society considers responsible will tend to lose it because other groups eventually will step in to assume those responsibilities” (1960, p. 63). So if a firm does not use its social power, it will lose its position in society because other groups will take it, especially when society demands responsibility from business. Donaldson (1982) further extended on the work of Davis and assumed that some sort of implicit social contract between business and society exists and business will have to honour the contract as business is not just an economic institution, but also a social one. Hence the concept of ‘Corporate Citizenship’ was propagated.
3.5.3 SOCIAL JUSTICE THEORY
Social justice theory focuses on fairness and distributive justice – how, and according to what principles, society’s goods (here meaning wealth, power, and other intangibles) are distributed amongst the members of society. Proponents of social justice theory argue that a fair society is one in which the needs of all members of society are considered, not just those with power and wealth. As a result, corporate managers need to consider how these goods can be most appropriately distributed in society.

3.5.4 RIGHTS THEORY
Rights theory is concerned with the meaning of rights, including basic human rights and property rights. One argument in rights theory is that property rights should not override human rights. This means that while shareholders of a corporation have certain property rights, this does not give them license to override the basic human rights of employees, local community members, and other stakeholders.

3.5.5 DEONTOLOGICAL THEORY
Deontological theory deals with the belief that everyone, including corporate managers, has a moral duty to treat everyone else with respect, including listening and considering their needs. This is sometimes referred to as the “Golden Rule.” CSR contributes to corporate sustainability by providing ethical arguments as to why corporate managers should work toward sustainable development: If society in general believes that sustainable development is a worthwhile goal, corporations have an ethical obligation to help society move in that direction.

3.5.6 STAKEHOLDER THEORY
Stakeholder theory was originally, and is still primarily, a strategic management concept. The goal of stakeholder theory is to help corporations strengthen relationships with external groups in order to develop a competitive advantage. The contribution of stakeholder theory to the corporate sustainability is the addition of business arguments as to why companies should work toward sustainable development. Stakeholder theory suggests that it is in the company’s own best economic interest to work in this direction because doing so will strengthen its relationship with stakeholders, which in turn will help the company meet its business objectives.

3.5.7 GANDHIJI’S TRUSTEESHIP THEORY
Gandhi’s efforts towards “spiritualising economics” are reflected in his concept of Trusteeship. Gandhi’s idea of Trusteeship arose from his faith in the law of non-possession. It was founded on his religious belief that everything belonged to God and was from God. According to Gandhi, when an individual had more than his respective portion,
he became a trustee of that portion for God’s people. If people could imbibe this principle in general, Trusteeship would become a legalised institution. Basically, Gandhi suggested this concept as an answer to the economic inequalities of ownership and income, a kind of non-violent way of resolving all social and economic conflicts prevalent in the world. In concrete form, the Trusteeship formula reads as follows:

- Trusteeship provides a means of transforming the present capitalist order into an egalitarian one.
- It does not recognise any right of private ownership of property, except so far as it may be permitted by society for its own welfare.
- It does not exclude legislation of the ownership and use of wealth.
- Under State-regulated Trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction, in disregard of the interests of society.
- Just as in the case of a decent minimum living wage, a limit should be fixed for the maximum income that would be allowed to any person in society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time, so much so that the tendency should be towards the obliteration of the difference.
- Under such an economic order, the character of production will be determined by social necessity and not by personal greed.

As man advances from a narrow sphere of personal satisfaction to the nobler concept of the welfare of all, he marches closer towards self-realisation. The whole idea of possessing wealth only to guard it from being misused and to distribute it equitably, aims at protecting human dignity. If it is possessed for any other objective, it is objectionable on moral grounds. Gandhi enjoins this moral obligation on the part of the trustees, as he is fully aware of the ills of capitalism that widen the gap between the rich and the poor.

The Gandhian concept of Trusteeship departs significantly from Marxian economic philosophy too. If Marxism is the child of the Industrial Revolution, Gandhian theory can be understood only in the context of certain basic spiritual values of the Indian tradition. Marxian socialism aims at the destruction of the class called capitalists, whereas the Gandhian approach is not to destroy the institution, but to reform it. Gandhian socialism, being ethical, is different from Marxian socialism. Man to Gandhi, is an ethical being first and a social being later.

The most significant difference between Marxian socialism and Gandhian socialism lies in the method they recommend to achieve it. Whereas Marxian socialism harps on violence, Gandhian socialism aims at a change of heart on the part of the rich. There is no place for violence, but only trust. The common man trusts his trustee and the latter plays the role of a custodian. Though this kind of socialism is
difficult to achieve, Gandhi advocated it as he believed in the basic strength of the goodness of man and the value of morals.

3.5.8 STATIST THEORY

The statist theory traces its roots to Neo-Marxian thinking on the role of public sector institutions. The theory seeks to emphasise on the necessity of public sector institutions in taking the economy to “commanding heights.” This theory had found in application in India during the Nehruvian era and hence is at times also referred to as the Nehruvian theory of CSR.

Most emerging economies share a common economic and political history of having been subjected to colonialism. It is in this context that the theory proposes the active participation of government run economic institutions in economic development. Moreover it also stresses on the need to regulate and control corporate behaviour by means of restrictive licensing and permit mechanism. Private sector institutions are required to comply with the regulations and recommendations of government in order to stay active in business.

With gradual shift of emerging economies from command and control economy models to those of cooperation, this model has gradually faded away. There has been stinging criticism against governments of literally forcing corporations to comply with compliance, regulatory and governance issues. Such type of compliance mode of corporate governance that is largely dominated by excessive legislative and judicial interventions has been known to stifle innovation and enterprise. Infosys chief mentor and CEO N R Narayana Murthy has referred to it as “governance at gun point.”

Choose the correct answer:

7. Which of the following is sometimes referred as Golden Rule
   (i) Fundamental Theory
   (ii) Rights Theory
   (iii) Deontological Theory
   (iv) Trusteeship Theory

8. The theories of CSR are based on the basis of interaction of business and..........
   (i) Shareholders
   (ii) Society
   (iii) Government
   (iv) Stakeholders
Do a comparative analysis of different theories of CSR and make a presentation on it.

### 3.6 THE PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY

One way to view corporate social responsibility is through Carroll’s Pyramid (1991), which he claims presents the concept such that social responsibility will be accepted by a conscientious businessperson. There are four kinds of social responsibility: economic, legal, ethical, and philanthropic that can be depicted in a pyramid, as presented in Figure 3.1. Carroll contends that all of these responsibilities have always existed to some degree, but ethical and philanthropic responsibilities have only become significant in recent years. It was suggested that, although the components are not mutually exclusive, it “helps the manager to see that the different types of obligations are in a constant tension with one another”. Economic responsibilities relate to Business’s provision of goods and services in society. Profits result from this activity and are necessary for any other responsibilities to be carried out. It is assumed that corporations will be as profitable as possible, maintain a strong competitive position, and maintain a high level of operating efficiency.

Society expects business to conform to laws and regulations, formulated by governments that act as the ground rules under which business must operate. Corporations are expected to pursue profits within the framework of the law, which establishes what are considered fair operations. Society expects that all goods and services and relationships with stakeholders will meet at least minimal legal requirements. Ethical responsibilities include those activities that are not expected or prohibited by society as economic or legal responsibilities. Standards, norms, or expectations that reflect concern for select stakeholder input is fair, just, or in keeping with their moral rights. Ethics or values may be reflected in laws or regulations, but ethical responsibilities are seen as embracing the emerging values and norms that society expects of business even if not required by law presently. Philanthropic responsibilities involve being a good corporate citizen and include active participation in acts or programs to promote human welfare or goodwill. Examples are contributions to the arts, charities, and education.
In summary, Carroll views the total social responsibility of business as involving the simultaneous fulfillment of the four responsibilities, which stated in pragmatic terms means that the corporation should strive to make a profit, obey the law, be ethical, and be a good corporate citizen (1991, pp. 39-43). More recently Carroll (2004) attempted to incorporate the notion of stakeholders. Economic responsibility contains to “do what is required by global capitalism”, legal responsibility holds that companies “do what is required by global stakeholders”, ethical responsibility means to “do what is expected by global stakeholders”, and philanthropic responsibility means to “do what is desired by global stakeholders”.

**Self Assessment Questions**

Fill in the blanks:

9. Corporations are expected to pursue ..........within the framework of the law.

10. Economic responsibility contains to do what is required by global.......... 

**Activity**

Collect articles about Carroll CSR pyramid and make a report in 200 words.

**3.7 Generations of CSR**

Based on the changing relationship between business and society, Simon Zadek (2001) describes the development of CSR broadly in terms of three generations.
3.7.1 FIRST GENERATION

The first generation of CSR showed companies can be responsible in ways that do not detract from, and may contribute to commercial success. Companies out of their own free will contributed towards charity or corporate Philanthropy to address a variety of social, economic and other issues. Such contributions were part of the overall corporate citizenship strategy. In recent years, several events and trends have contributed to companies changing the way they approach their Philanthropy. The most prominent changes include:

- Adoption of a strategic approach to Philanthropy, in which companies align charitable giving with the company’s core business interests;

- Expansion of the geographic focus of corporate giving to reflect the needs and expectations of a global workforce and customer base;

- Development of measurement tools for evaluating the impact of charitable contribution;

- Contemporary businesses evoke greater stakeholder participation in philanthropic activities, create long-term relationships with non-profit organisations and communities, and organise their philanthropic programmes, such strategic innovations have resulted in creating business and social value and reputation enhancement for the business. (See Box 3.1)

**BOX 3.1: STRATEGIC PHILANTHROPY**

- Bill Gates has donated millions of dollars for the Bill and Melinda Gates foundation. While generating a response for this foundation he has travelled to different nations, thus generating awareness among people about his campaign and indirectly about his organisation – Microsoft. Such an initiative in turn helps Microsoft to fortify its image in the consumer market.

- Certain organisations carry out the activities of Philanthropy in such a way that it helps them to sell or advertise their products. For example, ITC and Unilever in their initiative to uplift the rural sector have entered the rural consumer market by providing products at subsidised costs. In a similar way, companies like TCS and Wipro distribute their special software to help teachers impart computer education to rural students.

Successful companies recognise that corporate strategic Philanthropy and community investment bring tangible returns on investment and reputation – from fostering workforce pride and ensuring a healthy pool of potential employees, to achieving social and economic stability in areas of operation while growing new and viable consumer markets. Consequently, industry leaders are strategically aligning
their corporate donations, employee volunteerism, public–private sector partnerships and pro bono services with their core business competencies to deliver greater benefit to society, stay better connected with stakeholders and enhance corporate reputation.

### 3.7.2 SECOND GENERATION

The Second Generation of CSR is where companies, and entire industries, see CSR as an integral part of long-term business strategy. Currently many companies because of the intellectual capital undergoing change within the organisations are taking CSR seriously and are moving companies towards second generation CSR. For creating social cohesion and business competition, the organisation tries to align business goals and social goals to maintain its profitability.

### 3.7.3 THIRD GENERATION

The Third Generation of CSR makes significant contribution to addressing poverty, exclusion and environmental degradation. This generation goes beyond voluntary approaches by individual companies and involves leadership companies and organisations influencing the market in which they operate and how it is regulated to remould entire markets toward sustainability. This involves both partnerships with civil society and bringing changes in public policy, which reward CSR and penalise poor performance.

#### SELF ASSESSMENT QUESTIONS

State whether the following statements are true or false:

11. The Second Generation of CSR is where companies, and entire industries, see CSR as an integral part of long-term business strategy.

12. The first generation of CSR showed companies can be responsible in ways that do not detract from, and may contribute to commercial success.

### 3.8 CHANGING TRENDS: PHILANTHROPY – STRATEGIC PHILANTHROPY – CSR

From the above theoretical discussion it can be inferred that the Indian model of CSR commenced with Philanthropy addressing social development issues which primarily were driven with religious sentiments, family traditions and voluntary contributions driven by personal motives. With change in the business environment and increase in FDI’s in the liberalisation period, the ‘giving’ /Philanthropy started getting integrated into strategic thinking. Few corporate leaders wanted to make it sure that they get tangible and intangible results from the investments they made for social developments in the form of tax returns, customer loyalty, develop rural markets

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5. This includes changes to the corporate tax regime, mandatory social and environmental reporting and support for consumer education.
and so on. Companies realised that merely by just being good and donating a lot of money to social initiatives implies wastage of shareholders’ money. In the new market economy this arrangement is not sustainable in the long-run, and shareholders will quickly lose interest if their money does not give them tangible results. Companies realised that corporate success depends not on altruistic CSR but development of the local environment through developing appropriate infrastructure, designing the right types and quality of education to future employees, co-operation with local suppliers, development of quality institutions, and so on. These types of initiatives developed with NGO and government partnership can have great impact, which will be beneficial for the company but also for the local society.

In the new millennium because of increased globalisation and competitiveness there is consistent transformation in the CSR practices for developing corporate sustainability through balancing stakeholders’ interest. CSR today is basically linked to the broader issue of corporate governance. The company board is required to focus on the companies’ obligation and duties towards its stakeholders. They are now looking at performance in non-financial areas such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance and workplace issues. Leadership companies which align business and social goals evaluate their company’s performance by incorporating ‘triple bottom line’ performance that includes social, environmental, and financial performance.’

3.8.1 COMPETITIVE ADVANTAGE OF CORPORATE PHILANTHROPY

Given the increasing overseas presence of Indian companies and the expectation that India will become the second largest global economy

6 Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability leaders achieve long-term shareholder value creation by gearing their strategies and management to harness the market’s potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks. The quality of a company’s strategy and management and its performance in dealing with opportunities and risks deriving from economic, environmental and social developments can be quantified and used to identify and select leading companies for investment purposes. Leading sustainability companies lead their industries and set industry-wide best practices in the following areas: strategy, innovation, governance, shareholders, employees and other stakeholders.

7 The triple e (economic, ethical and environmental) bottom line evaluates a corporation’s performance according to a summary of the economic, social and environmental value the corporation adds, or destroys. The narrowest meaning of the term is a framework for measuring and reporting corporate performance against economic, social and environmental indicators. Recently a broader meaning as been attributed to the term in that the concept is used to capture a whole set of values, issues and processes that corporations must address in order to minimise any harm resulting from their value adding or destroying activities. This includes clarifying the corporation’s purpose and taking into consideration all stakeholders.
by 2050, the performance and behaviour of Indian companies is under greater scrutiny than ever before. However Indian private sector is now being managed by executives who have a global understanding and have recognised that the competitive international marketplace increasingly rewards those that go beyond the legal requirements in terms of managing their economic, environmental and social impacts. As a result, Indian companies investing overseas increasingly practice a sustainable approach to business and undertake sustainability reporting in response to this peer pressure and the competitive international environment. Corporate philanthropy brings good name to the company as well as to the country. India is one of the countries that have ‘credits’ for emitting less carbon. CII’s ‘Mission on Sustainable Growth’ has set up a code, which was formulated in 2006.

Rather than seeing economic and social benefits as distinct and competing, the companies should focus on creating social benefits that create a corresponding economic benefit for the company. The more closely a company’s philanthropy is linked to its competitive context, there will be a greater contribution by the company to society.

Corporate philanthropy has the following advantages:

- Improves a company’s long-term business prospects
- Can improve the level of education
- Can improve local quality of life
- Helps in expanding the local market
- Helps to reduce corruption in the local business environment.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

13. With change in the business environment the...........started getting integrated into strategic thinking.

14. Initiatives developed with NGO and government partnership can have great impact on the local.............

### ACTIVITY

Write a report on the shifts from Philanthropy to strategic philanthropy in about 250 words.

### 3.9 SUMMARY

- According to neo-classical view of firm, the only social responsibility of a firm is to provide employment and pay taxes. Such views are in harmony with profit-only idea of Friedman.
- Over a period of time with changes in business environment it was felt that complying with tax obligations is not apparently
a sufficient condition to convey the level of corporate social responsibilities of firms (Bowie, 1995).

- In an open market economy as a result of significant reductions in government spending on social welfare, public policy makers expect greater social involvement from corporations.

- Despite the development of Indian CSR from its initial philanthropic focus, there are still cultural influences to modern CSR. The underlying philosophy is that CSR is responsibility of business to society at large.

- Both domestic and global forces encourage a broader understanding of corporate responsibility to develop in India.

- Social responsibility is now more about how companies align their values and move towards creating a business strategy that aims at developing sustainable business and communities.

- The aims of corporate social responsibility in a country like India is to use the market economy to address gaps in income distribution and help pull people out of poverty, as well as to ensure the sustainability of natural resources. CSR certainly has a potential for becoming a real tool for development—human, social, and economic.

- In addition to providing good quality products at reasonable prices, companies should strive to govern their companies by adopting ethical practices, make their operations environmentally sound, adhere to high labour standards, reduce human rights abuses and mitigate poverty.

- Corporate philanthropy can bring good name to the company as well as to the country.

- India is one of the countries that have ‘credits’ for emitting less carbon.

**KEY WORDS**

- **Corporate Sustainability**: Creating long term shareholder value.
- **Deontology**: Doing things which are inherently good.
- **Fundamentalism**: Basic rule of using society’s resources and making profits.
- **Merchant Charity**: Contributions of merchants towards societal development, in ancient India.
- **Spill Over Effect**: Externalities of business activities on those who are not directly involved.
- **Strategic Philanthropy**: Aligning firm's goals with social welfare.
- **Triple Bottom Line**: Includes economic, social, ecological criteria for evaluating a firm.
3.10 DESCRIPTIVE QUESTIONS

1. Discuss how business has contributed to society in the pre-independence and Independence period.

2. Discuss what type of shift in CSR approach took place after liberalisation in India.

3. Discuss any three theories of CSR.

4. Discuss Gandhiji’s Trusteeship theory and its relevance to contemporary India.

5. Discuss the generations of CSR with examples.

6. Discuss the changing trend of CSR in India.

3.11 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>History of CSR in India</td>
<td>1.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>True</td>
</tr>
<tr>
<td>Liberalisation and CSR</td>
<td>3.</td>
<td>Growing</td>
</tr>
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<td></td>
<td>4.</td>
<td>Improvement</td>
</tr>
<tr>
<td>Emerging CSR Trends</td>
<td>5.</td>
<td>(iii)</td>
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<td>(ii)</td>
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<tr>
<td>The pyramid of CSR</td>
<td>9.</td>
<td>Profits</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>Capitalism</td>
</tr>
<tr>
<td>Generations of CSR</td>
<td>11.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>12.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>14.</td>
<td>Society</td>
</tr>
</tbody>
</table>

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 3.2

The business leaders of the emerging indigenous industry remained rooted in the tradition of Philanthropy, which gradually metamorphosed into businesses consciously contributing to social development to liberate India.

2. Refer 3.3

Since 1991, with increased foreign direct investments, India has been extremely successful in achieving a yearly growth rate of
four to eight percent as part of its reform policies in the market economy.

3. Refer 3.5

The theories of CSR are developed on the basis of the extent of interaction between business and society.

4. Refer 3.5.7

Gandhi’s efforts towards “spiritualising economics” are reflected in his concept of Trusteeship. Gandhi’s idea of Trusteeship arose from his faith in the law of non-possession.

5. Refer 3.7

Based on the changing relationship between business and society, Simon Zadek (2001) describes the development of CSR broadly in terms of three generations.

6. Refer 3.8

With change in the business environment and increase in FDI’s in the liberalisation period, the ‘giving’/Philanthropy started getting integrated into strategic thinking.

3.12 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


NOTES


- Seminar, webedition. (2004). *Development Journal from India*, 537


NOTES


E-REFERENCES

- http://www.bsr.org/resourcecenter/topic
- http://www.hu.mtu.edu/~rgay/Fall07/AirMidwest/politics_stakeholder.pdf
- http://isid.org.in/pdf/norway.PDF
## CONTENTS

4.1 Introduction
4.2 Arguments against CSR
4.3 Business Case for CSR
4.4 Importance of CSR for India
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  4.4.3 Companies Act 2013 and Corporate India
4.5 Contemporary Drivers for CSR
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4.9 Suggested Readings for Reference

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**THE BUSINESS CASE FOR CSR**
BUSINESS CASE FOR CSR AT COCA COLA

Coca Cola, the global leader in foods and beverages seeks to sustain the competitive edge that it enjoys over arch rival Pepsi in markets of emerging economies. The CEO of Coca Cola India, Atul Singh set his sights on integrating business growth with social responsibility. The objective was to craft a product innovation agenda that would enhance technical and economic efficiency of its distribution and storage model. With this aim in mind the R&D division of Coca Cola India carved out an ambitious programme of designing visi-coolers that would be more energy efficient than those of its arch rivals Pepsi. The team of technocrats worked together with the marketing team to analyse the distribution model of soft drinks. They concluded that energy consumptions costs on account of cooling and refrigeration accounted for an astounding forty percent of the total selling costs at the points of sales. A drop in energy consumption would thus translate into lower refrigeration costs and thus higher profits for retailers. The result of this analysis was a new range of visi-coolers that were thirty three percent more energy efficient than the existing ones. As Coca Cola rolled out the new visi-coolers in the market, retailers stored higher volumes of Coca Cola beverages. By combining energy and technical efficiency in one metric, Coca Cola showed that strategies that embrace environmental conservation are also economically beneficial.
4.1 INTRODUCTION

The great, long-running debate about business’s role in society is currently caught between two contrasting ideological positions. On one side of the current debate are those who argue that, to borrow Milton Friedman’s phrase, “the business of business is business.” This implies that social issues are peripheral to the challenges of corporate management. The sole legitimate purpose of business is to create shareholder value. On the other side are the proponents of corporate social responsibility, a rapidly growing, rather fuzzy movement encompassing companies that claim that they already practice the principles of CSR and sceptical advocacy groups arguing that they must go further in mitigating their social impact. The debate between these points of view has increasingly taken on global significance.

As a growing movement, the concept of CSR is interpreted differently by different cultures and different businesses. There is no universal definition of CSR and hence there is significant room for arguments and criticisms against the concept. In the light of this, it is meaningful to consider some of the rising arguments and rebuttal cases which were often ignored in the hustle of the growing attention to the concept in order to find a possible agreement.

The paragraphs below discuss a few arguments challenging the concept of CSR.

4.2 ARGUMENTS AGAINST CSR

- Businesses are owned by their shareholders – thus any money they spend on social responsibility is effectively theft from those shareholders who can, after all, decide for themselves if they want to do things beyond mere compliance, donate to charitable causes or have business standards which are convenient to them.

  **Explanation:** This is the most commonly voiced argument of those questioning the viability of CSR today. CSR does not mean that a company should give away their money that rightfully belongs to the shareholders to charity just for the sake of it. If CSR is seen as a process by which the business manages its
relationships with a variety of influential stakeholders who can have a real influence on its license to operate, the business case becomes immediately apparent. Every business today has to manage its primary and secondary stakeholders, as stakeholder management results in higher profits, lesser employee turnover, better supplier and government relationships, which are essential for an organisation to sustain. Each stakeholder demands organisations to fulfil their demands. For instance, consumers today want to buy products from companies they trust, suppliers want to form business partnerships with companies they can rely on, employees want to work for companies they respect and investors want to invest in responsible companies. CSR is about building relationships with customers, about attracting and retaining talented staff, about managing risk, and about assuring good reputation. Hence there is a need to balance stakeholder responsibility to ensure higher and consistent returns to the stockholders.

- It is the responsibility of the politicians to deal with social issues. It is not the role of a corporation to get involved in social issues.

**Explanation:** Due to the on-going globalisation, businesses today have greater power and leverage to induce changes in public policies and achieve better results than the government institutions. In order to further the profits, companies often spend a considerable amount of time and money to influence policies affecting them or their area of interest, which can range far and wide – from international treaties on climate change, to domestic policies on health (such as that relating to smoking) or transport. The lobbying activities of companies show that both business and social goals are at times interdependent. Viewed from this context CSR is all about a strategy which helps businesses to manage the risks and reputation in the market. Businesses rely on societies within which they operate and cannot exist in isolation. They need infrastructure, employees and consumer base all of which comes from the society. Investing in societal development is indeed creating markets for the future and ensures long term sustainability.

- Management has to concentrate on a company’s core business and cannot spend resources on CSR.

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1. Primary Stakeholders are customers, suppliers, shareholders, creditors, wholesalers, employees and secondary stakeholders are local communities, Governments, social activist groups, business support groups, Media, general public (Galliara, 2008)
2. 11-year Harvard University study found that “stakeholder balanced” companies showed four times the growth rate and eight times the employment growth when compared to companies that are only focused on shareholders (CSR Network, n.d.)
4. ibid
CSR might make sense if perceived not as extra work but to integrate it with core business like designing environmental systems, waste management systems, recycling paper, water and other resources which will contribute to the generation of future profits just like any other investments.

**Note**

Most of the arguments above mainly stem from a misinterpretation of CSR. While CSR is not a de jure obligation of companies doing business according to applying laws, it is nevertheless a de facto obligation because of its long term significance for corporate success and as a tool of differentiation in the competitive game. Driven by this understanding, a win-win situation for the company and its stakeholders can evolve.

**Self Assessment Questions**

State whether the following statements are true or false:

1. Businesses are owned by their shareholders.
2. CSR does not make sense even if perceived not as extra work.
3. Most of the arguments above mainly stem from a misinterpretation of CSR.

**Activity**

Visit the website www.corporatewatch.org.uk and find out what arguments have been provided by them against CSR.

### 4.3 Business Case for CSR

The “business case” refers to the commercial business benefits of CSR in quantifiable terms which convince ‘non-believers’ of the business benefits of CSR. Today consumers, investors, governments and even employees have become more sophisticated and more aware of good corporate behaviour, or lack thereof. In this new business environment, a company’s reputation has become one of its most valuable assets, and CSR has become one of the key components of corporate reputation. Positive CSR experiences build confidence and goodwill with stakeholders. Many organisations have developed clear CSR efforts as strategic branding and management approach in achieving a win-win outcome.

The following points discuss how responsible business helps to enhance business operations and achieve sustainable outcomes:

- **Create Shareholder Value:** Investors are becoming more concerned to invest in companies that act with good corporate
governance and social responsibility. Increasingly, a company’s performance as a responsible business is key to its financial and stock market standing, helping to protect it from instability and share price volatility.

- **Increased Revenue Base**: CSR can boost factors that drive revenue in important ways. CSR initiatives and cause-related marketing could build reputation and goodwill among suppliers and customers. Employees who identify with the social mission are likely to be motivated, committed, and more prepared to make sacrifices as a team member.

- **Strategic Branding**: A company’s reputation is fundamental in maintaining and attracting new customer base. Global consumers today are more selective and sensitive about buying eco-friendly products and care to consider company’s image and CSR efforts. A distinctive CSR profile serves as a strategic branding tool in differentiating from competitors.

  *Example*: Marks and Spencer’s has effectively positioned itself as the most environmentally sound and socially responsible UK retailer, while in contrast is Primark, another UK retailer, which has faced reduction in the number of consumer footfalls, because of its wide negative publicity.

- **Operations Efficiency**: The efficiency of a business is about productivity and effective use of resources. CSR can help to increase efficiency through environment conservation and recycling initiatives, as part of eco-efficiency strategy. Positive management-employee relations are also crucial in bringing about good customer service, productivity and product innovation.

  *Example*: Hotel Orchid, Sony, Toyota and ITC have adopted environmental sustainable methods in the areas of solid waste management, energy efficiency, water conservation and preservation, and others. These have reduced their operational cost to a large extent and have also provided unique positioning in the minds of the consumer.

- **Increased Productivity and Quality**: CSR facilitates increased productivity within the organisation.

  *Example*: Companies that improve their supply chain practices, labour conditions, and facilitate increased employee involvement, results in reduction in errors and defective pieces in their work producing higher quality of products and services.

- **Access to New Markets**: CSR also provides business organisations with access to new markets, improves the *competitiveness and market positioning*.

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5. CSR Network available at [http://www.csrnetwork.com/services.asp](http://www.csrnetwork.com/services.asp)
Example: A small firm that is certified to have environmental and social standards can be a supplier to international retailers like Marks and Spencer’s, Levi’s, Mitsubishi, and so on.

This enhances the company’s brand image and reputation and enjoys greater credibility with the government as well as political organisations.

- Better Access to Capital: Access to capital enables a company to grow and make timely investment. Companies with good CSR standing are likely to be able to secure equity and debt capital with utmost ease. The growth emphasis in Socially Responsible Investment (SRI) is a clear indication of likely future trends.

- Human & Intellectual Capital: A company’s human and intellectual capital is one of its most valuable assets. Good workplace conditions and relations can help a company to attract, keep and develop human capital, keeping operations and staff morale high. Community involvement can play a complementary role in developing new skills set, encouraging participation, sharing and team spirit in the workplace as well.

Example: The employees in the Tata Group, L&T, Infosys, and Wipro find the organisations to be more employee sensitive and friendly.

- Lower Business Risk: Companies are being held increasingly accountable for their actions today. Such business risk could affect reputation, access to capital and even long-term viability in some instance. Proactive dialogue with external stakeholders can help to foster understanding, in pre-empting and minimising the repercussions.

Example: The Coca-cola Pesticide case in India, affected the trust of all its stakeholders, right from the consumers to the investors of Coca-cola. In that period, their sales declined by up to fifteen per cent across the country. If Coco-cola had fulfilled its CSR, it wouldn’t have undergone this crisis and would have certainly reduced its social, environment and economic risk exposure to a large extent.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

4. CSR improves the .......... and market positioning.

5. CSR initiatives and cause-related marketing could build .................

6. CSR facilitates ..................... productivity within the organisation.

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ISO 14000, ISO 9000, SAI 8000, UN Global Compact Principles and others.
NOTES

ACTIVITY

Mr. Y is a rich person having huge capital but he does not know the ways of expanding business operations. You are required to make a presentation on the factors which will help him in expanding the businesses operations so that the resources are utilised in an efficient manner that will ultimately bring good name to the society and to the nation.

4.4 IMPORTANCE OF CSR FOR INDIA

The challenge for corporate social responsibility (CSR) in India is framed by a vision that was distilled in 2000 into the Millennium Development Goals—‘a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment’ (UN, 2006: 3). Unfortunately, these global aspirations remain far from being met. The rationale for focusing on CSR in India as well as other developing countries as distinct from CSR in the developed world is fourfold:

- India represents the most rapidly expanding economies, and hence the most lucrative growth markets for business (IMF, 2006);
- India is one of the developing nations where social and environmental crises are usually most acutely felt. (WRI, 2005; UNDP, 2006);
- India is one of the developing countries where globalisation, economic growth, investment, and business activity is likely to have the most dramatic social and environmental impacts (both positive and negative) (World Bank, 2006); and
- India like other developing countries presents a distinctive set of CSR agenda challenges, which are collectively quite different to those, faced in the developed world.

4.4.1 CURRENT BUSINESS SCENARIO IN INDIA

The 20th century business environment in India was driven by the government, but the 21st century business across the world, including India, is governed by the free market economy. In India, economic crime is emerging as a bigger threat than before. Amongst the growing unethical business practices in India, Ernst & Young reports the incidence of fraud becoming an increasing menace. 55% of Indian companies in the past two years had reported incidents of fraud and a PricewaterhouseCoopers (PwC) study (2014) indicates that more than 1 in 3 organisations are impacted by economic crime. Bribery and corruption poses the greatest threat to global businesses because of the fewer regulations, and less-consistent enforcement of those regulations. Every region reported a significant number of incidences of bribery and corruption. Consequently, employees,
business associates and shareholders are worst affected in the process. Bribery and corruption (considered by foreign companies as the biggest threats to doing business in India), insider trading in the stock market, falsifying export/import documents and evading income-tax, have all been a regular feature of the Indian black economy. The PWC report (2014) reveals that Twenty-seven percent of all respondents who reported economic crime experienced corruption during the survey period, making it the third-highest crime specified and a relative increase of 13% from the 24% reported in 2011.

In 2013, the “Doing Business Report”, published by the World Bank ranked India low in terms of transparency, equity and fairness. India was ranked low (94) on transparency meaning high on corruption, by Transparency International\(^7\). This is a clear indication of the internal business environment. Instances like these create a bad environment and impact the reputation of companies. At another level, they raise significant issues on governance for stakeholders.

Working conditions of staff specifically in IT industry, BPOs, construction, mining, textile and manufacturing industries to a large extent, being contractual in nature, are only compliance oriented. Discrimination against women and vulnerable groups like the handicapped and socially backward groups is evident at workplaces in varied aspects and degrees. Sexual harassment at workplace though observed, is seldom reported.

The explosive growth and concomitant deregulation of the global economy has produced a myriad of issues in India in the areas of work place, market place and environmental practices which are not sufficiently accounted for by state domestic laws or international legal systems. Among the more abhorrent social problems created and proliferated by the existence of a global economy lacking global regulation is the insidious practice of exploiting child labour because it helps in cutting labour costs.

In the new millennium, India has seen its economic momentum losing steam due to compliance, regulatory and governance issues. Corporate corruption allegations that have surface in the aftermath of the 2G spectrum issue, coal block allocation and gas exploration have brought out an ugly side of government corporate nexus in matters that amount to bribery and nepotism. Issues like the levy of corporate income tax with retrospective effect on Vodafone have dented animal spirits and slowed down governmental clearance of corporate investment proposals. It has been referred to as ‘policy paralysis’.

\(^7\) Transparency International India: The Coalition against Corruption, Registered under the Societies Registration Act 1860, Delhi, Corruption Perception Index Study (2013) retrieved from http://www.transparency.org/cpi2013/results
Conduct a survey in at least 15 BPOs and find out the current and the future business scenario in India with respect to social responsibility.

### 4.4.2 WORLD BANK GROUP GOALS 2030 AND INDIA

The World Bank Group has established ambitious but achievable goals to anchor its overarching mission and to galvanise international and national efforts in this endeavour. Accordingly, the institution will strive to (i) end extreme poverty at the global level within a generation and (ii) promote what may be called “shared prosperity”: a sustainable increase in the well-being of the poorer segments of society. This second goal reflects the fact that all countries aspire to rapid and sustained increases in living standards for all of their citizens, not just the already privileged.

These two goals and their respective indicators can be summarised as:

- **End extreme poverty**: The percentage of people living with less than $1.25 a day to fall to no more than 3 per cent globally by 2030.
- **Promote shared prosperity**: Foster income growth of the bottom 40 per cent of the population in every country.

Ending extreme poverty within a generation and promoting shared prosperity must be achieved in such a way as to be sustainable over time and across generations. This requires promoting environmental, social, and fiscal sustainability. They need to secure the long-term future of the planet and its resources so future generations do not find themselves in a wasteland. They are also aiming for sustained social inclusion and limit the size of economic debt inherited by future generations.

The World Bank assesses that India will join China as an emerging economy growth pole by 2025 which could help to strengthen the global economy. World Bank modelling suggests that India and China will serve as nearly twice the growth as that of the United States and the Euro zone combined by 2025.

However, India faces many of the same problems as China like inequalities between rural and urban sector, increasing constraints on water and food, and greater need for investment in research and development in order to move its economy up a notch.

India in contrast to China will get benefit from the demographic dividend as India's population will continue to remain between the age group of 15-65 i.e. a youthful country. India’s declining death rate combined with the greater proportion of dependent senior will not begin to create an economic burden before 2050.
Therefore, long-term forecasts show Indian economic power growing steadily throughout the 21st century and overtaking China at the end of the century because of China’s maturing age structure, but to maximise its advantage from the youth section India has to boost its educational system, make substantial improvements in governance particularly in countering corruption and undertake large scale infrastructure programs to keep pace with rapid urbanisation and the need of a more advanced society.

**4.4.3 COMPANIES ACT 2013 AND CORPORATE INDIA**

The Companies Act 2013 is divided into 29 chapters containing 470 clauses as against 658 Sections in the Companies Act, 1956 and has 7 schedules. The new Companies Act, replaced the old Companies Act 1956, which although amended approximately 25 times was still considered to be out of date and inadequate compared to the legislation regulating companies in many other jurisdictions. It took four years to implement the Companies Act since it was first introduced as a Companies Bill in 2009 but not all of its provisions will come into force immediately as a number of them require the Indian Government to draft rules and regulations for their implementation.

Some of the provisions of the Companies Act 2013 that did not require any additional rules or regulations for their implementation were brought into force on 12 September 2013, following a notification by the Ministry of Corporate Affairs.

**Corporate Social Responsibility ("CSR"):** The 2013 Act has introduced several provisions which would change the way Indian corporates do business and one such provision is spending on Corporate Social Responsibility (CSR) activities. CSR has now been included in the law, which was largely a voluntary contribution by corporates in the past. On the basis of the CSR provisions, as laid down under the 2013 Act and the draft CSR rules made available for public comments, the key stipulations which the corporates need to consider are:

- **Section 135 of the 2013 Act states that every company having:**
  - net worth of ₹500 crore or more, or
  - turnover of ₹1,000 crore or more , or
  - net profit of ₹5 crore or more during any financial year
  shall constitute a Corporate Social Responsibility Committee of the Board.

- The committee would comprise of three or more directors, out of which at least one director shall be an independent director.

- The mandate of the said CSR committee shall be:
  - To 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;
NOTES

- To recommend the amount of expenditure to be incurred on the activities referred to above;
- To monitor the Corporate Social Responsibility Policy of the company from time to time.

☐ The Board of every company, referred to above, shall after taking into account the recommendations made by CSR Committee:
  - Approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company’s website,
  - Ensure that the activities included in CSR Policy of the company are undertaken by the company as it is, and
  - Ensure that the company spends, in every financial year, at least two per cent of the average net profits.

☐ If the Company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount.

☐ “Average net profit” shall be calculated in accordance with the provisions of section 198 of the 2013 Act.

☐ CSR activities need to include:
  - Eradicating extreme hunger and poverty,
  - Promoting education,
  - Promoting gender equality and empowering women,
  - Reducing child mortality and improving maternal health,
  - Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases,
  - Ensuring environmental sustainability,
  - Promoting employment enhancing vocational skills,
  - Promoting social business projects,
  - 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
  - Such other matters as may be prescribed.

☐ The 2013 Act provides that the company shall give preference to the local area and areas around it where it operates.

Draft CSR rules provide for the following:

☐ ‘Net Profit’ for the section 135 and these rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India.
Reporting will be done on an annual basis commencing from FY 2014-15.

Tax treatment of CSR spend will be in accordance with the IT Act as may be notified by the Central Board of Direct Taxes (CBDT).

CSR activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company.

The CSR Committee shall prepare the CSR Policy of the company which shall include the following:

- Specify the projects and programmes to be undertaken
- Prepare a list of CSR projects/programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/sectors chosen and implementation schedules for the same
- CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value
- Surplus arising out of the CSR activity will not be part of business profits of a company
- Would specify that the corpus would include 2 percent of the average net profits, any income arising therefrom, and surplus arising out of CSR activities.

Where a company has been set up with a charitable objective or is a Trust/Society/Foundation/any other form of entity operating within India to facilitate implementation of its CSR activities, the following shall apply:

- contributing company would need to specify the projects/programmes to be undertaken by such an organisation, for utilising funds provided by it;
- contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only

A company may also implement its CSR programs through not-for-profit organisations that are not set up by the company itself. Such spends may be included as part of its prescribed CSR spend only if such organisations have an established track record of at least three years in carrying out activities in related areas.

Companies may collaborate or pool resources with other companies to undertake CSR activities.

Only such CSR activities will be taken into consideration that are undertaken within India.
NOTES

- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
- Companies shall report, in the prescribed format, the details of their CSR initiatives in the Directors’ Report and in the company’s website.

Source: http://gtw3.grantthornton.in/assets/Companies_Act-CSR.pdf

**NOTE**

The draft Rules state that for the purposes of the first CSR reporting, the net profit shall be the average of the annual net profit of the company for the preceding three financial years ending on 31 March 2014.

Any company subject to these provisions which does not comply with this requirement must provide the reasons for not doing so in its annual financial statements.

**SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

7. The 21st century business across the world is governed by the free market economy.

8. The CSR committee would comprise of three or more directors, out of which at least one director shall be an independent director.

9. Companies cannot collaborate or pool resources with other companies to undertake CSR activities.

10. A company may also implement its CSR programs through not-for-profit organizations that are not set up by the company itself.

**ACTIVITY**

Write a report on the Companies Act 2013 and its impact on Corporate India in about 200 words.

**4.5 CONTEMPORARY DRIVERS FOR CSR**

If India wants to address the above issues and attract more FDI for developing business, it is essential that it should review its business practices and see that it does not create externalities. While being quality conscious in manufacturing products or delivering services businesses should develop systems and processes which contribute towards preserving environment, protecting human rights, avoiding corrupt practices, and promoting transparency & accountability for developing sustainability. Business leaders identify the following...
major drivers which have compelled them to integrate CSR as a business strategy:

- **Meeting Changing Expectations of Stakeholders:** Various stakeholders are increasingly looking to the private sector to help them with myriad complex and pressing social and economic issues. There is a growing ability and sophistication of activist groups to target corporations they perceive as not being socially responsible, through actions such as public demonstrations, shareholder resolutions, and even “denial of service” attacks on company websites. These efforts emphasise the issue of accountability to stakeholders when doing business (BSR 2001).

- **Shrinking Role of Government:** In many countries, national and local governments have taken a more hands-off approach to regulating business, due to the globalisation of commerce and shrinking resources. As a result, companies and multinational companies in particular are relying less on government for guidance, and instead, adopting their own policies to govern such matters as environmental performance, working conditions and ethical marketing practices (BSR 2001).

- **Increased Customer Interest:** The growing interest in CSR comes from both business-to-business customers and consumers. In the former, there is a significant move by many companies, governments, universities and other institutions to align their purchasing decisions with social criteria, particularly those related to companies’ environmental and human rights performance.

  *Example:* Corporates like Tata’s and L&T have developed a policy to purchase recycled paper. Starbucks Coffee sources coffee beans from fair trade labelled suppliers.

- **More Competitive Labour Markets:** In a tight labour market, many workers especially professional, technical or highly skilled employees are looking beyond pay checks and benefits to seek employers whose philosophies and operating practices align with their own beliefs.

  *Example:* Some companies have found that having “family friendly” policies or being identified as an employer of choice have given them a competitive advantage in attracting and retaining employees.

  At the same time, companies are finding that they need to turn to non-traditional labour pools – including economically disadvantaged, non-English-speaking, and physically or mentally challenged individuals – to meet current and future demands for both skilled and entry-level employees (BSR 2001).

- **Increasing Supply Chain Responsibility:** As stakeholders take a growing interest in companies’ corporate social responsibility, many companies are finding that they are responsible not only
for their own CSR performance, but for that of the companies “upstream” and “downstream” – that is, a company’s suppliers as well as its customers. The result is that some companies are imposing codes of conduct on both their suppliers and customers to ensure that other companies’ policies or practices do not reflect unfavourably on them. This has a cascading effect along the entire supply chain, encouraging suppliers to adopt socially responsible business practices (BSR 2001).

Example: Toyota has designed a manual of CSR for its suppliers, which they are supposed to adhere to.

- **Growing Investor Pressure:** The growth of socially responsible investing has accelerated in recent years, with investor groups increasingly pressurising companies on social issues. Many of these investors are using the shareholder resolution process to pressurise companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance. Activist groups are also buying shares in targeted companies to give them access to annual meetings and the shareholder resolution process (BSR 2001).

- **Demands for Increased Disclosure:** Customers, investors, regulators, community groups, environmental activists, trading partners and others are asking companies for more and more detailed information about their social performance. In response, leadership companies are responding with a variety of reports and/or social audits that describe and disclose their social performance on one or several fronts. As part of this move toward greater disclosure, many companies are putting increasingly detailed information about their social and environmental performance – even when it may be negative - onto their publicly accessible websites (BSR 2001).

- **New and Emerging Issues:** Recent years have seen a growth in the breadth of topics considered under the “corporate social responsibility” umbrella. Included among these are corporate governance issues, such as how boards of directors are chosen and compensated; religious freedom in the workplace; “cyber ethics” issues of access to and privacy linked to information technology, both for consumers and employees; consumer concern over the use of genetically modified organisms in agriculture; and the new demands brought about by the increased interest in environmental sustainability (BSR 2001).
Fill in the blanks:

11. If India wants to attract more FDI then it should ................. its business practices.
12. The growing interest in CSR comes from both business-to-business customers and .................
13. In a tight labour market, many workers are looking beyond ................ and benefits to seek employers whose philosophies and operating practices align with their own beliefs.
14. ................ audits describe and disclose the social performance of the organisations.

Collect ten articles from the newspaper and find out about the drivers and reasons for CSR in India.

**SUMMARY**

- CSR is a process driven by globalisation, deregulation and privatisation.
- Despite criticisms against CSR, companies that commit to developing a comprehensive CSR strategy attribute this as requirements of the global marketplace and their supply chains, changing stakeholder expectations and risk management strategies of the corporates.
- Established global protocols also have influenced CSR practices of businesses. CSR strategy aims at managing the economic, social and environmental impacts of their operations to maximise the benefits and minimise the downsides.
- Key CSR issues include governance, environmental management, stakeholder engagement, labour standards, employee and community relations, social equity, responsible sourcing and human rights.
- The 21st century business across the world, including India, is governed by the free market economy.
- The two goals of World Bank group are to end extreme poverty and to promote shared prosperity.
- The new Companies Act, replaced the old Companies Act 1956.
- The company is required to spend at least 2% of the company’s average annual net profits over the preceding three financial years on social and charitable causes annually in accordance with its CSR policy.
It has been reported that consistent CSR practices brings out a number of possible positive outcomes, including: (a) Enhanced brand value and corporate image, (b) Improved customer loyalty, (c) Reduction of risk as a result of clearer grasp of positions taken by stakeholders, (d) Gaining an informal social license, facilitating business in sensitive environments.

**Key Words**
- **Business Case**: Commercial business benefits of CSR
- **Lobbying**: Influencing decisions made by government
- **Market Positioning**: Create an image of your company in the market
- **Strategic Branding**: Activities and programs to manage and build brand equity
- **Supply Chain**: System for moving products from one end to another

### Descriptive Questions
2. Why is CSR important for a country like India? Give Examples.
3. Critically analyse the contemporary drivers for CSR.
4. Discuss the business case for CSR. Give examples in each case.
5. Are the arguments against CSR justified? Give your viewpoints.

### Answers and Hints

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tbody>
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<td>Arguments against CSR</td>
<td>1.</td>
<td>True</td>
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<td></td>
<td>2.</td>
<td>False</td>
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<tr>
<td></td>
<td>3.</td>
<td>True</td>
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<tr>
<td>The Business case for CSR</td>
<td>4.</td>
<td>Competitiveness</td>
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<td>5.</td>
<td>Reputation</td>
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<td></td>
<td>6.</td>
<td>Increased</td>
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<tr>
<td>Importance of CSR for India</td>
<td>7.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>True</td>
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<tr>
<td></td>
<td>9.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>True</td>
</tr>
</tbody>
</table>
Contemporary Drivers for CSR

11. Review
12. Consumers
13. Pay checks
14. Social

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 4.3
The “business case” refers to the commercial business benefits of CSR in quantifiable terms which convince ‘non-believers’ of the business benefits of CSR.

2. Refer 4.4
The 20th century business environment in India was driven by the government, but the 21st century business across the world, including India, is governed by the free market economy.

3. Refer 4.5
Business leaders identify the various major drivers which have compelled them to integrate CSR as a business strategy.

4. Refer 4.3
In this new business environment, a company’s reputation has become one of its most valuable assets, and CSR has become one of the key components of corporate reputation. Positive CSR experiences build confidence and goodwill with stakeholders.

5. Refer 4.2
There is a need to balance stakeholder responsibility to ensure higher and consistent returns to the stockholders.

6. Refer 4.4.2
The World Bank Group has established ambitious but achievable goals to anchor its overarching mission and to galvanise international and national efforts in this endeavour.

4.9 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

- CSR Network. (n.d.). What is CSR?
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E-REFERENCES

DEVELOPING A CSR STRATEGY

CONTENTS

5.1 Introduction
5.2 Steps in Designing CSR Strategy
5.3 How to do an Assessment
  5.3.1 Assemble a CSR Leadership Team
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  5.3.3 Review Corporate Documents, Processes and Activities
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  5.4.3 Prepare a Matrix of Proposed CSR Actions
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5.5 Summary
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INTRODUCTORY CASELET

DEVELOPING CSR STRATEGY AT HUL

At the close of the last millennium, Hindustan Unilever Limited the FMCG giant was staring down the gauntlet of stiff competition from its archrivals. The then CEO of the company Keki Dadiseth decided to focus on the ice cream business in order to strengthen its portfolio of food products. Kwality Wall’s, the leading ice cream brand in India had been acquired to further this cause. The next step was to look for innovation in the marketing strategy. Ice cream sales were identified to occur from two sources: parlour-based sales and impulse buys from ice cream carts. Market research had provided valuable insights on how impulse buys could push up sales and drive profitability. This set the tone for a major shift in its marketing strategy. Children were to be the primary target segment for impulse buys. Points of sale were identified across metro cities, which provided best strategic locations for ice cream sales. The Research & Development Cell was handed the task of developing pushcarts. Hindustan Unilever Limited had twin objectives behind the development of new pushcarts. First, it was unhealthy and unsafe for children to bite into an ice cream that was stored at a temperature of –30° Celsius. It was decided that the storage temperature of ice creams would be lowered down to –10° Celsius. This would be a healthier option for children and parents would be more encouraged to buy ice creams for their children. Lowering the temperature of refrigeration and storage for the new pushcarts implied that energy consumption levels would go down and thus decrease storage costs for the pushcart concessionaries. This way it would be easier for the marketing team of Hindustan Unilever Limited to motivate persons to become ice cream pushcart concessionaires of the company.

The entire exercise as envisaged by the CEO of the company looked at integrating marketing and CSR strategies. It aimed at killing two birds with one stone. Technical efficiency by means of technological innovation would make way for economic efficiency and finally god health for children. It was a business model that would mitigate the risks associated with ice cream consumption and thus motivate consumers (children) and influencers (parents) to shun fears of consuming ice cream stored at freezing temperatures.
5.1 INTRODUCTION
CSR strategy is a road map for moving ahead on CSR issues. It sets the organization’s direction and scope over the long term with regard to CSR, allowing the organization to be successful by using its resources within its unique environment to meet stakeholder expectations. A good CSR strategy identifies the following:

- Overall direction about where the organization wishes to go in its CSR work.
- A basic approach for integrating CSR as a business strategy.
- Specific priority areas.
- Immediate next steps.

5.2 STEPS IN DESIGNING CSR STRATEGY
The first step for designing CSR strategy starts with ‘Assessment of the Organization or Business Organization’. It is important to gather and examine relevant information about the products, services, decision-making processes and activities to determine accurately where the organization is now with respect to CSR activity, and to locate its “pressure points” for CSR action. A proper CSR assessment should provide an understanding of the following:

- The organization’s values and ethics.
- The internal and external drivers motivating the organization to undertake a more systematic approach to CSR.
- The key CSR issues that are affecting or could affect the organization.
- Key stakeholders who are, or who need to be, engaged.
- The current corporate decision-making structure and its strengths and inadequacies in terms of implementing a more integrated CSR approach.
- The human resource and budgetary implications of such an approach.
- Existing CSR-related initiatives.

The assessment should identify the main risks and opportunities, and culminate in a thorough gap analysis of analyzing strengths and weaknesses of the organization from stakeholder perspective. This
NOTES

is essential information for identifying CSR priorities and seeking support for CSR from stakeholders.

**SELF ASSESSMENT QUESTIONS**

Choose the appropriate answer:

1. A good CSR strategy identifies:
   (i) Overall direction of CSR initiatives
   (ii) Ideas for integrating business and CSR
   (iii) Priority areas
   (iv) All of the above

2. CSR assessment should identify risks and opportunities from ............... point of view.
   (i) Business
   (ii) Shareholders
   (iii) Stakeholders
   (iv) Environment

3. Which of the following information is essential for identifying CSR priorities and seeking support for CSR from stakeholders
   (i) Risk and opportunities
   (ii) Organization’s values
   (iii) Shareholders
   (iv) None of the above

**ACTIVITY**

Consider the “education for all” campaign Shiksha run by the FMCG company Proctor & Gamble. Analyse how the company stands to benefit from this CSR program.

**5.3 HOW TO DO AN ASSESSMENT**

A four-stage CSR assessment process requires the following:
- Assemble a CSR leadership team
- Develop a working definition of CSR
- Review corporate documents, processes and activities
- Identify and engage key stakeholders

**5.3.1 ASSEMBLE A CSR LEADERSHIP TEAM**

A CSR leadership team would include representatives from the board of directors and top management or owners, as well as key employee volunteers from various units within the organization that need to be
involved in CSR issues. Other representatives could be selected as per the requirement of the organization. Keen employees should be encouraged to volunteer their time, energy and ideas.

Even when there are no members of the board of directors on the team, it is vitally important that the team be directly accountable to senior management and, ultimately, the board. This will assure that CSR is supported by the top management. Identifying a key senior manager as the CSR champion sends a clear signal that the organization considers corporate social responsibility to be important.

5.3.2 DEVELOP A WORKING DEFINITION OF CSR

The first task of the leadership team is to develop a working definition of CSR for the organization. This will become the foundation for the rest of the assessment.

Example:

- CSR is the way the company integrates economic, environmental and social objectives while at the same time, addressing stakeholder expectations and sustaining or enhancing shareholder value.

- CSR is the responsibility the organization has to its stakeholders. It means that the organization’s products and services create value for customers and contributes to the well-being of society. It means the organization operates using ethical business practices and expects the same from its suppliers and partners. It means minimizing the environmental impact of its facilities and products. It means providing jobs, paying taxes and making a profit, as well as supporting philanthropy and community involvement. It means treating employees with respect and being a good neighbour to the immediate localities and the society at large.

The team may also wish to identify key values that motivate the organization, and particular concerns it has and members of its supply chain have, such as inclusivity, stewardship and integrity. These could be related, for example, to the environment, workplace, community relations, human rights, customers, government relations, bribery and corruption, or corporate governance.

Engaging people at all levels of the organization – from employees to managers and members of the board of directors – from the very beginning in developing the definition will ensure support and acceptance of the idea of integrating CSR as a business strategy.

Visit the website www.mckinsey.com and find out the drawbacks of traditional corporate social responsibility and the ways in which companies should integrate the engagement with the stakeholders.
5.3.3 REVIEW CORPORATE DOCUMENTS, PROCESSES AND ACTIVITIES

With a working CSR definition and an initial understanding of the motivations behind the organization’s interest in CSR, the team should then review key corporate documents, processes and activities for actual and potential CSR implications. Table 5.1 highlights the benefits of reviewing corporate documents which can have relevance in assessing CSR.

<table>
<thead>
<tr>
<th>TABLE 5.1: RELEVANCE OF REVIEWING DOCUMENTS</th>
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<tbody>
<tr>
<td><strong>Documents</strong></td>
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<tr>
<td>Existing mission statements, policies, codes of conduct, principles, guidelines and other operating documents should be reviewed. It is useful for the CSR team to explore why these items were developed and to learn from them (or at least acknowledge that they are CSR-related). It may be that they were past responses to CSR pressure points. By the same token, an absence of any reference to societal impacts or commitments in these documents may indicate that a cultural shift may be required to effectively integrate CSR into decision making and business activities. For instance an organization which has not taken any steps in the area of environmental conservation, may consider the legal and social implications of developing environmental CSR.</td>
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<tr>
<td><strong>Processes</strong></td>
</tr>
<tr>
<td>Organizations typically have specific decision processes and associated decision-making bodies in place to address particular aspects of operations, and these may bear on the CSR approach. For example, a health and safety committee may take the lead in determining the resources, training and implementation of worker health and safety programs. Senior managers may play a key role in decisions about environmental protection activities, in conjunction with senior engineers and other staff. It may also be that various parts of the organization are treated quite differently from one another. In many organizations, decision making concerning suppliers is an area that touches on CSR in many regards, including appointment of labour, training, wages, and health and safety protection. It is imperative for the CSR team to review these types of decisions, who makes them, and how they are made. It is also important to determine whether there is a unit or process in place to coordinate decisions about issues with a societal dimension.</td>
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Contd...
Activities

The organization’s activities that relate directly to providing its products or services to users can be closely connected to CSR. For instance, organizations marketing seeds & fertilizers should analyze the impact of the same on agricultural productivity. In addition to thoroughly examining internal operations for CSR-related challenges and opportunities, it may be useful for the CSR team to examine the CSR activities of their competitors and other organizations in allied sectors. The team should also consider activities of business partners (particularly supply-chain partners) since these may significantly affect the organization.

Identify and engage key stakeholders

The CSR team should hold discussions with key internal and external stakeholders about CSR. Stakeholder engagement comprises the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on the business. Engagement implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information acquired from them to drive innovation. Mapping the interests and concerns of stakeholders against those of the organization can reveal opportunities and potential problem areas. For instance, environmental NGOs can be involved in understanding their expectations from the business organization. Women employees can be involved in developing women friendly workplaces.

Fill in the blanks:

4. The first step in the CSR assessment process is to assemble a CSR …………………

5. Even when there are no members of the board of directors the team is directly accountable to …………………

6. The team should review key corporate documents, processes and activities for actual and potential ………………… implications.

7. The organization’s activities that relate directly to providing its ………………… to users can be closely connected to CSR.
A company is planning to develop a CSR strategy without reviewing the necessary documents and without engaging the stakeholders. Suggest the importance of reviewing the documents and engaging the stakeholders in the development of CSR strategy to the company.

5.4 DEVELOPING A CSR STRATEGY

After completing the CSR assessment, the following steps are recommended to develop a CSR strategy.

- Build support with senior management and employees
- Research what other businesses are doing
- Prepare a matrix of proposed CSR actions
- Develop options for proceeding and the business case for them
- Decide on direction, approach and focus areas

CSR strategy is likely to succeed only when it is based on a clear understanding of the organization’s values. It is important to take advantage of the ideas of various stakeholders in developing the CSR strategy and approach CSR issues systematically. The strategy has to be built on the strengths of stakeholders.

5.4.1 BUILD SUPPORT WITH SENIOR MANAGEMENT AND EMPLOYEES

Engaging employees is one aspect of being a responsible business, since a company’s impact in its workplace, i.e. that it is a good employer and a great place to work, is a core aspect of corporate responsibility. Simultaneously, engaged employees are critical for a company wanting to improve its overall performance as a responsible business.

When companies engage their employees in reaching the destination, they become more willing to make decisions, take appropriate risks and act in the best interests of the organization.

While overall CSR success depends first on senior leadership, ultimately, CSR development and implementation largely rests in the hands of employees. In a sense, these parties are often a firm’s human face (not to mention arms and legs), capable of acting as ambassadors, advocates and sources of new ideas and information on CSR.

To engage employees in the strategy formulation it is necessary for the organisation should:

- Clearly define what exactly is the ultimate goal
- Measures what matters and what employees can relate to
- Set the employees up for success
Give plenty of feedback and recognition

Build an atmosphere of trust

On the other hand, in the event that representatives are not appropriately engaged they could be a source of issues for all concerned. Therefore it is essentially critical that there be great correspondence between top administration and workers, representative delegates and suppliers about CSR strategy and commitment implementation. All parties must be fully on side and enthusiastic about helping a firm’s in developing CSR strategy. This will happen when they believe that senior management is serious about CSR and acts in a manner that reflects the spirit of the commitments. Nothing will dissolve a firm’s progress faster than a CSR approach that is perceived as being just “hot air.”

Therefore the CSR team should report to senior management (and, ultimately, the board of directors) about the key findings of the CSR assessment and gauge their interest and support in moving ahead.

5.4.2 RESEARCH WHAT OTHERS ARE DOING

Although it is possible for the CSR team working with other members of the organization, to develop a CSR approach entirely on its own, there is considerable value in drawing on the experience and expertise of others. Three useful sources of information to assist the organization in this regard are contacting industry associations like CII, FICCI, Associated Chambers of Commerce and CSR specialist organizations like Center for Social Markets, CSR Wire and so on.

If the team finds that companies (in India or elsewhere in the same sector and related sectors) are emphasizing different CSR activities, it could examine the similarities and differences between the company and these organizations. Examining the vision, values and policy statements of leading competitors, along with their codes, new CSR-related product lines or approaches, and any initiatives or programs in which they participate, can be very useful. On this basis, the team can assess the benefits, costs, immediate outcomes, resource implications and changes to current practices.

NOTE

ArcelorMittal, the largest producer of iron and steel in the world has always looked forward to the inorganic growth route. The acquisition of Arcelor had brought stiff challenges for the top management of Mittal Steel Corporation. European investors had shown distrust in being part of a company that was run by Indians. ArcelorMittal at the end of the acquisition had learnt some vital lessons in local stakeholder engagement and community building from this episode.

Contd...
In the new millennium, when the company decided to further its spree of acquisitions in Central Asia, it decided to develop a full-fledged CSR strategy. This involved negotiating with government of the host country. Local employment generation opportunities and business growth for local suppliers, affiliates and customers was explained to the host government. Moreover, the company decided to pursue matters of local community building by means of construction of schools and hospitals. This worked in favour of the company.

First, it created a sense of trust among the policy makers and government officials that the economy of the host country stood to gain from the entry of the company in terms of employment generation, foreign direct investment and tax revenue. Second, local stakeholders got more actively involved in seeking business opportunities. Third, it allowed the company to mitigate risks of political agitations and rounded up the corporate image of the company as a global player in the metals and mining industry.

Source: http://corporate.arcelormittal.com

5.4.3 PREPARE A MATRIX OF PROPOSED CSR ACTIONS

In the context of the data collected, it should be possible to create a matrix of proposed CSR actions, possibly spelling out environmental, social and economic aspects (There may be some overlap). The CSR team can plot current and possible CSR activities, processes, products and impacts on the matrix, cross-reference them against the organization’s current activities and structure to see how well they fit. For instance see Table 5.2.

### TABLE 5.2: MATRIX OF PROPOSED CSR ACTIONS

<table>
<thead>
<tr>
<th>Environmental activity</th>
<th>Social activity (e.g. workers, communities)</th>
<th>Economic activity (e.g. quality assurance, customer satisfaction)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processes</td>
<td>Registered to ISO 14001*</td>
<td>Started Workers Education Programme and adopted (FLA) four local schools</td>
</tr>
<tr>
<td>Products/services</td>
<td>Some products use Environ-mental Choice logo</td>
<td>Could all products be certified by Energy Star?</td>
</tr>
</tbody>
</table>

Contd...
5.4.4 DEVELOP OPTIONS FOR PROCEEDING AND DEVELOP THE BUSINESS CASE FOR CSR ACTION

Two options for proceeding at this point are either to take an incremental approach to CSR or to decide on a more comprehensive change in direction. Whatever approach is adopted, the first step is to come up with ways for the organization to integrate CSR into operations. Brainstorming sessions on the CSR matrix developed could be held with senior managers, employees, key business partners and other stakeholders. Participants must be clear on the need to align any CSR approach with the organization’s core business objectives, methods and core competencies. In addition to stimulating new ideas, such brainstorming sessions can also generate excitement and build awareness about CSR activity within the organization. Informal networking can also be a useful way to see whether the organization is on the right track.

The CSR leadership team can draw on the material generated by the assessment, its research into what others are doing, and the brainstorming sessions to devise a business case for the potential initiatives that could be undertaken. “The business case” refers to the commercial business benefits of CSR in quantifiable terms.

The business case for CSR ensures that investment in CSR will enhance the profitability of business. The business case should focus on a number of elements, in the light of the organization’s business objectives, methods and core competencies and other aspects as listed below:

- Possible leverage points (on which particularly large CSR gains can be made)
- Areas in which the organization could potentially gain a competitive advantage
- Areas in which stakeholders might have particular influence
- Short- and long-term goals
- Estimated costs of implementing each option (including that of not spending more on CSR)
- Anticipated benefits
- Opportunities for cost reductions
- Broader changes the organization would need to make
- Any risks or threats each option poses
- Implications of each option for new developments.
Business Case for CSR

Starbucks has embodied its solution in its green coffee purchase programme, ‘Coffee and Farmer Equity (C.A.F.E.) Practices’. Following a multi-year pilot project it applied its own experience and stakeholder feedback to pioneer a coffee buying programme that strives to improve the lives of farmers and increase the amount of high-quality coffee that is grown, processed and traded in a sustainable manner. C.A.F.E. Practices are founded on socially, environmentally and economically responsible coffee buying guidelines that have evolved to reflect more than three years work and the contributions of coffee farmers, sustainability experts, and Conservation International (CI). It chose the name C.A.F.E. Practices to emphasise the importance of farmer equity in relations to Starbucks coffee.

The guidelines contain 28 specific indicators that fall under five focus areas: product quality, economic accountability (transparency), social responsibility, environmental leadership in coffee growing and environmental leadership in coffee processing.

Each indicator is assigned a maximum number of points that can be earned, except for Starbucks’ prerequisites of product quality and economic accountability. The tabulated total score determines preferred supplier status. Farmers and suppliers who demonstrate the use of best practices according to the guidelines, and obtain independent verification of their performance may become Starbucks’ preferred and strategic suppliers. Starbucks hopes to expand its preferred supplier list by encouraging others to use these guidelines and hopes that C.A.F.E. Practices will become a model for other coffee buying companies to integrate into their own business. Starbucks believes its guidelines define the critical social, environmental, economic and quality aspects of growing, processing and trading coffee. To become a Starbucks C.A.F.E. Practices’ verified, preferred or strategic supplier, coffee farmers, processors and suppliers must meet minimum requirements and demonstrate best practices that are subject to independent verification under its guidelines. High scoring suppliers receive preferential buying status, higher prices and better contract terms.


Write a report on the pros and cons of Business Case for CSR in about 200 words.

5.4.5 DECIDE ON DIRECTION, APPROACH AND FOCUS AREAS

The CSR team in consensus with the senior management should take an informed decision on how the organization should proceed. It is
important to determine the organization’s general direction, approach and focus areas with regard to CSR, as described below:

- **Direction:** This is the overall course the organization can pursue or the main area it aims to address.

  *Example:* An apparel company could decide to emphasize worker health and safety. A paper company might decide that environmental issues associated with forestry would be the nucleus of its activities. A mining company operating could choose improving relations with surrounding communities as its chief concern. A high technology company might decide intervention in anti-bribery measures as a target area.

- **Approach:** This refers to how an organization plans to move in the direction identified.

  *Example:* An organization might decide to first revise its mission, vision, and values and ethics statements, put a new code of conduct in place, design a CSR policy, communicate with and train employees and, finally design CSR inputs for contractors in the supply chain like leading MNCs like Hitachi Chemical Group, Toshiba, Sumitomo Corporation and a few others have designed guide books in CSR for their contractors.

- **Focus areas:** These should align most clearly with the business objectives of the organization and, hence, are immediate priorities. The focus areas may be identified gaps in the organization’s processes which may attempt to capitalize on a new opportunity or may address needs of certain key stakeholders.

  *Example:* A food retailer might decide to focus on combating obesity as an immediate objective. An automobile industry like Maruti Suzuki has decided to work on Traffic safety by introducing training in safe driving methods.

CSR decisions will necessitate setting priorities. The size of the problem and its seriousness, the estimated effectiveness of possible solutions and the ease of implementation are key factors to take into account when prioritizing. Other important factors are the financial and human resources needed to implement the changes, legal and customer requirements, and the speed with which decisions can be implemented.

### SELF ASSESSMENT QUESTIONS

State whether the following statements are true or false:

8. The CSR team in consensus with the senior management should take an informed decision on how the organization should proceed.

9. The business case for CSR does not ensure that investment in CSR will enhance the profitability of business.

Contd...
10. The business case refers to the commercial business benefits of CSR in quantifiable terms.

11. Center for Social Markets and CSR Wire are CSR specialist organizations.

**ACTIVITY**

Make a presentation on the importance of determining the organization’s general direction, approach and focus areas with regard to CSR.

### 5.5 SUMMARY

- For developing long-term corporate sustainability, it is essential that the company designs a thorough CSR policy and strategy.
- Clarity about direct strategic fit and benefits to business can go a long way in integrating CSR philosophy in business.
- Table 5.3 describes a basic template which aims to provide a basic framework to companies to develop CSR assessment, CSR strategy, and the benefits associated with it.
- It is important to follow sequential steps and solicit top management support as well as other stakeholders in designing CSR strategies.
- As CSR initiatives have resource implications, they should be reviewed with rigour and substance, similar to how normal financial and investment decisions are reviewed.
- A causal approach could jeopardize the credibility of the CSR strategy as well as its implementation.

### TABLE 5.3: BASIC FRAMEWORK FOR DESIGNING CSR POLICY & STRATEGY

<table>
<thead>
<tr>
<th>Headings</th>
<th>Sub Headings</th>
<th>Initiatives/Content (examples)</th>
<th>Benefits to business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company information</td>
<td>General information</td>
<td>♦ Geographic information&lt;br&gt;♦ Size of company&lt;br&gt;♦ Who owns the company, shareholders of the company</td>
<td>♦ Stakeholders welcome transparency, this also develops trust</td>
</tr>
<tr>
<td>Economic impact</td>
<td></td>
<td>♦ Turnover – sales&lt;br&gt;♦ Number of employees&lt;br&gt;♦ Market share&lt;br&gt;♦ Profit</td>
<td></td>
</tr>
</tbody>
</table>

*Contd...*
### Mission Statement
- Company objectives linked to CSR
- MD/CEO statement on CSR

### Values
- List company values

### Stakeholder Consultation
- List who the main stakeholders are on whom the company has an impact
- Relationships with non-governmental organizations

### Workplace

#### Employees
- Equal opportunities (race, gender, age, disability) – workforce profile
- Health and Safety – policies and training
- Training/personal development
- Communication with employees (newsletters, intranet, forums)
- Pay & benefits – remuneration, pensions, other benefits
- Workplace climate – employee handbook
- Industrial relations
- HR management
- Child labour/forced labour
- Other (specific company issues)

- Staff retention
- Motivated staff
- Employer of choice
- Promotion of good working conditions and practices
- Reduced accidents

Stakeholders can relate to the mission statement and company values – this may be potential employees, new customers or suppliers who share these values.

Shows that the CSR policy, strategy and CSR report will truly reflect the impact on stakeholders.

Contd...
### Marketplace

<table>
<thead>
<tr>
<th>Customers</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Customer satisfaction</td>
<td>• Better understanding of customer views</td>
<td></td>
</tr>
<tr>
<td>• Customer retention</td>
<td>• Meet procurement criteria</td>
<td></td>
</tr>
<tr>
<td>• Safety and quality</td>
<td>• Processes for accepting and measuring complaints</td>
<td></td>
</tr>
<tr>
<td>• After sales</td>
<td>• Loyalty schemes to retain customers</td>
<td></td>
</tr>
<tr>
<td>• Consumer education</td>
<td>• ISO standards to encourage customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Helping customer after sales; Encourage customers to repeat purchase</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Become preferred supplier – link to customer values = brand loyalty</td>
<td></td>
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</tbody>
</table>

### Suppliers/supply chain

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>• Code of conduct</td>
<td>• Support CSR through the supply chain</td>
<td></td>
</tr>
<tr>
<td>• Selection criteria (linked to CSR)</td>
<td>• Build relationships</td>
<td></td>
</tr>
<tr>
<td>• Support local suppliers</td>
<td>• Seen as credible and reputable business</td>
<td></td>
</tr>
<tr>
<td>• Payment of bills on time</td>
<td>• Helping local suppliers and build community support</td>
<td></td>
</tr>
<tr>
<td>• Bribes &amp; corruption</td>
<td>• Better value on contracts due to honouring payment terms</td>
<td></td>
</tr>
<tr>
<td>• Creating awareness of CSR</td>
<td>• Train partners on CSR practice and transparency</td>
<td></td>
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</tbody>
</table>

### Community

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>• Charities, sponsorship, donations</td>
<td>• Measure value of support – cash and in-kind</td>
<td></td>
</tr>
<tr>
<td>• In-kind support – time, resources, assets</td>
<td>• Focus on key partners and form long-term relationships (2-way benefit)</td>
<td></td>
</tr>
</tbody>
</table>

*Contd...*
DEVELOPING A CSR STRATEGY

NOTES

- Regeneration – economic impact, number of jobs
- Employee involvement
- Impact on society
- Support with planning applications and developments
- Local government recognition
- Good PR
- New skills for employees
- Recruitment (awareness)
- Reputation as a good employer

<table>
<thead>
<tr>
<th>Environment</th>
<th>Waste</th>
<th>Recycling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Waste generated (tonnes or kilos)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hazardous waste Policies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduced landfill costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compliance for suppliers/customers</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Water</th>
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<th>Water used (joules)</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Control Programmes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce impact on environment and natural resources</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Energy</th>
<th></th>
<th>Energy used (Kw)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Control programmes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce impact on environment and natural resources</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Materials</th>
<th></th>
<th>Types used</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recycled materials consumed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Materials recycled</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Analyze usage patterns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Information for customers &amp; suppliers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health &amp; Safety</th>
<th></th>
<th>ISO</th>
</tr>
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<tr>
<td></td>
<td></td>
<td>EMAS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Communication to staff</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compliance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reduce accidents at the workplace</td>
</tr>
</tbody>
</table>

| Transport      |       | Green transport plans |
|                |       | Fuel reduction policy |
|                |       | Car fleet |
|                |       | Monitor carbon footprint |
|                |       | Produce statistics for suppliers/customers |
|                |       | Pre-empt legislation |

5.6 DESCRIPTIVE QUESTIONS

1. Discuss why and how CSR Assessment should be carried out.
2. Discuss the steps involved in designing CSR strategy.
3. What is the importance of engaging stakeholders in developing a CSR strategy?
4. Suppose you are a top management executive of a banking firm. Design a basic framework for CSR for your organization.
5. What is the Business Case for CSR?

5.7 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steps in designing CSR</td>
<td>1.</td>
<td>(iv)</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>(iii)</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>(i)</td>
</tr>
<tr>
<td>How to do an assessment</td>
<td>4.</td>
<td>Leadership team</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>Senior management</td>
</tr>
<tr>
<td></td>
<td>6.</td>
<td>CSR</td>
</tr>
<tr>
<td></td>
<td>7.</td>
<td>Products or services</td>
</tr>
<tr>
<td>Developing a CSR Strategy</td>
<td>8.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>11.</td>
<td>True</td>
</tr>
</tbody>
</table>
HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 5.3

A four-stage CSR assessment process requires Assembling a CSR leadership team, Developing a working definition of CSR, Reviewing corporate documents, processes and activities and identifying and engaging key stakeholders.

2. Refer 5.2

The assessment should identify the main risks and opportunities, and culminate in a thorough gap analysis of analyzing strengths and weaknesses of the organization from stakeholder perspective.

3. Refer 5.3.2

Engaging people at all levels of the organization – from employees to managers and members of the board of directors – from the very beginning in developing the definition will ensure support and acceptance of the idea of integrating CSR as a business strategy.

4. Refer 5.2

It is important to gather and examine relevant information about the products, services, decision-making processes and activities to determine accurately where the organization is now with respect to CSR activity, and to locate its “pressure points” for CSR action.

5. Refer 5.4.

“The business case” refers to the commercial business benefits of CSR in quantifiable terms.

5.8 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

E-REFERENCES

CHAPTER 6

IMPLEMENTING CSR STRATEGY

CONTENTS

6.1 Introduction
6.2 Implement CSR Commitments
  6.2.1 Develop an Integrated CSR Decision-making Structure
  6.2.2 Prepare and Implement CSR Business Plan
  6.2.3 Set Measurable Targets and Identify Performance Measures
  6.2.4 Engage Employees and Others to Whom CSR Commitments Apply
  6.2.5 Design and Conduct CSR Training
  6.2.6 Establish Mechanisms for Addressing Problematic Behaviour
  6.2.7 Create Internal and External Communication Plan
6.3 Areas of CSR Implementation
6.4 CSR at Market Place
  6.4.1 Benefits of Marketplace CSR
  6.4.2 Designing Market Place CSR Activities
6.5 CSR at Workplace
  6.5.1 Benefits of CSR at Workplace
  6.5.2 Designing Work Place CSR Activities
6.6 Environmental CSR
  6.6.1 Benefits of Environmental CSR
  6.6.2 Designing Environmental CSR
6.7 CSR with Communities
6.8 CSR in Supply Chain
6.9 Types of Interventions
  6.9.1 Benefits of Community Interventions
  6.9.2 Steps to Design CSR Intervention
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td>6.10</td>
<td>Strategic Partnerships</td>
</tr>
<tr>
<td>6.10.1</td>
<td>Reasons for Corporate NGO Partnership</td>
</tr>
<tr>
<td>6.10.2</td>
<td>Criteria for Selecting NGO Partner</td>
</tr>
<tr>
<td>6.10.3</td>
<td>NGO Strategies to Influence CSR</td>
</tr>
<tr>
<td>6.11</td>
<td>Summary</td>
</tr>
<tr>
<td>6.12</td>
<td>Descriptive Questions</td>
</tr>
<tr>
<td>6.13</td>
<td>Answers and Hints</td>
</tr>
<tr>
<td>6.14</td>
<td>Suggested Readings for Reference</td>
</tr>
</tbody>
</table>
CSR IMPLEMENTATION AT INFOSYS

“The power of money lies in giving it away.”

– N R Narayana Murthy

The IT bellwether Infosys has been a true epitome of excellent CSR strategy implementation since the days of its inception and gradual evolution into a public company. The company has always taken pride in having a top leadership that pays utmost importance in developing a business model that ingrains CSR in its business decisions. For implementing a strong CSR strategy, Infosys has envisaged and developed the “PSPD” model, which aims on the following parameters: profitability, sustainability, predictability and de-risking. The model has allowed Infosys to sustain it competitive edge in the market. Business decisions are taken with the long-term picture in the mind. The company continues to work on having a strong forecasting model in order to navigate through short-term crises and challenges. The company has always mitigated financial risks and compensated for it by taking up operating risks. This has also amounted to criticism of the company for its conservative financial outlook. However, Infosys continues to attract the best software talent in the company and is a top draw in the financial markets among investors. Infosys has returned not only dividends to its investors but trust as well. The board of directors of the company includes some of the best business leaders as non-executive members. In the course of its journey so far, Infosys has created a million plus millionaires. The top management of the company boasts of some of the most brilliant and transparent business leaders. A proof of the same was on display on the day when N R Narayan Murthy joined the company for a second stint post retirement and the stock markets responded with a seven percent hike in stock prices in intraday trading. While investors have earned dividends from the company’s CSR strategy, Infosys has earned respect. The market capitalization of the company bears a testimony to the respect that Infosys commands.
6.1 INTRODUCTION

Implementation refers to the day-to-day decisions, processes, practices and activities which ensure that the organisation meets its CSR commitments. An organisation that effectively implements its commitments is less likely to run into problems and be more favourably rewarded in the long run.

6.2 IMPLEMENT CSR COMMITMENTS

Every organisation is different and will approach CSR implementation in different ways. Leading companies like ABN Amro, Tata’s, HDFC, Infosys and others who integrate CSR for developing long term sustainability follow the following steps for implementing CSR.

- Develop an integrated CSR decision-making structure.
- Prepare and implement a CSR business plan.
- Set measurable targets and identify performance measures.
- Engage employees and others to whom CSR commitments apply.
- Design and conduct CSR training.
- Establish mechanisms for addressing problematic behaviour.
- Create internal and external communications plans.

6.2.1 DEVELOP AN INTEGRATED CSR DECISION-MAKING STRUCTURE

Every organisation should align its CSR goals and decision making with its overall goals and strategies, so that incorporating CSR considerations in corporate decision making becomes as natural as taking customer perspectives into account. Some organisations will prefer a centralised CSR decision-making structure (TCCI)\(^1\), others

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\(^1\) Tata Council for Community Initiatives
a de-centralised one (ABN AMRO), while still others will want a hybrid, depending on their operating features and management style (Sumitomo Corporation). There is no single way of organizing an organisation’s CSR decision making structure.

As CSR is fundamentally concerned with transparency, accountability and performance, it is important for the CSR decision-making structure to be an integral component of the organisation’s governance activities and be visible. The CSR team should be accountable to board, executive and senior management. The team should be supported by cross-functional teams. It is important to develop the CSR decision-making structure to facilitate internal and external verification.

Assigning CSR responsibilities to board members ensures that CSR issues will receive the attention they deserve, and as a result form a strong and effective chain of developing ethical business within the organisation. There are several options for board participation’s participation in CSR activities. For instance, a board member could be tasked with broad responsibility for CSR activities; a new member who has specific CSR expertise could be appointed; CSR responsibilities could be added to the work of existing board committees; a new CSR board committee could be formed; or the entire board could be involved in CSR decisions.

6.2.2 PREPARE AND IMPLEMENT CSR BUSINESS PLAN

The CSR business plan may be separately described or included as part of the company’s existing overall business plan. With the strategy, commitments, and decision-making structures in place, the CSR business plan helps to ensure that the words are transformed into effective action. An excellent way of doing this is to determine what human, financial and other resources and activities will be required to carry out the CSR strategy and commitments.

Example: A CSR commitment may be that the organisation will not offer improper payments to officials.

The first step to implement this commitment might be to create a training course on the distinction between proper and improper payments, with an online version that includes frequently asked questions. A second step might be to review the organisation’s incentive and disincentive structure (e.g. commissions) and to ensure it does not indirectly encourage improper behaviour. A third step might be to involve setting up a hotline, while a fourth one could be creating whistle-blower protection measures. In the CSR business plan, each of these tasks could be further broken down into smaller components, with time lines and resource requirements for each. These obligations should be built into the job description and performance objectives of each lead person.
6.2.3 SET MEASURABLE TARGETS AND IDENTIFY PERFORMANCE MEASURES

To ensure effective implementation, the organisation needs to set measurable targets for the commitments. In essence, these targets are guideposts to reach the ultimate goal of developing sustainability. When achieved, targets may also be a source of celebration in their own right. In this sense, they can help build CSR momentum in the organisation.

A widely used approach to measuring success is to identify the objectives underlying a CSR commitment, develop key performance indicators, work out the measurement method and then measure the results. Regardless of the exact approach taken, it should follow the SMART guidelines for developing its objectives: Simple, Measurable, Achievable, Reliable and Time-bound.

Example: Aviva in its 2012 CSR Report highlights that in 2012, their total CO\textsubscript{2} emissions decreased by 12 percent with all businesses reporting consistently on their footprint and applying practices to reduce their emissions. They have achieved this by using technologies, changing behaviours, and by purchasing zero emission and renewable electricity. Aviva anticipates that their CO\textsubscript{2} emissions will further reduce to 5 percent in 2013 through their divestment of AutoWindscreens and by reducing business travel\textsuperscript{2}.

6.2.4 ENGAGE EMPLOYEES AND OTHERS TO WHOM CSR COMMITMENTS APPLY

The input of employees and other key stakeholders has been solicited at every stage, from preliminary assessment, through strategy development and articulation of commitments. Employees play a central role in CSR implementation.

While overall CSR success depends first on senior leadership, ultimately, CSR implementation largely rests in the hands of employees and, in some cases, suppliers. In a sense, these parties are often the organisation’s human face capable of acting as ambassadors, advocates and sources of new ideas and information on CSR.

On the other hand, if not properly engaged, employees and suppliers could be a source of problems. Therefore, it is important to facilitate good communication between top management and employees, employee representatives and suppliers about CSR strategy, commitment and implementation.

Involving employees, employee representatives and suppliers in discussions of how CSR commitments are implemented is a way for these stakeholders to develop a sense of ownership and pride in the organisation’s CSR activities. To the extent possible, bringing in a CSR champion for senior management or from the board of directors will help in conveying the importance with which the organisation

\textsuperscript{2} Aviva Corporate responsibility report 2012 www.aviva.com/cr2012
treats the issue. Employee support for CSR implementation can be maintained in a number of ways:

- Incorporating CSR performance elements into job descriptions and performance evaluations.
- Providing regular updates on progress (in meetings or the company newsletter)
- Developing incentives (such as rewards for best suggestions)

### 6.2.5 DESIGN AND CONDUCT CSR TRAINING

Organisations need to train employees directly involved in CSR activities. As CSR is an ongoing commitment, training needs will change over a period of time.

When the organisation’s employees speak various languages, training modules must be offered in those languages and must consider the employees’ cultural orientation. This is particularly essential while training employees in various parts of the world. Literacy levels may also need to be assessed. See Box 6.1 for comprehensive CSR training at Bata.

#### BOX 6.1: COMPREHENSIVE CSR TRAINING AT BATA.

Bata, the global footwear giant has set a goal of becoming a zero waste manufacturing company, eliminating all waste to landfill. One of the ways of reducing waste is to prevent its generation in the first place, through improved production techniques. Much of their production involves injection moulding where plastic pellets are fed to a moulding machine where they are heated and shaped. By modifying these machines to pre-heat the pellets before they enter the machine, the manufacturing personnel have been able to increase productivity in their factories by about 15% and significantly reduce energy consumption. Above all, the main benefit has been an increase in quality, which means less rejects and less waste. Bata Shoe Organisation has designed a comprehensive employee-training program for this purpose.


### 6.2.6 ESTABLISH MECHANISMS FOR ADDRESSING PROBLEMATIC BEHAVIOUR

It is important for organisations to put in place mechanisms and processes that will allow for early detection, reporting and resolution of problematic CSR activity. Organisations should devise approaches that are sensitive to the vulnerable position of employees who see wrongdoing or the potential for non-compliance. In addition to clear communications on the consequences of reporting breaches of CSR commitments, organisations could consider designing hotlines, suggestion boxes and appointing ombudspersons. Care must be taken to ensure that the mechanisms for dealing with the problems are
6.2.7 CREATE INTERNAL AND EXTERNAL COMMUNICATION PLAN

Employees must know that CSR is a company priority. Information about CSR commitments, activities and performance reporting must be communicated visibly and frequently to all employees. Information can be percolated through newsletters, annual reports, intranet communication, meetings, training or informal mechanisms. Updates on CSR should also be put on the agenda of meetings at all levels of the company.

For external audiences, a good communication plan is important. It should identify the individuals and groups that need to be aware of a particular CSR initiative and those who should receive hard copies of CSR documents. Website design can help to ensure that parties can easily access CSR information of interest to them. It is quite possible that communications will have to be tailored for various audiences.

Example: Communications to investors are likely to be quite different from those addressed to communities.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

1. Engaging employees, employee representatives and suppliers in implementation means focusing on .................

2. Organisations should put in place the mechanisms and processes that will allow for early detection, reporting and ................. of problematic CSR activity.

**ACTIVITY**

Mr. B is planning to start his own venture which will work for poor people. You are required to prepare the Business plan and CSR training module for him.

6.3 AREAS OF CSR IMPLEMENTATION

CSR can be implemented at the workplace, at the marketplace for environmental protection, and also for communities.

Most of the above CSR functional interventions are not industry-specific. Table 6.1 contains a summary of functional CSR interventions that can be implemented by any company.
### TABLE 6.1: FUNCTIONAL INTERVENTION

<table>
<thead>
<tr>
<th>Categories</th>
<th>Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Ethics</td>
<td>♦ Corporate mission, vision and values</td>
</tr>
<tr>
<td></td>
<td>♦ Evaluation and monitoring of ethics in the company</td>
</tr>
<tr>
<td></td>
<td>♦ Ethics training and hotlines for employees</td>
</tr>
<tr>
<td></td>
<td>♦ Cyber ethics</td>
</tr>
<tr>
<td></td>
<td>♦ Consideration of ethical dimensions of strategic decisions</td>
</tr>
<tr>
<td>Corporate Structure and Governance</td>
<td>♦ Stakeholder engagement</td>
</tr>
<tr>
<td></td>
<td>♦ Executive and Board selection</td>
</tr>
<tr>
<td></td>
<td>♦ Executive and Board compensation</td>
</tr>
<tr>
<td></td>
<td>♦ Education and training for employees</td>
</tr>
<tr>
<td>Human Resources</td>
<td>♦ Health and other insurance benefits</td>
</tr>
<tr>
<td></td>
<td>♦ Employee recognition and rewards</td>
</tr>
<tr>
<td></td>
<td>♦ Equal opportunity, diversity, diversity training, and religious freedom</td>
</tr>
<tr>
<td></td>
<td>♦ Work/life balance and wellness programs</td>
</tr>
<tr>
<td></td>
<td>♦ Employee compensation for downsizing, plant closing and reengineering measures</td>
</tr>
<tr>
<td></td>
<td>♦ Volunteering in local communities</td>
</tr>
<tr>
<td></td>
<td>♦ Health and safety on the job</td>
</tr>
<tr>
<td>Labour and Human Rights</td>
<td>♦ Engagement with unions and adherence to union standards</td>
</tr>
<tr>
<td></td>
<td>♦ Codes of conduct that set standards for a company or the entire industry on labour treatment</td>
</tr>
<tr>
<td></td>
<td>♦ Responsible supply chain management: ensuring that suppliers adhere to the company’s code of conduct</td>
</tr>
<tr>
<td></td>
<td>♦ Product design and development</td>
</tr>
<tr>
<td>Environmental Management</td>
<td>♦ Environmental supply chain management</td>
</tr>
<tr>
<td></td>
<td>♦ Consumption reduction</td>
</tr>
<tr>
<td></td>
<td>♦ Natural resource stewardship</td>
</tr>
<tr>
<td></td>
<td>♦ Alternative energy</td>
</tr>
<tr>
<td></td>
<td>♦ Clean technology innovation</td>
</tr>
<tr>
<td></td>
<td>♦ Green real estate development and ecological building design</td>
</tr>
<tr>
<td></td>
<td>♦ Product and packaging design</td>
</tr>
<tr>
<td></td>
<td>♦ End-of-life-cycle product stewardship</td>
</tr>
<tr>
<td></td>
<td>♦ Philanthropy and sponsorships</td>
</tr>
</tbody>
</table>

Contd...
Involvement and Economic Development

- Operation in underserved communities
- Use of local supplier’s community
- Education, healthcare and housing programs for employees and communities
- Legal and regulatory compliance

Accountability

- Adherence to Code of Conduct and other standards, including inspections, training inspectors or hiring of third-party inspectors
- Social and environmental auditing and reporting
- Certification of raw materials

**SELF ASSESSMENT QUESTIONS**

whether the following statement is true or false:

3. CSR can be implemented at the workplace.
4. Most of the CSR functional interventions are industry-specific.

### 6.4 CSR AT MARKET PLACE

Predominantly, market place social responsibility issues include integrity in governing the life cycle of the product which includes sourcing and producing (supply chain practices), marketing and promotion, disposing, privacy and technology issues, drug pricing for the poor and the elderly. The scope of marketplace practices also includes environmental responsibility, an organisation’s relationship with its competitors, an organisation’s responsibility (or lack thereof) to pay “fair trade” prices that will sustain poor suppliers and to pay compensation for past harms.

Broad issues of CSR at Market Place are grouped in the Table 6.2.

**TABLE 6.2: BROAD ISSUES OF CSR AT MARKET PLACE**

<table>
<thead>
<tr>
<th>Issue</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure of labelling &amp; packaging</td>
<td>Provide complete and accurate information of ingredients/components of a product. For instance: McDonald’s Corporation misled the Indian consumer by labelling their beef flavouring as ‘natural flavour’ which hurt the sentiments of the pure Hindu vegetarians. Enterprises must extend absolute product responsibility with reference to product safety and usage. For instance, Cadbury reviewed its safe packaging practices to ensure complete safety.</td>
</tr>
</tbody>
</table>

1. Chawla S., Jain V., (2008), ‘CSR at Market Place’. Assignment submitted; SVKM’s NMIMS School of Business Management

Contd...
Pricing | Avoid deceptive and anti-competitive pricing or high pricing of products especially in case of life support products like drugs and other necessities (Serpell & Garner, 2000). For instance, high prices of life saving drugs for AIDS make it unaffordable for the poor and results in increasing infections.

Marketing & advertising | Avoid circumventing or deceiving the customer or promoting offensive advertising (Serpell & Garner, 2000). For instance advertisements related to cosmetic products like creams, shampoos and so on mislead the customer about benefits of the product or Thumps up/Sprite commercials displaying stunts without any consumer warnings promote risky activities amongst children and adolescents.

Integrity of product manufacturing & Quality | Includes responsibility of the company to produce high quality products with essential manufacturing standards. For instance, Coca-cola’s lapse in manufacturing standards resulted in pesticides in their soft drinks and contaminating the groundwater of the communities (Galliara, n.d).

Distribution & Selling Practices | Includes distributing and selling the products through ethical means and avoid high pressure selling (Serpell, Garner, 2000). For instance, Nestle infant formula product distribution included nurses on commission to promote their baby milk products. (ICFAI, 2004).

### 6.4.1 BENEFITS OF MARKETPLACE CSR

CSR at marketplace offers long-term sustainability for business. Its varied benefits range from providing risk management to increasing the credibility of the organisation in the minds of the stakeholders. (See Table 6.3).

<table>
<thead>
<tr>
<th>TABLE 6.3: BENEFITS OF CSR AT MARKET PLACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management</td>
</tr>
</tbody>
</table>

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Contd...
allowed it to mitigate financial risks during the global meltdown of 2008. When arch rival HCL Technologies beat the Infosys offer to acquire Axon in the year 2008 and thus enter the western European market, Infosys stood firm on its degree of affordable risk (DAR). Infosys responded in 2012 with the acquisition of Lodestone to regain status quo at a lower financial risk.

### Product Differentiation/Recalls
In the year 2009, Tata Motors had unveiled the dream project of its Chairman, Ratan Tata. Tata Nano—the people’s car, was launched at a sub one-lakh and ushered in the concept of Gandhian engineering. It allowed distributors to assemble parts and tools to deliver the car to customers at zero lead-time.

### Customer Loyalty
Customers are becoming increasingly demanding. As price and quality become more equal, they are looking towards brand values, which match, their own, and companies whose activities they can respect. For instance M&S conducts constant researches to know more about their customers’ evolving needs. One of their most recent researches, published in their M & S report 2014 states that their global sales has been increased by 22.8 percent and except business to take lead in adopting CSR practices.

### Increase in Public Credibility
Infosys was the first Indian company to comply with the Sarbanes-Oxley Act of the US government. It has also been widely known to encourage voluntary disclosure and thus reduce the trust deficit between the company and its shareholders.

### Global Marketplace Advantages
Entry and success in new markets becomes easier because of three major reasons: a) higher accountability of the company helps in establishing direct relationships with key customers and business partners across the globe. b) It contributes to innovation in product development and delivery thus providing an edge in the market. c) It helps in mitigating potential negative media coverage, and enhances market presence, all of which facilitates expansion into new markets (Radley.Y, 2004).

Contd...
Technological Innovation

Many companies are investing in research and development to build systems and processes that will reduce/minimise pollution and liabilities which consequently reduce their operational and environmental costs (Radley, Y., 2004). For instance, Kansai Nerolac Paints Ltd (KNPL) has developed technology to reduce the usage of steel barrels used for the storage of raw material. The steel saved by this initiative amounts to 137332 kgs. (Kansai Nerolac Paints Ltd Sustainability Report, 2013).

Improved Financial Performance

The effect of integrating marketplace accountability and responsibility directly contributes to the increased public image. Investors increasingly wish to invest in companies which are sustainability oriented and have developed a triple bottom line approach (Radley, Y., 2004).

6.4.2 DESIGNING MARKET PLACE CSR ACTIVITIES

To design market place CSR activities the following steps need to be followed:

- Conduct review to identify the current market place policies within the organisation and identify strengths and weaknesses of your policies.
- Conduct surveys to identify the needs, feedback and satisfaction levels of customers, suppliers and business development agencies to identify their expectations from your organisation.
- Design new policies based on the findings of step (i) & (ii) by engaging relevant stakeholders.
- Design procedures and targets to implement the new policy.
- Formulate teams and train them to implement, monitor and report CSR activities at market place.

SELF ASSESSMENT QUESTIONS

Choose the appropriate answer:

5. Market place social responsibility issues include which of the following?
   (i) Competitor’s analysis
   (ii) Environmental responsibility
   (iii) Marketing & promotion
   (iv) All of the above.

Contd...
6. To design market place CSR activities which of the following is the first step?
   (i) Design procedures
   (ii) Conduct surveys
   (iii) Conduct review
   (iv) Design new policies

**ACTIVITY**

Make a flowchart for designing of market place CSR activities.

### 6.5 CSR AT WORKPLACE

Today, with a significant number of employees working outside traditional office environments, the definition of “workplace” has expanded to include the home-based offices of telecommuters, automobile-based offices of salespeople and service technicians, hotel rooms of business travellers and temporary offices of itinerant workers. In addition, diversity of work styles also has led to willingness on the part of many companies to go beyond a “benefits and policies orientation” and look more expansively and creatively at issues in the workplace” (BSR, 2003).

The broad issues of CSR at workplace are discussed in Table 6.4.

<table>
<thead>
<tr>
<th>Issues</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration</td>
<td>Includes fair wages as per legal compliance as well as beyond legal compliance. In many developing countries, the minimum wages are not sufficient for basic living. For instance, IKEA has factories in developing countries like India where wages are kept particularly low at about ₹ 2,300 rupees a month when it costs an employee 500 Rupees to take the bus to work and has to manage their entire family within the remaining ₹ 1800 (Bailly, et al 2006).</td>
</tr>
<tr>
<td>Ethical human resource policies</td>
<td>HCL Technologies under the leadership of its CEO Vineet Nayar came up with the concept of “putting the employee first”. This amounted to empowering grass root level employees to participate in decision-making. Vineet Nayar has referred to it as “destroying the office of the CEO.” He has categorically asserted that bottom and middle level employees need to be included in decision-making. This allows HCL Technologies to make decisions where they should be made—at the point where the company meets the customer.</td>
</tr>
</tbody>
</table>

Contd...
### Health and Safety
Includes providing healthy and safe work environment for all employees. Many companies across the globe have failed to provide basic safety to their employees resulting in severe injuries, death, diseases and others. For instance: “Atlanta, Imperial Sugar, the owner of a refinery near Savannah failed to implement safety measures even after being aware of them since 2002, resulting in the death of 13 workers in a sugar dust explosion in February, 2008” (Dewan, 2008).

### Work Life balance
Includes providing employees balance in their work life with the help of flexible work options, telecommuting, time and stress management skills, better treatment of employees and others. For instance Hewlett Packard (HP) India “offers its employees almost all forms of flexible work options (FWO). It allows its employees to work part-time or for flexible hours, especially young mothers. Employees are also allowed to return to the normal schedule after working as per any of the flexibility options for a specified time period thus improving the work life balance of employees (ICMR, 2002).

### Age of employees
Includes avoiding child labour and better treatment of older workers. For instance cotton seed companies in India like HUL, Monsanto and others are making use of hazardous forms of child labour in cotton seed production An estimated number of 25,000 children, mostly girls, work an average of ten to thirteen hours a day for HUL, while around 17,000 children work for Monsanto at lower wages as well as hazardous conditions of work (Galleria, n.d.).

### Downsizing
Downsizing has been an easy way out for Chief Executive Officers in times of crises. General Electric, for instance under the leadership of its CEO Jack Welch executed retrenchment in large numbers to improve returns on investment. C.K.Prahallad has referred to such practices as “denominator management”.

### Diversity in work culture
“Includes respect to all current and potential employees by valuing them for themselves, and avoiding placing artificial barriers or distinctions based on colour, gender, age or class, caste and others” (Baker, 2003). For instance, M&S work force diversity as on March 2014 includes 73.2 % women employees, and 37.5 % of women employees are over 50 years of age (M&S CSR report, 2014)

Contd...
### Notes

<table>
<thead>
<tr>
<th>Privacy</th>
<th>Employees are not slaves and it is important to protect and respect their privacy. “Many companies do resort to routinely monitor employee use of email and the internet. Others believe that such an open lack of trust fundamentally damages the relationship.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High profile instances</td>
<td>Includes how companies respond to extraordinary circumstances. One of the most high profile instances being HIV/AIDS (Baker, 2003). Therefore the ILO has made a strong statement through a code of practice on HIV/AIDS and the world of work. The code is instrumental in helping to prevent the spread of the epidemic, mitigate its impact on workers and their families and provide social protection to help cope with the disease. It covers key principles, such as the recognition of HIV/AIDS as a workplace issue, non-discrimination in employment, gender equality, screening and confidentiality, social dialogue, prevention and care and support, as the basis for addressing the epidemic in the workplace. (ILO report 2010)</td>
</tr>
<tr>
<td>Concerns for freedom</td>
<td>Includes providing employees with a fair and equal right of collective bargaining which is usually suppressed in case of large companies like Wal-Mart, IKEA, Teflon and others. For instance in case of IKEA the research conducted revealed that ten of their suppliers who employed 2000 employees did not permit freedom of association and collective bargaining for wages and overtime.</td>
</tr>
<tr>
<td>Consistency across different working environments</td>
<td>Includes implementation of ethical workplace practices across all their branches/factories across the globe. For instance M&amp;S has 3300 suppliers across the globe. To implement consistency of working environments has created a list of Global Sourcing Principles to be adopted by all suppliers. This includes supplier’s responsibility, minimum age of employment, freely chosen employment, health and safety, freedom of association and the right to collective bargaining, no discrimination, working hours, rates of pay and terms of employment, Production sites &amp; labelling, Regular assessment, Environmental responsibility and Commitment to extending these principles throughout the supply chain (M&amp;S, Global Sourcing Principles, 2014).</td>
</tr>
</tbody>
</table>

### 6.5.1 Benefits of CSR at Workplace

In recent years, companies have shown an increasing interest in being known as a company where workplace policies and practices are viewed favourably by current and prospective employees. These
companies have viewed workplace initiatives benefits as a strategic competitive advantage. (See Table 6.5)

**TABLE 6.5: BENEFITS OF CSR AT WORKPLACE**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase in employee productivity and higher retention</strong></td>
<td>The Japanese automobile firm Honda Motors is renowned for its practice of instilling pride in its workers. The quality revolution at Honda Motors owes much of its success to the workers who work tirelessly on the floor shop of factories of the company with an eye on quality. The words: “I am a Honda man” is now part of the Japanese corporate folklore.</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>During the ill-fated terror attack on the Taj Mahal Palace Hotel in Mumbai employees of the hotel displayed proactive behaviour in evacuating the tourists and on-boarders of the hotel. Middle level managers and the ground staff worked in cooperation with the security personnel to safeguard the lives of the customers. The Taj Mahal hotel has emerged stronger after the attack and continues to leverage its brand equity and enjoy customer loyalty.</td>
</tr>
<tr>
<td><strong>Credibility and recognition</strong></td>
<td>Companies adopting CSR at workplace have greater credibility and recognition in the market through various employee survey awards, newspaper articles and others. For instance, Google, received ‘Best Employer’ of 2013. Such recognitions aid in building the organisation’s credibility, retain and attract talented human resources.</td>
</tr>
<tr>
<td><strong>Risk Management</strong></td>
<td>Companies failing to implement CSR at workplace have faced various risks and large financial damages due this lapse: For instance, Wal-Mart had to pay 62.3 million $ for withholding payment of 125,000 employees for more than 30 days (Dale, 2007).</td>
</tr>
<tr>
<td><strong>Costs and Returns</strong></td>
<td>Although implementing CSR practices for employees is an additional cost for the organisation, the cost of failing to implement socially responsible practices is much more. Adoption of CSR practices helps in higher retention and productivity as stated above in this table thus reducing the cost of high attrition. (Hutchinson, 2004).</td>
</tr>
<tr>
<td><strong>Lesser Government Intervention</strong></td>
<td>Implementing CSR practices at workplace provides for services beyond legal compliance thus reducing government interference in achieving organisation goals and objectives.</td>
</tr>
</tbody>
</table>
6.5.2 DESIGNING WORK PLACE CSR ACTIVITIES

An effective workplace strategy must simultaneously address the social, physical, technical and financial components of the work environment as each factor impacts the others. To design workplace CSR activities the following steps need to be followed:

- Conduct a review to identify the current human resource policies in place within the organisation.
- Conduct a survey within the organisation to identify the needs of employees with reference to work life balance, remuneration, working hours, working environment and other states above on the broad areas of CSR at workplace should be carried out.
- Once the needs of the employees are identified the human resource department needs to analyse the strengths and weaknesses of each of the CSR policies with reference to the benefits and costs to the company, employees and employers.
- Once an analysis is completed, approval from the senior management and board is essential for smooth implementation (Hutchinson, 2004, p 85).
- Post approval is essential to develop a training strategy to ensure managers understand the methods of implementation.
- Then the company must formally announce the new policies within the organisation and provide information to all staff members across all levels in the hierarchy, with clearly defined role and steps to be taken by each staff member in the implementation of the new policies’ (Hutchinson, 2004, p 85).
- Lastly the organisation should conduct quarterly monitoring to know the effectiveness and impact across the expected benefits and costs of the new policies.

SELF ASSESSMENT QUESTIONS

State whether the following statements are true or false:

7. An effective workplace strategy must simultaneously address the social, physical, technical and financial components of the work environment.
8. Post approval is not essential to develop a training strategy.

6.6 ENVIRONMENTAL CSR

Corporate environmental responsibility today has expanded to cover substantially more than legal compliance, waste minimisation, and pollution prevention. Table 6.6 below shows the key issues to be addressed by companies to fulfil their environmental responsibility.
# TABLE 6.6: KEY ISSUES: ENVIRONMENTAL CSR

<table>
<thead>
<tr>
<th>Issues</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Pollution</td>
<td>Various emissions from the industrial processes contaminate air, water, and land resources. For instance, Carbon dioxide (CO₂) emissions are one of the major causes for climate change and global warming. Fossil fuel combustion for energy generation causes about 70-75% of the carbon dioxide emissions, this being the main source of such emissions. The remaining 20-25% of the emissions is caused by land clearing &amp; burning and by emission from motor vehicle exhausts. Most carbon dioxide emissions derive from industrial processes⁵. Companies therefore need to take steps to reduce air pollution for sustainable development.</td>
</tr>
<tr>
<td>Water Pollution</td>
<td>Companies often contaminate water bodies affecting the ecosystem as a whole. For instance, Tirpur, which is a textile hub of India, uses 90 million litres of water and discharges 87 million litres of waste effluent water (Ninan, 2003) into local rivers which have become the natural drainage courses that stagnate in the riverbeds and percolate into the groundwater contaminating the water bodies and aquifers (Dwivedi, 2007). Thus making it essential for companies to take corrective actions to reduce their environmental impact. For instance, in the Tirpur Case companies need to adopt cleaner production systems, construct individual or common treatment plants to treat and recycle water to fulfil their environmental responsibility.</td>
</tr>
<tr>
<td>Soil Pollution</td>
<td>Soil pollution is caused due to pesticides and fertilisers sprayed on crops resulting in bio accumulation⁶ which contaminate the food chain with carcinogenic chemicals resulting in harmful diseases like cancer and others. A case in point is Punjab’s cotton belt which is engulfed by lethal pesticides causing major health problems like cancer, reproductive disorder, birth of mentally challenged children and other pesticide related diseases.</td>
</tr>
<tr>
<td>Bio Diversity</td>
<td>Biodiversity is largely damaged due to the harmful processes of the industries. For instance, Ecuadorian Amazon was declared as a biosphere reserve in 1989 after biologists found that a mere 2.5 acres of this forest contained as many tree species as that in the United States and Canada combined. However today after the oil exploration in the Amazon, the species are on the brink of extinction (Enström, 2008).</td>
</tr>
</tbody>
</table>

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⁶ Bio accumulation and bio magnification Bio-Accumulation refers to the process by which persistent organic pollutants (POPs) (like pesticides and others) accumulate in higher levels as they are passed from one trophic level to another through food chain magnifying their impact on all living species. (Wiki)
**NOTES**

| Destruction of Livelihoods | The depletion of natural resources caused by companies as stated above in this table affects the livelihoods of the communities that are dependent on the environmental resources. For instance: The Environment Ministry of Indonesia, found that the Indramayu Petroleum Plant polluted the sea by spreading crude oil to as far as 25 kilometres.\(^7\) The pollution had a direct and terrible impact on the lives of the 17,000 fishermen and the 32,000 shrimp farmers of Indramayu. Fishes caught in the sea were often contaminated with crude oil and had no market.
| Industrial Accidents | Industrial accidents have long term effects on the environment and health of the communities. For instance the Bhopal gas tragedy even after 20 years of the aftermath finds children in that community are victims of mental retardation and various physical disabilities. The ground water is largely contaminated and has varied effects on plants, animals and humans. Thus it is essential for companies to take steps to mitigate potential environmental accidents.
| Industrial Material Disposal | Humanity’s ecological footprint is over 23% larger than what the planet can regenerate. The sourcing, production, use and disposal of materials accounts for significant quantities of energy and resources. For instance, OECD countries are demonstrating a growing interest in considering wastes as potential resources that can be used as inputs for new products. Such use of wastes can result in less virgin material extraction with related reduction of negative environmental impacts, less disposal and often less processing of waste\(^8\).
| E-Waste | As electronic products become cheaper gradually, they tend to rapidly become obsolete. The manufacturing of these products consist of hazardous materials. Disposal of these materials create health hazards. Companies like Attero are working on recycling e-wastes by combining business lucrativeness with social benevolence.

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### 6.6.1 BENEFITS OF ENVIRONMENTAL CSR

Environmental CSR initiatives impacts climate change, water use, footprint and energy use effectiveness by improving their operational efficiency, developing eco friendly product designs, and innovative technologies. This leads to opportunities for cost savings, revenue generation, and can even influence overall brand strength through

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\(^7\) It discovered a disposal pipeline that was leaking oil into the ocean, forming crude oil sludge along a huge stretch of coastline.

\(^8\) [http://www.oecd.org/document/62/0,3343,fr_2649_34395_37895358_1_1_1_1,00.html](http://www.oecd.org/document/62/0,3343,fr_2649_34395_37895358_1_1_1_1,00.html)
positive environmental reputation. Table 6.7 below highlights various benefits to the company.

<table>
<thead>
<tr>
<th>TABLE 6.7: BENEFITS: ENVIRONMENTAL CSR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reduction of Risks &amp; Financial Penalties</strong></td>
</tr>
<tr>
<td><strong>Costs and Returns</strong></td>
</tr>
<tr>
<td><strong>Access to a New Market -Carbon Credit</strong></td>
</tr>
<tr>
<td><strong>Lesser Government Intervention</strong></td>
</tr>
</tbody>
</table>

Contd...
Technological Innovation

Many companies are investing in research and development to build systems and processes that will reduce/minimise pollution and liabilities, which consequently reduce their operational and environmental costs (Radley, Y, 2004). For instance, Google responded proactively to the natural disaster in Uttarakhand in 2013. Google leveraged its core competence in search engine optimization to develop software to locate and track displaced, injured and deceased pilgrims.

Product Recall and Differentiation

Embracing environmental socially responsible practices is a unique strategy for product differentiation and higher product recall. Companies promote their products having eco friendly features like use of recycled paper, less energy consumption and so on.

Credibility and recognition

Companies adopting Environmental CSR approaches have greater credibility and recognition in the market through various awards, newspaper articles and others. For instance, Madhya Pradesh Madhyam, India has received Award of Association Business Communicators of India (ABCI) for its Social Responsibility Communication Report 2012. Such recognitions provide public credibility.

Global Marketplace Advantages

Companies require environmental standards / compliances to have a market place advantages as well as credibility of being an environmentally sustainable company. For instance, companies like Marks & Spencer’s, Dupont, Bayer require their suppliers to adhere to environmental standards like ISO 14000 and others\(^9\) in order to be regular suppliers to them.

6.6.2 DESIGNING ENVIRONMENTAL CSR

- Review current environmental compliance status in the company.
- Formulate an environmental department and formulate an Environment Safety and Health (EHS) policy.
- Set goals and targets to protect environment.
- Design processes and systems to increase compliance and environment conservation standards in the company.
- Conduct environmental health and safety awareness events for the employees on a monthly basis to develop capacities of the staff.

\(^9\) Sustainability norms: follow or perish! (2005, August 6). Downloaded from Financial Express Website: www.financialexpress.com/news/Sustainability-norms-follow-or-perish/
Develop regularly monitoring processes of EHS activities. Develop an internal audit system.

Report EHS activities to all stakeholders so as to increase transparency, accountability and credibility.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

9. Environmental CSR can influence overall ........strength through positive environmental reputation.

10. Effective ..........management and energy efficiency are major environmental CSR goals which any company has to attain.

**ACTIVITY**

Visit the website www.csr.com.au and find out about the 2020 targets of CSR to reduce environmental problems.

**6.7 CSR WITH COMMUNITIES**

When any company enters a community, it creates jobs and pays taxes. Due to corporate establishments, communities face a number of challenges which impact their quality of life and hence need the company's intervention. If corporates do not engage in mitigating the risks they create for communities they are likely to face more negative business impacts.

**TABLE 6.8: KEY ISSUES OF CSR AT COMMUNITY**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Destruction of Livelihoods</td>
<td>The depletion of natural resources caused by companies as stated in CSR at environment module, affects the livelihoods of the communities that are dependent on the environmental resources. For example: India plans to cultivate Jatropha in 11 million hectares. In a land starved country, this diversion of land has serious consequences for rural livelihoods and rural eco systems. The Companies involved in the gold rush of Jatropha in India are D1 Oil, Godrej Agrovet Ltd., Tata Motors, Indian Oil Corporation, Kochi Refineries Ltd., Biohealthcare Pvt., Southern online Biotechnologies Ltd., Jain irrigation System Ltd., Natural Bioenergy Ltd. and Reliance Energy Ltd.</td>
</tr>
</tbody>
</table>

Contd...

### Unsafe Practices
Includes industrial practices that are disguised as a benefit, but are actually harmful to the health of the community in the long run. For instance Amax.Inc, “a mining company in Blackwell, Oklahoma, U.S.A during its 58 productive years, stored chemically hazardous waste sand in heaps around the facility, and gave it away by the truckload to private citizens and to the town for public works projects. This sand has ended up in driveways and roadsides all over town. It also lies underneath the high school track and the parking lot of the First Baptist Church.” (Stickland, 2008).

### Industrial Accidents
Industrial hazards are threats to people and life-support systems that arise from the mass production of goods and services. When these threats exceed human coping capabilities or the absorptive capacities of environmental systems, they give rise to industrial disasters. Losses generally involve the release of damaging substances (e.g. chemicals, radioactivity, genetic materials) or damaging levels of energy from industrial facilities or equipment into surrounding environments. This usually occurs in the form of explosions, fires, spills, leaks, or wastes and impact local communities.\(^\text{11}\)

### Human Rights Violation
Companies that employ the local community, albeit in many cases there is a violation of human rights where employees are not paid enough, ill treated by the employers and provided with no social benefit. For instance Anglo Gold Ashanti Kilo (ASK) one of the largest mining companies in the world, extracts large tons of gold found in, Ituri, Africa, where the miners of the community are suffering for their basic needs and amenities.

### Pollution and Waste Accumulation
Includes companies that treat the local village areas as dump yards of the industrial waste. For instance, “In China Luoyang Zhonggui High-Technology Co, dumps trucks of silicon tetrachloride (highly toxic substance) between the cornfields and the primary school playground of the nearby village, and has continued to do so for nine months, which has now made the land infertile and the vicinity is not suitable for people to live “(Eunjung Cha , 2008)

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\(^\text{11}\) [http://www.unu.edu/unupress/unupbooks/uu21le/uu21le03.htm#the nature of industrial disaster](http://www.unu.edu/unupress/unupbooks/uu21le/uu21le03.htm#the nature of industrial disaster)
Choose the correct answer:

11. Which of the following happens when a company enters a community?
   (i) Jobs are created
   (ii) Pay taxes
   (iii) Utilise resources
   (iv) All of the above.

6.8 CSR IN SUPPLY CHAIN

Integrated supply chains are becoming an integral part of competitive environment. Certain social obligations come along with the economic benefit derived from the integrated supply chain. Many buying firms have developed a code of conduct as a way of managing their partner behaviour in the supply chain. Firms are seeking to achieve strategic advantage and a key area in corporate social responsibility is the extent to which companies manage their supply chain responsibility. This includes providing their suppliers or subsidiaries the following:

- Respect basic rights like freedom of association, work life balance
- Respect labour rights like living wages, health and safety in work place
- Respect people in local communities
- Not using the child labour or forced labour

Many companies have started employing third parties to look after these matters and then these companies will provide independent report on supply chain activities.

Example: Apple had joined the Fair Labor Association (FLA) as an associate member, the first high-tech company to do so, and that the FLA will independently report on Apple’s supply chain activities.

Fill in the blank:

12. A key area in corporate social responsibility is the extent to which companies manage their ..........responsibility.

6.9 TYPES OF INTERVENTIONS

Corporate community interventions for community development refer to a wide range of actions companies can take by donating money, time, products and services. To develop capacities of communities it is
important for companies to share their management knowledge and other resources for empowering communities by developing livelihood support activities through developing partnerships with NGOs and promoting employee volunteer programs. This can be attained by formally encouraging community-company dialogue, which can provide benefits to both companies and communities, cross sector partnerships with NGOs and public sector organisations that bring specialised expertise to address issues of community development. Such partnerships have large benefits to the company and assist them in managing their organisations more effectively and efficiently.

### 6.9.1 BENEFITS OF COMMUNITY INTERVENTIONS

The details of the possible benefits to companies adopting CSR at communities are displayed in **Table 6.9**.

<table>
<thead>
<tr>
<th>TABLE 6.9: BENEFITS OF CSR AT COMMUNITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability of the Project</strong></td>
</tr>
<tr>
<td><strong>Access to a New Market</strong></td>
</tr>
</tbody>
</table>

Contd...
<table>
<thead>
<tr>
<th><strong>Lesser Government Intervention</strong></th>
<th>On implementing CSR at community an organisation provides for services beyond legal compliance thus reducing government interference in achieving organisation goals and objectives. For instance in U.S.A, Maine Government has signed a law which requires developers of retail stores exceeding 75,000 square feet to conduct studies gauging the project's impact on Municipal services, the environment and local businesses. The proposed store cannot be approved if the studies find it is likely to cause a quantifiable, “undue adverse impact” on more than one of those fronts and is expected to have a harmful effect on the community overall.”(Hudson, 2007).</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Management</strong></td>
<td>Companies failing to implement CSR at communities have to face various risks and large financial damages. For instance Dupont, U.S.A, had to pay the largest civil penalty ever levied of $382 million by the court to clean up a site, pay punitive damages and monitor 8,000 residents in the area for signs of cancer due to dumping toxic arsenic, cadmium and lead at the plant endangering their health.</td>
</tr>
<tr>
<td><strong>Support for Fair Trade &amp; Product Differentiation</strong></td>
<td>Companies supporting fair trade products assist in supporting livelihoods of the poor Most organisations buy tea, coffee, sugar, and biscuits &amp; all these are available via the fair trade market. Buying these products is one way of showing that your organisation can help make a difference. Starbucks Coffee purchases coffee beans only from fair trade organisations. This aids in differentiating Starbucks coffee from others.</td>
</tr>
<tr>
<td><strong>Credibility and Recognition</strong></td>
<td>Companies developing community infrastructure and quality of life have greater credibility and recognition in the market. For instance, Tata Steel has developed Jamshedpur to be the only city in the world that has been accredited with the UN Global Compact, which definitely distinguishes Tata’s level of community development from other organisations.</td>
</tr>
</tbody>
</table>

Contd...
Global Market Place Advantages
Companies having positive community support and renowned credibility of developing communities, provides them with an edge in the global market place. For instance, the credibility developed by Tata Group through their contribution to the community has rewarded them with global recognition.

6.9.2 STEPS TO DESIGN CSR INTERVENTION

**Step 1:** Develop a clear understanding and recognition of ‘community’ as an important stakeholder of the business and its sustainability.

**Step 2:** Match the corporate drivers and community needs. Motivations for companies to develop CSR policies and invest in local communities vary from one organisation to other.

**Step 3:** Identify the type and extent of support in which the company would like to develop partnership with communities. **See Figure 6.1** below. Focus on key activities, which you want to initiate. For example a bank offering micro finance product may like to develop financial education programme for local youth and women.

![Figure 6.1: Type of Company Support](image)

**Step 4:** Identify the method and mode in which the organisation would like to implement the activities. Community development activities can be implemented by adopting various models through direct or indirect investment.

**SELF ASSESSMENT QUESTIONS**

State whether the following statement is true or false:
13. Companies failing to implement CSR at communities do not have to face any risks and financial damages.
6.10 STRATEGIC PARTNERSHIPS

The emerging global system is redefining roles of state, business, and civil society in the protection of human rights and the promotion of sustainable development. No single actor or sector can be expected to provide for the fulfilment of all human rights, or the solution to all social problems, but if businesses, government and civil society organisations work together to address these problems progress is possible. Strategic partnerships involving governments, NGOs and businesses are extremely important.

![Typology of NGOs](image)

Figure 6.2: Typology of NGOs

Relationships between NGOs and businesses were traditionally seen as rather argumentative, or even hostile. Companies today have realised that ignoring arguments of the NGOs can be dangerous as businesses today work with contemporary service oriented and advocacy oriented NGOs at local, national and international levels.

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12. An NGO is an independent, flexible, democratic, secular, non-profit people’s organization working for and/or assisting in the empowerment of economically and socially, marginalized groups. Traditionally NGOs have covered the fields of environmental protection, development aid, health and education, human rights, the fight against poverty, the protection of consumers, and so on.
6.10.1 REASONS FOR CORPORATE NGO PARTNERSHIP

Table 6.10 below lists reasons for Corporate & NGO partnerships.

<table>
<thead>
<tr>
<th>The NGOs’ aims in dealing with companies</th>
<th>The companies’ aims in dealing with NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>To be able to move their ideas forward.</td>
<td>To be able to open up to civil society.</td>
</tr>
<tr>
<td>To encourage companies to adopt a vision of sustainable development rather than managing crises alone.</td>
<td>To avoid or escape from crisis situations.</td>
</tr>
<tr>
<td>To encourage companies to improve the way they act in social, societal and/or environmental contexts.</td>
<td>To signal their willingness to become involved in socially responsible practices and/or those that are environmentally more satisfactory.</td>
</tr>
<tr>
<td>To be involved in determining community development strategy as well as in its monitoring.</td>
<td>To improve the internal management practices of NGOs and develop their capacities in addressing social issues.</td>
</tr>
<tr>
<td>To get more people involved in its social cause as they become better known.</td>
<td>To become a stakeholder in the community and civil society as a result of the NGOs’ special understanding.</td>
</tr>
<tr>
<td>To gather financial, human and technical resources for carrying out a specific project.</td>
<td>To benefit from expertise on the issues of sustainable development from NGOs and design mutually beneficial strategies.</td>
</tr>
<tr>
<td>To develop relationships with other companies</td>
<td>To improve their image within the company and outside.</td>
</tr>
</tbody>
</table>

6.10.2 CRITERIA FOR SELECTING NGO PARTNER

When a company wishes to start a partnership with an NGO, the latter must satisfy a number of basic conditions:

- It must demonstrate competence and good results over time.
- It must have a development capability in order to be able to advance the project to a bigger scale (geographically, as well as in terms of extent and impact).
- It must have a stable and reliable reputation.
- Its structure must be professionally managed.
- It must hold a predominant position in its sector.
- It must be capable of forming multilateral partnerships.
It must enjoy complete independence from the company or the authorities.

### 6.10.3 NGO STRATEGIES TO INFLUENCE CSR

NGOs adopt different strategies in their attempt to influence the corporates to execute their social responsibilities. There are at least eight different tactics that various NGOs have employed with respect to different companies in order to encourage them to accept social responsibilities.

Arranged in order from the least to the most confrontational, they are:

- Dialogue aimed at promoting the adoption of voluntary codes of conduct— the pure CSR approach (Refer chapter IX).
- Advocacy of social accounting and independent verification schemes.
- File shareholder resolutions.
- Documentation of abuses and moral shaming.
- Calls for boycotts of company products or divestment of stock.
- Advocacy of selective purchasing laws.
- Advocacy of government-imposed standards.
- Litigation seeking punitive damages.

### SELF ASSESSMENT QUESTIONS

State whether the following statement is true or false:

14. Relationships between NGOs and businesses were traditionally seen as argumentative.

### ACTIVITY

Make a presentation on the different criteria for selecting an NGO partner and discuss among your classmates.

### 6.11 SUMMARY

- Business leaders are increasingly concerned about how their organisations can implement
- CSR should be viewed as an opportunity rather than a cost because there are points of intersection between a company and its stakeholders.
- To develop business sustainability CSR intersection points at workplace, marketplace, for environmental protection and the communities need to be identified.
By working through each step of the value chain, the company can work out positive and negative consequences of its actions. This includes identifying and acknowledging evolving or future social effects.

Contemporary NGOs play an important role in influencing CSR commitments of companies as they wish to see business develop sustainable business practices for protecting mankind’s future.

Although tensions in working with companies are recognised, NGOs and CSR experts desire more collaborative and pragmatic relations with companies and hence develop strategic alliance to promote development of sustainable communities and business.

**KEY WORDS**

- **Biodiversity**: Variety of different species within a region
- **Market Place Issues**: Issues that relate to CSR that effect firm’s relations with customers
- **NGO**: Non Government Organisations that work for the community
- **Non-Compliance**: Failure to comply with policies
- **Ombudsperson**: An employee who mediates disputes between employees and top management.
- **Reputational Risk**: Risk involving the image and goodwill of a company
- **Whistle-Blowing**: Publicly alleging misconduct in an organisation

**6.12 DESCRIPTIVE QUESTIONS**

1. Why should an organisation develop an integrated decision making structure for CSR?

2. What are the potential areas in which CSR plans can be implemented?

3. What are the types of workplace issues that need to be considered by an organisation and what is its impact?

4. How do companies impact environment? Discuss the importance and strategies to develop environmental CSR initiatives.

5. How do companies impact local communities and what are the strategies companies can adopt to strengthen its relationship with communities?

6. Discuss the strategies NGOs use in influencing corporates to execute their social responsibilities.
6.13 **ANSWERS AND HINTS**

**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement CSR Commitments</td>
<td>1.</td>
<td>Awareness</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Resolution</td>
</tr>
<tr>
<td>Areas of CSR Implementation</td>
<td>3.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>False</td>
</tr>
<tr>
<td>CSR at Market Place</td>
<td>5.</td>
<td>(iv)</td>
</tr>
<tr>
<td></td>
<td>6.</td>
<td>(iii)</td>
</tr>
<tr>
<td>CSR at Workplace</td>
<td>7.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>False</td>
</tr>
<tr>
<td>Environmental CSR</td>
<td>9.</td>
<td>Brand</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>Resource</td>
</tr>
<tr>
<td>CSR with Communities</td>
<td>11.</td>
<td>(iv)</td>
</tr>
<tr>
<td>CSR in Supply Chain</td>
<td>12.</td>
<td>Supply chain</td>
</tr>
<tr>
<td>Types of Interventions</td>
<td>13.</td>
<td>False</td>
</tr>
<tr>
<td>Strategic Partnerships</td>
<td>14.</td>
<td>True</td>
</tr>
</tbody>
</table>

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. Refer 6.2.1  
   Every organisation should align its CSR goals and decision making with its overall goals and strategies, so that incorporating CSR considerations in corporate decision making becomes as natural as taking customer perspectives into account.

2. Refer 6.3  
   CSR can be implemented at the workplace, at the marketplace for environmental protection and also for the communities.

3. Refer 6.5  
   Diversity of work styles also has led to willingness on the part of many companies to go beyond a “benefits and policies orientation” and look more expansively and creatively at issues in the workplace.

4. Refer 6.6  
   Corporate environmental responsibility today has expanded to cover substantially more than legal compliance, waste minimisation, and pollution prevention.

5. Refer 6.7  
   If corporates do not engage in mitigating the risks they create for communities they are likely to face more negative business impacts.
6. Refer 6.10.3

There are at least eight different tactics that various NGOs have employed with respect to different companies in order to encourage them to accept social responsibilities.

6.14 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCES

- http://www.unu.edu/unupress/unupboks/uu211e/uu211e03.htm.
## CONTENTS

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7.2 Focus of Measurement

7.2.1 Measure What Matters

7.2.2 Communicate Fewer Metrics in Multiple Ways

7.3 Social Auditing

7.4 CSR Monitoring

7.4.1 Internal Compliance Monitoring

7.4.2 External Monitoring and Measurement

7.4.3 Accreditations for Verifications of Measurements

7.5 Summary

7.6 Descriptive Questions

7.7 Answers and Hints

7.8 Suggested Readings for Reference

7.9 Template for Developing CSR Monitoring and Measurement
RISK MANAGEMENT FRAMEWORK AT NESTLE

Nestlé has embarked on an ambitious, Carbon Disclosure Project. The company has been regularly participating in the project since its inception in 2010. A loss in reputation can lead to a reduction of demand for our products. The financial implication of reputation loss of stakeholders due to inaction on climate change is estimated to CHF 19 million loss in revenue and it is based on Nestlé Group Enterprise Risk Management Framework.

Nestlé has in place an Enterprise Risk Management (ERM) process, which is applied across the enterprise, designed to identify potential events that may affect the company, to manage risk and opportunities, and to provide reasonable assurance regarding the achievement of objectives. Climate Change is an integrated part of the risk and opportunity assessment of ERM. ERM enables Nestlé Management to raise risk and opportunities awareness, to anticipate risks/opportunities early and to make sound business decisions throughout the Group by understanding relative business impact of different types of risks and opportunities, root causes and correlations among interdependent risks/opportunities or major impact of the company on its social and physical environment including climate change. ERM aims at identifying and quantifying tangible (financial, operational, physical, human assets, etc.) and intangible (reputation, human rights, brand image, intellectual property, etc.) risks and opportunities in a transparent manner. Regulatory, consumer behaviour changes (brand image) and weather related (natural hazards) climate change risk/opportunities are assessed.

Nestlé’s methods to manage this risk is to proactively engage and partner with stakeholders including regulators, scientists, customers, business partners, civil society organisations and the community, in order to define, implement and evaluate solutions to the complex climate change challenges we face. At a company level, ERM is applied systematically top-down in each Zone, Globally Managed Business, in all Markets; on strategic planning; on a bottom-up approach, for projects in innovation and renovation, M&A, divestiture, major capital spending, restructuring, and finally on an ad hoc basis in many other areas. All risks/opportunities are assessed in relation to their magnitude of impact and likelihood.

After studying this chapter, you should be able to:

- Describe the importance of monitoring and measuring CSR
- Explain the various techniques and processes of CSR monitoring
- Develop preliminary skills in designing CSR measurement index
- Understand the concept of social auditing

### 7.1 INTRODUCTION

CSR actions and initiatives consume scarce resources and time of the company. Hence, it is only prudent on the part of the company engaging in CSR to measure and manage its CSR and consequently the business benefits of CSR. At the heart of this argument lies the rationale of shareholder value maximization. A corporation is responsible and accountable to its investors. Thus, every CSR initiative needs to be assessed against the backdrop corporate strategy. Investors require companies to explain to them the returns on investment for Corporate Social Responsibility (CSR).

It is in this context that monitoring and measurement of CSR becomes very important. In other words, the economic feasibility of CSR initiatives has to be assessed and analyzed. Measurement of the impact of CSR serves as a direction for the business to pursue CSR initiatives that maximize shareholder value while weeding out those which are ineffective.

Measuring CSR becomes a complex task largely because it is a very wide-ranging concept with innumerable qualitative and quantitative dimensions. The impact of CSR at times is intangible; it is difficult to measure it accurately in either length or width, or in weight or distance. Hence, the impact of CSR to the organisation has to be studied in terms of employee loyalty, zero-day or reduced strikes in the production line, increased employee performance, increased productivity, and many other parameters which are an outcome of practicing CSR in the organisation/industry.

The measurement of CSR will undoubtedly be useful for the CEOs and all the employees who devote precious time and resources in developing the strategic fit.
7.2 FOCUS OF MEASUREMENT

To determine if CSR makes a difference to stakeholders, an unbiased assessment has to be undertaken on the following categories:

- **Internal Stakeholder Effects:** It concerns with how various activities of the company affect the stakeholders inside the firm.
- **External Stakeholders Effects:** It concerns the impact of corporate actions on persons outside the firm.
- **External Institutional Effects:** It refers to the effects business has on the larger institution of the State, Nation and international level rather than any particular stakeholder group.

### NOTE

**Reasons to Measure CSR**
- Improves accountability.
- Helps in avoiding action from pressure groups and local communities.
- Avoids reputation (and hence business) risk.
- Improves brand image (targeted at customers, employees, investors and suppliers).
- Links social performance with financial performance.
- Satisfies regulators.

**Measure Fewer Things Better**
Choice of metrics can make a big difference to the overall results of CSR measurement and management. Metrics are unique to the business model pursued by a company. It is not advisable to generalize metrics of CSR measurement. Energy consumption, carbon emissions, working capital savings, shareholder value and market capitalization, sales, technological competence, brand value, higher productivity and employee performance are different metrics that are applicable. It makes enormous good sense to choose such metrics that convey a greater quantum of information and thus serve the greater purpose of acting as radar for the alignment of CSR and corporate goals.

7.2.1 MEASURE WHAT MATTERS
Companies use CSR initiatives to build and maintain relationship with different stakeholders who have conflicting interests and goals. Companies adopt different indicators of measuring the impact of CSR initiatives which depend on their projects and objectives for developing sustainability practices and secure a just and equitable process of socio-economic development.
The question of whether CSR activities pay off is a function of how a company:

- Identifies and prioritizes its stakeholders and their respective goals;
- Generates and pursues CSR options that are congruent with respect to its stakeholders’ perceptions and preferences;
- Measures the effectiveness of the CSR activities undertaken to pursue such goals; and
- Measures the efficiency in the use of the resources allocated to such CSR activities.

*Example:* A good CSR strategy is one, which aligns with the overall corporate strategy. Metrics for measurement need to be chosen in a manner that it reflect the progress made by the company in achieving its business objectives. Hewlett-Packard’s (HP) core business objectives are growth, efficiency and capital. So when HP sets out to measure progress on its chosen CSR strategies, the company started by measuring CSR impact on its growth. It measured if the company’s energy optimisation strategy penetrated new markets or gained new customer segments or won big government contracts.

*Example:* For an organisation like Bata, if the focus areas are minimising waste, energy usage, and increasing sustainability, the company should be looking at developing two or three good metrics in each of these areas, such as energy and money saved from removing high electric consumption light bulbs from the retail outlets.

If the company is focused on marketing fair trade label products — it should measure the increase in sales for those products or product lines, and through them measure how many farmers were benefited and how the organisation’s profitability was impacted.

Sona Group of Industries evaluates the effectiveness of its CSR programme on the community in terms of benefits to society it provides in the process.

*Example:* It measures the number of patients treated per day in their “Sona Swasthya Kendra” (Sona Health Center) or number of girls benefiting from the schools that they have improved.”

**ACTIVITY**

Consider any private sector enterprise and find out if the measurement techniques of CSR adopted by them are relevant to their business.

### 7.2.2 COMMUNICATE FEWER METRICS IN MULTIPLE WAYS

It is important that rather than aiming to measure as many metrics as possible, one should think about measuring the same thing and articulating its value in several different ways.
Companies measure their CSR strategy on the dimensions of value:

- **Monetary**: Accounting-based value of inflow and outflow of cash.
- **Financial**: Translation of in-kind contributions of employee time and/or product into rupee or dollar value.
- **Quantitative**: Number of new energy-efficient or sustainable products added to a product line.
- **Qualitative**: Types and descriptions of new energy-efficient or sustainable products; storytelling (narration) or marketing value through media mentions or changes in consumer attitudes.

Measuring value through such ways can be difficult for companies that train employees to articulate all value in terms of money. But by employing these measurements, it is possible to paint a better picture of the value of a company’s CSR strategy.

**Example**: Hindustan Unilever Limited recently entered the lifestyle and wellness product segment with its low cost water purifier Pureit. The company has launched this water purifier as an alternative to other options that require electricity consumption and thus cost more to customers. Pureit on the other hand works on innovations in mechanical water filtering system and is more cost effective across the life cycle of the product. In emerging economies like India, where electricity crisis is rampant and availability of safe drinking water is a challenge, Pureit combines social good with business sense. Hindustan Unilever Limited the makers of the filter can afford to choose metrics like energy saving per ton of water purified, costs saving to the customer across the lifecycle of the product and even the number of households purchasing their product in regions with acute electricity crisis.

### SELF ASSESSMENT QUESTIONS

State whether the following statements are true or false:

1. Financial metrics measure inflow and outflow of cash.
2. Quantitative metrics measure the number of new energy-efficient or sustainable products added to a product line.
3. It is possible to paint a better picture of the value of a company’s CSR strategy by the different measurement dimensions.
4. Quantitative metrics measure the translation of in-kind contributions of employee time and/or product into rupee or dollar value.
5. External Stakeholders Effects concerns the impact of corporate actions on persons outside the firm.
7.3 SOCIAL AUDITING

Social auditing is the process of assessing and reporting a business’s performance on fulfilling the economic, legal, ethical and philanthropic social responsibilities expected by its stakeholders from the company. It is a formal review of company towards its social responsibility. It evaluates the impact of a company on the environment in which the company operates.

It is the procedure of assessing an association’s different working strategies, set of principles, and different elements to focus its impact on society. The objective of the social audit is to identify what, if any, activities of the firm have affected the general public somehow. A social audit may be started by a firm that is looking to enhance its cohesiveness or enhance its picture in the society. In the event that the results are certain, they may be discharged to people in general. For instance, if an industrial facility is accepted to have a negative effect, the organization may have a social audit which led to recognize movements that really profit the general public.

In the era of CSR where corporations are expected to provide value to the customers and to the shareholders, social audit help the companies in creating, improving and maintaining a good public relations image.

The goal of the social audit is to judge the ways in which the company has affected the society.

Companies around the globe have started to assess their social performance and report the results of those assessments as a means of demonstrating their commitment to social responsibility.

Social audit serves to narrow gaps between vision/objective and actuality, in the middle of productivity and viability. These audits can help the companies to identify risks, non-compliance with laws and company policies, and areas that need improvement.

The auditing process can improve financial performance, increase attractiveness to investors, improve relationships with stakeholders, identify potential liabilities, improve organisational effectiveness, and decrease the risk of misconduct and adverse publicity. Therefore, the auditing process is important to business as the firm’s reputation depends on transparency and openness in reporting and improving its activities.

The social audit provides an objective approach for an organisation to demonstrate its commitment to improving strategic planning, including showing social accountability and commitment to monitoring and evaluating social issues. Thus, it is critical that top
managers understand and embrace the strategic importance of the social audit.

**Objectives of Social Auditing**

- Assessing the physical and financial gaps between needs and resources available for social aims and objectives.
- Creating awareness among beneficiaries and providers of local social and private services.
- Increasing efficacy and effectiveness of local development programmes.
- Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
- Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

**Benefits of Social Auditing**

- Encourages responsible business practices
- Encourages community participation and local democracy
- Benefits disadvantaged groups
- Promotes ethical decision making and sharing responsibilities
- Develops human resources and social capital

To be effective, the social auditor must have the right to:

- Seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;
- Consider and scrutinize existing schemes and local activities of the agency; and
- Access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

6. Social auditing is the process of assessing and reporting a business’s performance on fulfilling the .......... expected by its stakeholders.

Contd...
7. Companies around the globe have started to assess their .......... performance as a means of demonstrating their commitment to social responsibility.

8. Social audit help the .......... in creating, improving and maintaining a good public relations image.

9. ....................... evaluates the impact of a company on the environment in which the company operates.

10. The auditing process helps in improving the .......... performance of the company.

**ACTIVITY**

Visit the website www.cengage.com and find out the nature and reasons of adopting social audit by the companies.

### 7.4 CSR MONITORING

A useful definition of monitoring by Hellawell (1991) is, “Monitoring is an intermittent (regular or irregular) series of observations in time, carried out to show the extent of compliance with a formulated standard (target) or degree of deviation from an expected norm/target.” In line with this definition, one needs to define the standard in terms of objectives or targets, and then undertake monitoring to assess whether these objectives are being met. Corporate social responsibility reporting has become an important part of corporate communication efforts regarding the non-financial aspects of a company’s performance.

When looking at CSR monitoring and measurements, roughly three types of monitoring methods can be identified:

1. Internal compliance monitoring and measurement
2. External monitoring and measurements
3. Accreditations/certifications for verifications of measurements

#### 7.4.1 INTERNAL COMPLIANCE MONITORING

Monitoring and evaluation is essential component for analysing the bottom line of CSR initiatives and improving its effectiveness. Monitoring and evaluation can provide unique information about the performance of organizations policies, programs and projects. It helps the business houses to understand the ground realities and beneficiaries role in the CSR interventions and analyze and review performance about business houses. Monitoring and evaluation systems can be applied to both individual projects and multi-component interventions being implemented by the industries or corporations. For monitoring and measuring CSR, it is essential to

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form a monitoring team consisting of subject experts and executives who have business as well as social orientation. If CSR team is formulated in the organisation, then the same team can continue with the monitoring task. The team has to diligently engage itself in monitoring the processes involved in implementing CSR activities both within the organisation, across the supply chain and in the community.

Example: Sona Group of Companies has constituted a special committee called ‘CSR Council’ that comprises members from the top, senior, middle, junior management as well as the shop-floor level.²

In order to monitor and measure triple bottom line CSR (social, economic and environment) objectively the team will have to develop performance indicators, which then can be linked to the overall profitability of the company. Though there is no standard format for developing indicators, leadership companies normally follow Global Reporting Initiatives guidelines to develop their own indexes for monitoring and measuring CSR.

There are several instruments, which can measure various aspects of a company’s economic, social and environmental performance. Some instruments generally concentrate on a single issue or a stakeholder and thus fail to capture the full impact of a company’s activities.

Instruments like Global Reporting Initiative (GRI), Sustainability Report Guidelines, the UN Global Compact Principles and Accountability 1000 series provide guidance in the planning and implementation of CSR initiatives, and discuss Key Performance Indicators (KPIs).

Other existing instruments may support the companies in specific aspects of CSR.

There are different tools for measurement and monitoring of CSR activities:

- **Employee and customer surveys**: CSR activities can be measured by analysing the results of different surveys conducted on employees and customers.

- **Public attitude and Trust surveys**: CSR activities can be measured by analysing the results of different surveys conducted in the society.

- **Employee safety**: Companies perform different social activities for employee safety. By monitoring and measuring the employee safety CSR activates can be measured.

- **Waste management**: It monitors and address the potential risks of doing business that raise waste management concerns, by setting out consecutive levels of proficiency in waste management.

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Media Coverage: CSR activities can be measured through media coverage which may be positive or negative.

Peer and Expert evaluation: CSR activities can be measured through Evaluation team.

Example: The International Labour Organisation (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises Social Policy and Core Labour Standards and the Social Accountability International (SA 8000) which measures the labour standards.


Depending on the nature of business and CSR activity initiated, the indexes can be regularly reviewed and revised. For the purposes of explanation, a template for monitoring and measuring format is given at the end of this chapter.

Write a report on the global reporting initiative of CSR in about 200 words.

7.4.2 EXTERNAL MONITORING AND MEASUREMENT

Many reports on CSR implementation point out that the major barrier to effective implementation is the lack of external monitoring. Businesses are reluctant to allow outside agencies for monitoring and measuring CSR activities of their organisations. This is somewhat because of the mistrust between the two groups (business and common public opinion). However, some companies are outsourcing monitoring of CSR activities to NGOs and research agencies. These agencies also depend upon the monitoring and measurement instruments developed by international agencies mentioned in the above paragraphs and customise the same to the organisations requirements.

Some of the tools used for monitoring and measuring CSR both by internal and external stakeholders are listed in Table 7.1 below.

<table>
<thead>
<tr>
<th>Quantitative Tools</th>
<th>Qualitative Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ Employee and customer surveys.</td>
<td>✦ Positive and negative media coverage.</td>
</tr>
<tr>
<td>✦ Public attitude and trust surveys.</td>
<td>✦ Peer and expert evaluation.</td>
</tr>
</tbody>
</table>

Contd...
### NOTES

- Employee health and safety, reduction of wastes, efficiency in resource usage and productivity surveys.
- Shareholder dialogue and informal feedbacks.
- SRI rankings.
- Image among financial analysts and regulators.
- Listings and rankings in Dow Jones sustainability index, FTSE4Good & other sustainability indexes, Reporting tools such as GRI, KPI and environmental audit systems.
- Perception about company amongst stakeholders.

## 7.4.3 ACCREDITATIONS FOR VERIFICATIONS OF MEASUREMENTS

Accreditation is a process in which certificate of competency, authority or creditability is presented.

Associations that issue accreditations or confirm outsiders against authority benchmarks are themselves formally authorize by accreditation bodies, (for example, UKAS); thus they are known as “licensed certificate bodies”. The accreditation methodology guarantees that their confirmation practices are adequate, commonly implying that they are equipped to test and ensure outsiders, carry on morally and utilize suitable quality affirmation.

The different programmes adopted by the companies for qualifying accreditation under CSR are as follows:

- Programme targeting persons living below the poverty line
- Helping Vulnerable children
- Alleviation of poverty of vulnerable groups and Social housing
- Entrepreneurship and SME development
- Providing basic amenities to street children
- Conducting various seminars and conferences for the guidance of Youth
- Youth employment
- Programmes for Non-communicable diseases
- Providing Medical assistance to poor people
- Providing a platform for those who have excellence in sports
- Promote the employment of high level athletes
- Provision of financial assistance to sports clubs and federations
- Protection and preservation of the environment
The accreditation institutes monitors and measures all these CSR activities and issue a certificate.

**Self Assessment Questions**

Choose the correct option:

11. Which of these are important for a firm to measure?
   (i) Brand Image
   (ii) Employee productivity
   (iii) Employee loyalty
   (iv) All of the above

12. Which of these is not a method generally used for monitoring?
   (i) Management monitoring and measurement
   (ii) Internal Compliance monitoring and measurement
   (iii) External monitoring and measurement
   (iv) Accreditations/Certifications

13. Work that companies like Standard and Poor's and Ernst and Young do are:
   (i) External monitoring
   (ii) Internal monitoring
   (iii) Management monitoring
   (iv) Expert monitoring

14. While monitoring, the standards should be defined in terms of:
   (i) Productivity
   (ii) Brand reputation
   (iii) Employee loyalty
   (iv) All the objectives and targets

**Activity**

Visit the website of ILO and find out the reasons why companies are employing third parties for monitoring and measuring CSR activities of their organisations.

**Summary**

Although corporate social responsibility is often portrayed as a voluntary initiative of businesses acting to be good corporate citizens, the reality is that the private businesses that choose to adopt and implement CSR codes are in the centre of a system of pressures, incentives, and advocacy that involves many other actors.
Hence, it is imperative for companies to give a testimony of commitments by developing appropriate monitoring and measurement tools for developing sustainable business and societies.

There are several instruments or voluntary codes, which can measure aspects of a company’s economic, social and environmental performance to build its competitive advantage.

It depends upon the company which type of monitoring and measurement systems it intends to design for gaining further insights into its CSR strategy.

Associations that issue accreditations or confirm outsiders against authority benchmarks are themselves formally authorize by accreditation bodies.

Accreditation is a process in which certificate of competency, authority or creditability is presented.

**KEY WORDS**

- **External Monitoring**: Monitoring by outside agencies like NGOs
- **Internal Monitoring**: Monitoring by internal experts chosen from within the company
- **Measurement**: Studying qualitative and quantitative impact of CSR initiatives
- **Monitoring**: Observations to show compliance or deviations form target
- **Qualitative Metrics**: Measures the progression of an activity from non-numeric aspect
- **Quantitative Metrics**: Measures the progression from numeric aspect.
- **Accreditation**: Accreditation is a process in which certificate of competency, authority or creditability is presented.

### 7.6 DESCRIPTIVE QUESTIONS

1. What is monitoring and measurement of CSR? Discuss the importance of the same.
2. Discuss various ways in which CSR can be monitored.
3. What are various tools used in monitoring and measuring CSR?
4. Discuss social auditing.
5. Explain external monitoring and measurement of CSR.
6. What is internal compliance monitoring?
# 7.7 ANSWERS AND HINTS

## ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus of Measurement</td>
<td>1.</td>
<td>False</td>
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<tr>
<td></td>
<td>2.</td>
<td>True</td>
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<td></td>
<td>3.</td>
<td>True</td>
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<td></td>
<td>4.</td>
<td>False</td>
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<td></td>
<td>5.</td>
<td>True</td>
</tr>
<tr>
<td>Social Auditing</td>
<td>6.</td>
<td>Social responsibilities</td>
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<td>7.</td>
<td>Social</td>
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<td></td>
<td>8.</td>
<td>Companies</td>
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<td>9.</td>
<td>Social audit</td>
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<td>10.</td>
<td>Financial</td>
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<tr>
<td>CSR Monitoring</td>
<td>11.</td>
<td>iv</td>
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<td>12.</td>
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<td>13.</td>
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<td>14.</td>
<td>iv</td>
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</tbody>
</table>

## HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 7.4 and 7.2.1
   Monitoring is an intermittent (regular or irregular) series of observations in time, carried out to show the extent of compliance with a formulated standard (target) or degree of deviation from an expected norm/target.

2. Refer 7.2.2
   Measuring value through such ways can be difficult for companies that train employees to articulate all value in terms of money.

3. Refer Box 7.1
   Quantitative and qualitative tools used for monitoring and measuring CSR.

4. Refer 7.3
   Social auditing is the procedure of assessing an association’s different working strategies, set of principles, and different elements to focus its impact on society.

5. Refer 7.4.2
   Many reports on CSR implementation point out that the major barrier to effective implementation is the lack of external monitoring.
6. Refer 7.4.1

For monitoring and measuring CSR, it is essential to form a monitoring team consisting of subject experts and executives who have business as well as social orientation.

7.8 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

- **Case-Writing Project on Corporate Responsibility.** Asian Institute of Management. (2000). *Notes on Case-Writing Project on Corporate Responsibility.* Makati City: Ramon V. del Rosario Sr. AIM Center for Corporate Responsibility.


- **CSR Roadmap.** Corporate Social Responsibility Forum (2000), CSR Roadmap.


E-REFERENCES

## TABLE 7.1: WORK PLACE INDICATORS

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Human Resource Indicators</th>
<th>Target for the year</th>
<th>Status in April (current year)</th>
<th>Status in Sept (current Year)</th>
<th>Status in March Year End (Total Achieved)</th>
<th>Difference between Target Set &amp; Achieved</th>
<th>Last Year’s Figures</th>
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<tr>
<td>1.</td>
<td>Total People Employed</td>
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<td>b) Women</td>
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<td>No. of Employees Left</td>
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<td>b) Women</td>
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<td>4.</td>
<td>Training Provided</td>
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<td>a) Men</td>
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<td>b) Women</td>
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<td>5.</td>
<td>No. of In-house Training Conducted</td>
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<td>No. of Man days lost due to Absenteeism</td>
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<td>No. of Employees deputed for higher education</td>
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<td>S.No.</td>
<td>Environment Indicators</td>
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<td>Paper Usage Per Unit/ Division</td>
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<td>4.</td>
<td>Recycled Waste</td>
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<td>5.</td>
<td>Total Water Usage</td>
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<td>6.</td>
<td>Water Usage Per Unit/ Division</td>
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<td>7.</td>
<td>Total Electricity Use</td>
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<td>8.</td>
<td>Electricity Use per Division</td>
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<td>9.</td>
<td>Carbon Emissions</td>
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<td>10.</td>
<td>Business Travel by Plane</td>
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<td>11.</td>
<td>Business Travel by Car</td>
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<td>12.</td>
<td>Initiatives taken to Mitigate Environmental Risks</td>
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## TABLE 7.3: MARKET PLACE

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<th>S. No.</th>
<th>Market Place for the Year</th>
<th>Status in April (current year)</th>
<th>Status in Sept (current year)</th>
<th>Status in March Year End (Total Achieved)</th>
<th>Difference between Target Set &amp; Achieved</th>
<th>Last Year’s Figures</th>
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<tbody>
<tr>
<td>1.</td>
<td>Advertising complaints upheld</td>
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<tr>
<td>2.</td>
<td>Number of complaints regarding products and services</td>
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<tr>
<td>3.</td>
<td>Complaints about late payment of bills</td>
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<tr>
<td>4.</td>
<td>Upheld cases of anti-corruptive behaviour</td>
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<td>5.</td>
<td>Customer satisfaction levels</td>
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<td>6.</td>
<td>Customer retention</td>
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<td>7.</td>
<td>Sales gained due to cause related marketing</td>
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## TABLE 7.4: COMMUNITY

<table>
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<tr>
<th>S. No.</th>
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<th>Status in Sept (current year)</th>
<th>Status in March Year End (Total Achieved)</th>
<th>Difference between Target Set &amp; Achieved</th>
<th>Last Year’s Figures</th>
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<tbody>
<tr>
<td>1.</td>
<td>Financial donation</td>
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<tr>
<td>2.</td>
<td>Employee Volunteers</td>
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<tr>
<td>3.</td>
<td>Donation in kind</td>
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<tr>
<td>4.</td>
<td>Sponsorship to children</td>
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</tr>
<tr>
<td>5.</td>
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CHAPTER 8

REPORTING FOR CSR

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CSR REPORTING AT SATYAM

On 7th January 2009, the Chairman of Satyam Computer Services dropped a venerable bombshell that shook investors and markets. Ramalinga Raju confessed to booking corporate accounts by a hooping amount of US $ 1.47 billion. It came as a big shock to the Indian IT industry and dented the corporate image of Satyam Computer Service to irreparable levels. The entire episode came to a brief halt when Tech Mahindra acquired the company. The company merged with Tech Mahindra to form Satyam Mahindra.

Shareholder value maximization lies at the core of corporate governance and corporate social responsibility. In this context, the very fundamental pillar of CSR was on the verge of a collapse. CSR reporting includes metrics that impact social contribution and business objectives. Business accounts reporting lies at the very heart of CSR reporting. In this case, wealth erosion to the tune of US $ 1.47 billion had badly hit investor sentiment. As news of the fraud went viral on electronic and print media, question arose around the integrity of Indian business leaders. Moreover, one of the globally best-known audit firms had executed the audit process: Pricewaterhouse Coopers. The Securities Exchange Commission of the USA penalized PwC India, the Indian subsidiary of the parent company with a fine of US $6 million.

The Chairman of the company, Ramalinga Raju in an interview to the Indian media said that it had been like riding the tiger, not knowing how to get off it. Top IT business leaders like N R Narayana Murthy stressed on the necessity to adhere to the norms of transparency, equity and fairness in matters of CSR reporting and corporate governance. In light of this incident he went on record quoting Nobel laureate economist Amartya Sen. He borrowed from the work of Sen, in explaining that enlightened democracy was a basic requirement to maintain transparency in CSR reporting. Sen had argued that famines were less likely to occur in countries with political and economic democracy. Murthy argued that companies that suppressed information dissemination on corporate performance very often landed in corporate frauds.
After studying this chapter, you should be able to:

- Understand the need and relevance of CSR reporting
- Gain clarity about contents and formats of CSR reporting
- Explain the additional references for CSR reporting

8.1 INTRODUCTION

The concept of CSR reporting is almost as flexible as the concept of CSR itself. Every company can choose how to communicate its CSR initiatives in whatever way they find it suitable.

The company’s impact through its CSR strategy and initiatives on the triple bottom line (social, environmental and financial) are communicated to the external as well as internal stakeholders by generating CSR reports also known as sustainability reports, non financial reports, or corporate citizenship reports.

Many companies also generate their annual reports and CSR reports in conjunction. While the annual report covers operating and financial performance, a CSR report details the company’s performance against specific environmental, economic and social goals/metrics. The report also covers the role sustainability plays in the overall strategic direction.

8.2 IMPORTANCE AND BENEFITS OF CSR REPORTING

In the context of the pressurising demands for transparency and corporate action on global social issues like climate change, environmental conservation, anti corruption, human rights and so on, it becomes important for companies to provide information about how they have integrated CSR as an integral part of their functioning.

CSR reporting is one of the anchors that enable a company to succeed as a high performance organisation. The process provides the hindsight, insight and foresight to understand stakeholder expectations, make decisions that position the company to meet their needs, and marshal their resources effectively to help meet evolving global challenges.

Companies produce a Corporate Sustainability Report (CSR) for multiple reasons.

A good CSR report provides valuable and impartial information to allow stakeholders, including investors, to assess a company’s CSR strategy and their current and future performance. It can also be an important tool to engage employees and external stakeholders in the company’s CSR activities. Strong reports are tools for improvement of social and environmental performance. Producing a CSR report ingrains sustainability into a company’s corporate culture through its
operating and governance structures. Good CSR reports explain how the tenets of CSR and sustainability manifest themselves through the company’s codes and policies to create sustainability.

**Note**

**Reasons for CSR Reporting**

- Providing information about challenges and achievements to shareholders, employees, the public and other stakeholders.
- An internal commitment to environmental and social responsibility.
- As a marketing tool, associating the company with sound environmental management and sustainable activities.
- Tracking progress on integration of sustainability principles into company planning and programs.
- Taking first steps towards doing things in a more sustainable way.
- A successful pilot project persuaded decision-makers to take the initiative company-wide; and a commitment to remaining competitive while becoming a world leader in sustainability.

Source: Corporate Sustainability Reporting

### 8.2.1 WHAT TO REPORT

A good CSR report should provide valuable and impartial information to allow stakeholders, including investors, to assess a company’s CSR strategy and their current and future performance.

### 8.2.2 WHOM TO REPORT

CSR should be reported to both internal (employees, Board) and external stakeholders comprising of local and global investors, suppliers, current and potential customers, government, public and private organisations, NGOs, media and so on of the company.

### 8.2.3 HOW TO REPORT

It is critical to “sell” CSR readership to both internal as well as external stakeholders and hence a strong cover theme and design can set the tone for the report and/or convey a key message and encourage potential readers to open the report and learn more about the company. To be truly meaningful, reporting on corporate responsibility/sustainability performance must be done with clarity, candour and effective design.

Increasing global companies are using Triple Bottom Line Reporting (TBLR). For formulating such reports, companies use

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Global Reporting Initiative (GRI) indexes/formats. TBLR integrates information throughout all business processes and encourages the measurement, management and communication of environmental, social and economic results on an equal basis.

Ultimately whatever pattern of reporting is adopted, readers want to see an honest and forthright discussion of how strongly CSR is embedded. What are the benefits of CSR to the company; where does CSR fit with the overall corporate strategy; and what challenges has the company been facing?

8.2.4 BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORTING

With modern communications technologies democratizing the availability of information, stakeholders from all walks of life are making more informed decisions. More and more companies are requiring their suppliers and partners to provide proof of their CSR performance. Efforts to communicate CSR efforts are now an essential part of businesses. In other words, they are only as good as how well they are communicated. For a business to succeed amidst heightening environmental consciousness, not only does a company have to engage in CSR, but they must also find ways to report their CSR endeavors to stakeholders in forms that resonate with them.

Example: Apple has a code that suppliers must commit to before they can do business with the tech giant. (They even publish an annual audit of their suppliers’ CSR performance, called the Apple Supplier Responsibility Progress Report).

- These companies may be trying to establish CSR compliance throughout their supply chain or as a way to manage risk and make sure they’re dealing with organizations that won’t negatively affect their reputation, or both. Either way, you need to respond to this growing trend or you may find yourself losing customers and revenue.

- CSR strategy and reporting mechanism helps the company to engage with stakeholders and market the company on this level.

- CSR reporting adds to the credibility, as an organization at a time in today’s market when everyone from potential employees, clients and suppliers, to the general public want to see more transparency in the companies they deal with. After the fall of so many corporate giants in the last decade, from the Enron scandal in 2001 to the fall from grace of so many financial institutions as a result of the sub-prime mortgage crisis that led to the recent recession, people have had it with corporate corruption. They want to see companies behaving honestly and with responsibility. And they want to see the proof.

- CSR reporting will enhances the shareholders sense of engagement with the company as employees, customers and
other stakeholders like to hear about the great things your company does.

- CSR reporting helps the company in gaining loyal customers by including facts what the company is actually doing for the society. If they don't know that your company makes significant contributions they're missing out on some key elements about their relationship with you.

- Then there's the overall impact on the company's reputation. With social media taking over the way people research and make purchasing decisions, truly transparent and committed CSR efforts can enhance your company's online presence and add value to its reputation – turning critics into supporters and supporters into advocates.

- CSR Reporting will help the companies to gain access to capital with which they can expand their business along with their CSR endeavors.

**ACTIVITY**

Visit the website www.csr.cisco.com and find out the information provided by them in their CSR report of 2013.

8.2.5 CONTENTS OF CSR REPORT

- **Corporate Context:** Effective CSR practices and reporting must be placed within the context of a company's business activities, geographic footprint, operating performance, financial strength and corporate goals. This allows stakeholders to understand the context in which the CSR policies and strategies have been developed as well as how CSR impacts operating and financial strategies. Information about the company would include an overview of its history, past performance, current operations, major products or services, geographic locations and other matters. A brief review and explanation of main trends and factors contributing to the development and performance of the business during the financial year, as well as those factors, which are likely to affect future performance, will set the tone for the context.

- **Stakeholder Engagement:** CSR reporting is a dialogue between a company and its stakeholders. An effective message to stakeholders should convince all those affected by the company's operations that their concerns are understood and being addressed. Therefore, the report should identify the company's stakeholders and explain how it approaches and manages stakeholder engagement. This should include how often, with whom and through what activities, such as workshops, surveys, focus groups, review panels and feedback formats, stakeholders
have been engaged and how the same is incorporated into CSR decisions and activities.

- **Performance**: Committing to sustainability and corporate social responsibility means adherence to a set of external and self-imposed standards of performance as well as the policies, procedures, systems and structures that ensure those standards are met. This framework should report information on:
  - Codes of conduct for employees, management, directors and suppliers
  - External economic, environmental and social charters, principles or guidelines to which the company subscribes
  - Governance structure and responsibilities
  - Corporate and community committees
  - Processes for identifying and mitigating risks
  - Environmental and social management systems
  - Integration of triple bottom line into decision-making

Performance is demonstrated by key performance indicators (KPIs) and information on performance should include both achievement and under-achievements. Testimonials, expert commentary and case studies can improve credibility and foster an honest, beneficial dialogue with stakeholders. It can also provide balance in the testimonials by including comments on weaknesses or setbacks as well as accomplishments. Good graphic elements such as photographs, illustrations, diagrams, graphs or maps can improve a report’s ability to effectively communicate key messages. KPIs should cover critical performance information on both management processes adopted and its impact. It should be linked to business goals & objectives; and against targets worked out by the company as a basis for reviewing overall performance. The report should include a discussion of risks as well as opportunities, historical performance along with expectations for the future. It is essential to back up the discussions with hard numbers that should have been collected using a consistent methodology over time.

Factors that influence credibility in CSR reporting are:
  - Stakeholder participation,
  - Honesty in reporting,
  - Admitting limitations, and
  - Maintaining consistency in providing information.

- **Assurance and Validation**: Assurance adds another level of credibility by providing an opinion of the company’s CSR
report. Companies should tailor their approach to establish the credibility of its reports through external verifications. External or independent auditors examine a variety of performance measures, management processes and strategy against available guidelines such as Accountability’s AA1000 Assurance Standard, SA 8000 or GRI guidelines. Stakeholder review panels can be used to provide a more informal review of the report, either alone or in conjunction with a formal auditor. The assurance statement of the report should explain the scope of the review as well as the assurance methodology.

8.2.6 GLOBAL REPORTING INITIATIVE G4 GUIDELINES

The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for companies and organizations to become more sustainable and contribute to a sustainable global economy.

GRI’s mission is to make sustainability reporting standard practice. To enable all companies and organizations to report their economic, environmental, social and governance performance and impacts, GRI produces free Sustainability Reporting Guidelines.

A sustainability report conveys disclosures on an organization’s most critical impacts – be they positive or negative – on the environment, society and the economy. By using the Guidelines, reporting organizations can generate reliable, relevant and standardized information with which to assess opportunities and risks, and enable more informed decision-making – both within the business and among its stakeholders. By developing and communicating their understanding about the connections between sustainability and business, companies can enhance their value, measure and manage change, and drive improvement and innovation.

G4, the fourth generation of the Guidelines, was launched in May 2013. The launch marked the culmination of two years of extensive stakeholder consultation and dialogue with hundreds of experts from across the world from a wide variety of sectors, including companies, civil society, labor organizations, academia, and finance. The aim of G4 is to help reporters prepare sustainability reports that matter – and to make robust and purposeful sustainability reporting standard practice.

The G4 Guidelines have increased user-friendliness and accessibility. They emphasize on the organizations to provide only information that is critical to their business and stakeholders. This means organizations and report users can concentrate on the sustainability impacts that matter, resulting in reports that are more strategic, more focused, more credible, and easier for stakeholders to navigate.
G4 Guidelines

- **Flexible and globally relevant**: G4 is designed to be universally applicable to all organizations of all types and sectors, large and small, across the world. G4 includes references to other widely recognized frameworks, and is designed as a consolidated framework for reporting performance against different codes and norms for sustainability. This includes harmonization with other important global frameworks, including the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles, and the UN Guiding Principles on Business and Human Rights.

  The guidance in G4 is designed to be compatible with a range of different reporting formats. In addition to enhancing the relevance and quality of standalone sustainability reports, G4 also offers a widely recognized global standard for sustainability information to be included in integrated reports.

- **Spotlight on materiality**: A robust sustainability report is far more than a mere data gathering or compliance exercise. To support organizations on this strategic journey, G4 places the concept of materiality at the heart of sustainability reporting. This means encouraging reporting organizations to only provide information on the issues that are really critical in order to achieve the organization’s goals for sustainability and manage its impact on environment and society. This will result in reports that are strategic and focused.
Materiality is the threshold at which the sustainability subjects covered by the Guidelines – known as ‘Aspects’ – become sufficiently important that they should be reported. G4-based reports should cover Aspects that reflect the organization’s significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders.

Key stakeholders such as investors, market regulators, civil society, suppliers, employees or customers – have a vital role to play in informing an organization’s materiality assessment. Taking stakeholders’ views into account is central to developing a robust understanding of a company’s economic, environmental, and social impacts, and of how these relate to business value and resilience. In this way G4 invites companies to analyze the fundamental links between their sustainability impacts and their business strategy and operations. By taking a strategic and materiality based approach, organizations will get greater value out of reporting, and a greater return for the resources they invest.

- **Structure and format of G4**: G4 is presented in two separate documents such as (a) Reporting Principles and Standard Disclosures: GRI’s Reporting Principles are the criteria that should be used to guide your choices, in order to achieve effective GRI reporting. Standard Disclosures are the GRI ‘questions’ you answer in your report. (b) Implementation Manual: This is the ‘how to’ section, and provides detailed advice and recommendations for reporting with G4.

- **Disclosures in G4**: There are two kinds of disclosures in G4 which are (a) General Standard Disclosures: These disclosures set the overall context for the report, providing a description of the organization and its reporting process. They apply to all organizations, regardless of their materiality assessment. There are seven types of General Standard Disclosures, ranging from the organization’s strategic perspective on addressing sustainability issues, and how it involves stakeholders in this process, to how it approaches key issues such as governance and ethics and integrity and (b) Specific Standard Disclosures: These are divided into two areas: (i) Management Approach (DMA): The Disclosures on Management Approach (DMA) provide the organization with an opportunity to explain how it is managing its material economic, environmental or social impacts (Aspects), thus providing an overview of its approach to sustainability issues. The DMA focus on three things: describing why an Aspect is material, how its impacts are being managed, and how the approach to managing this Aspect is being evaluated. (ii) Indicators: Indicators allow companies to provide comparable information on their economic, environmental and social impacts and performance. Much of this is in the form of quantitative data. Organizations
are only required to provide Indicators on Aspects that they and their stakeholders have identified as material to the business. G4 contains Indicators for a wide range of sustainability issues. For example, these could include water usage, health and safety, human rights or an organization's impact on local communities.

- **Omissions:** The Guidelines recognize that, in exceptional cases, it may not be possible for an organization to disclose certain information. In those cases, the report should clearly identify the required information that has been omitted and indicate which explanation applies, from a list provided in the Guidelines.

- **Partial application of the GRI guidelines:** This alternative may be useful for organizations that are required to report certain Indicators under a regulatory framework, or for first-time reporting organizations that need a longer transition period before they can claim to be ‘in accordance’ with the Guidelines.

  While an organization that partially applies the Guidelines cannot self-declare that they are ‘in accordance’, they can choose to disclose that their report contains GRI Standard Disclosures. However, the organization must list these disclosures and their location in its sustainability report.

- **Reporting on sector-specific issues:** Many sectors face unique sustainability issues that should be captured in sustainability reports. These issues may not be covered in the Guidelines. GRI’s Sector Disclosures provide additional sector-specific guidance and disclosures to be used in conjunction with the Guidelines. In order for a reporting organization to declare that its report has been prepared ‘in accordance’ with the Guidelines, sector-specific disclosures must be provided wherever GRI Sector Disclosures are available and they apply to the organization's sector.

  Examples of the issues covered in the Sector Disclosures include noise measurement for airports, the resettlement of people for mining and metals companies, animal welfare for the food processing industry, and program effectiveness for non-governmental organizations.

- **Transparency on assurance:** External assurance can greatly enhance the credibility of sustainability disclosures. The G4 Guidelines ask companies to state their policy and practice on external assurance as part of their report. While GRI recommends the use of external assurance, this is not a requirement in order for a company to prepare a report ‘in accordance’ with the G4 Guidelines. However, should a company wish to present its report as externally assured, it must provide an external assurance statement.
NOTES

SELF ASSESSMENT QUESTIONS

Fill in the blanks:

1. Effective CSR practices and ................. must be placed within the context of a company’s business activities.

2. To be meaningful, reporting on corporate responsibility must be done with ................. candour and effective design.

3. Strong reports are tools for improvement of ............... and environmental performance.

4. Committing to sustainability and corporate social responsibility means adherence to a set of external and self-imposed standards of performance and ............... 

5. A good CSR report should provide valuable and ............... information to the stakeholders.

ACTIVITY

Make a presentation on the importance of stakeholder engagement in the CSR report.

8.3 FORMATS OF CSR COMMUNICATION AND REPORTING

CSR/sustainability reports serve as a tool to change external perceptions and to instigate dialogue with stakeholders both inside and outside the company. Open and honest, relevant and well-targeted CSR/sustainability communications can contribute to increasing employee motivation, improving company or brand reputation, strengthening credibility, and building trust and long-term competitive advantage.

Being strategic and targeted will improve CSR communication as well as the readership of CSR reports. The CSR communication and report can be made interesting by using a variety of communication devices and tactics to keep the stakeholder informed and engaged. There is value in looking at different ways of communicating CSR information. Web-based, short format and stand alone CSR reports can be designed to communicate with various audiences.

- Web based approach offers more flexible opportunities for information sharing and interaction with stakeholders. Corporate websites are important source of information as they provide a channel for reporting on activities and progress and can become part of the CSR activity itself, for example by proving a platform for engaging with stakeholders. For example it offers:
  - Unlimited accessibility from any place at any time
  - Easy facilitation of dialogue between the company and a globally dispersed group of stakeholders
An enhanced user experience through immediate accessibility, multi-media options that enrich content, and customisation to meet personal needs

Ability for companies to update information and news feeds in real-time

- **Report formats:** Companies issuing CSR/sustainability reports generally combine and complement traditional hard copy reporting with information available on their website in PDF, HTML or interactive/dynamic formats.

- **Standalone CSR report:** A report that is not some piece of any solicitation set or any record set is a standalone report, i.e. the report ought not to be produced from any viable methodology. Such a report is viewed as a stand-alone report.

CSR standalone reports may be utilized as an indicator of a decent corporate citizenship or may be utilized as a type of greenwashing. Greenwashing is a disinformation methodology made conceivable by data asymmetry because of absence of obligatory reporting models for CSR.

Firms use standalone CSR reports to convey that they give voluntarily transparent data and backing of their great conduct to stakeholders.

*Example:* Monsanto’s report is presented exclusively as an electronic document.

Table 8.1 below lists various formats of CSR communication and reporting patterns adopted by various companies with their internal and external stakeholders.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Format</th>
</tr>
</thead>
</table>
| Internal     | ♦ Team briefings  
♦ Procedural notes  
♦ Training sessions  
♦ Internal magazines  
♦ Internal compliance or audit reports  
♦ Intranet  
♦ Notice boards  
♦ Site locations  
♦ Specific reports |
| External     | ♦ Annual reports  
♦ Websites  
♦ Stand alone reports  
♦ External magazines |

Contd...
State whether the following statements are true or false:

6. Being strategic and targeted will improve CSR communication as well as the readership of CSR reports.

7. Communication devices help in making the CSR report interesting.

8. Web-based, short format and stand alone CSR reports cannot be designed to communicate with various audiences.

9. Team briefing format of CSR reporting is used for internal stakeholders.

Visit the website www.monsanto.com and find out the information they have given in the letter to shareholders.

**8.4 THE REPORTING TEAM**

In order to build a good corporate sustainability report (CSR), it is important to have a solid team in place. There are five ways to get and keep people engaged for sustainable report team.

- **Set Expectations:** Everyone hates a last minute request that requires a mad dash to meet a deadline. This is particularly disappointing when the work could undoubtedly have been finished with advanced notice. Help your group by building a venture plan with a reasonable timetable. The arrangement ought to obviously relegate deliverables, rundown key gathering dates, and secure due dates so everybody recognizes what’s in store and when and offer the task arranges early and make sure to convey changes in an opportune way. This will permit your group to incorporate the reporting workload with their timetable for the year and prevent the frustrations of last minute requests.

- **Explain the WIFM (What’s In it For Me?):** Tell individuals that they are going to get recognized – in a decent manner – for assisting with information, substance audits, and stakeholder connections. Your allies will be more willing to put their time and vitality in the venture in the event that it is perceived as prominent and determined by top executives. It is also good to generate excitement around the opportunity that comes with being on the ground floor of a company initiative that will have a long-term positive impact on the organization.
Be Nice: Tragically, being pleasant frequently becomes mixed up in the quick paced and upsetting universe of corporate due dates, client requests, and official desires. So as to be fruitful, your group needs to work well together, bringing their individual ability and readiness to team up, to make a first rate report. To get the best comes about; it is paramount to make partaking on your group an average experience. Indeed the seemingly insignificant issues can go far. Approach pleasantly for help and schedule gatherings in an agreeable area at once advantageous for everybody.

Watch the clock: Begin and complete gatherings on time (or early!). Stick to the venture arrange as nearly as could be expected under the circumstances and make giving information and assessing substance as simple and productive as could be expected under the circumstances for your colleagues (and the system of associates they’ll be reaching for the benefit of the report). Great devices incorporate institutionalized spreadsheets, Sharepoint locales, and online administrations to catch sentiment in a solitary area. Inexorably, not all prescribed progressions/ alters are fused into the last form, so make a point to finish the sentiment circle with the goal that supporters comprehend why they may not see their information in the last form. It is important for team morale that no one feels that their input was a waste of time.

Share the Glory: Once the amazingly successful report is discharged, make a point to impart the credit and perceive the diligent work of the whole group. Send cards to say thanks to your colleagues. Go the additional step and send a note of thankfulness to their supervisors. On the off chance that there is certain media scope or stakeholder sentiment, impart that to everybody, as well. Presently that the group has made it effectively through the trenches together, assemble everybody to commend your aggregate achievement. Even more terrific, meet over mixed drinks! Before long enough it will be time to begin the following report

CSR reports must be documented by the CSR team headed by a senior executive (Senior VP, CEO, and Company Director). The CSR team must include representatives from both the corporate policy and operational divisions. Geographical representation as well as representation from different divisions greatly increases the probability of the report having internal and external value.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

10. CSR reports must be documented by the .......... headed by a senior executive.

11. The CSR team must include representatives from both the corporate policy and ................. divisions.
Write a report on selecting the right number of members of the reporting team of CSR.

8.5 ADDITIONAL REFERENCES FOR CSR REPORTING

The following websites can be referred by the CSR team to learn more about CSR standards and sustainability reporting.

- **ACCA**: ACCA has been heartily included in the unfolding verbal confrontation on corporate social obligation since 1990. They advertise transparency and best practice, and expect to help organizations and associations understand the developing vitality of manageable quality to them.

  ACCA champions the enlargement of corporate reporting to incorporate the social and ecological parts of a business.

  They seek to utilize their solid business sector position to highlight the criticalness of following up on maintainability challenges. They provides information on annual sustainability reporting awards and criteria on completeness, credibility and communication.

  (www.accaglobal.com/publicinterest/activities/subjects/sustainability/awards)

- **Accountability AA1000**: AA1000 has been developed to improve the accountability and overall performance of organisations by increasing quality in social and ethical accounting, auditing and reporting. The Institute has facilitated the development of AA1000 through work with hundreds of individuals and organisations worldwide from business, government, and civil society. AA1000 is likewise intended to function as a stand-alone quality framework and procedure. The suite of requisitions that make up the AA1000 Framework gives the premise to expert preparing and for the particular provision of the core standard.

  (www.accountability21.net/aa1000series)

- **Accounting for Sustainability**: They discuss campaign and guidance for better integration of sustainability and financial performance reporting. From January 2012, the International Integrated Reporting Council (IIRC) has been supported by an independent Secretariat, although A4S still works closely with the IIRC. The mission of the IIRC is to create a globally accepted Integrated Reporting framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format.
A4s attempts to advertise the Integrated Thinking that is obliged if associations are to accomplish fruitful Integrated Reporting.

(www.accountingforsustainability.org/home/)

- **Black Sun**: They help their clients to recount their corporate stories through integrated communications, by bringing together corporate reporting, sustainability communications, and digital communications and they present best practice case studies, news and research on latest trends from reporting consultancy.

  Their work has received awards for best practice, and innovative and creative communications. In 2012, BAE Systems won the Strategic Governance Award at the Strategic Value in Corporate Reporting Awards and Tullow Oil was awarded the gold award in the Best Report category at Communicate Magazine’s Corporate & Financial Awards.

  (www.blacksunplc.com/corporate/work/work.jsp)

- **BITC CR Index**: They offer a variety of benchmarking tools which help companies to measure and report on responsible business in an integrated and systematic way and highlights voluntary benchmark of corporate responsibility governance and management.

  (www.bitc.org.uk/cr_strategy_and_integration/cr_index/index.html)

- **European Sustainability Reporting Association**: Their aim is to improve Sustainability Reporting by sharing trends and best practice across European countries.

  Companies, students, investors, governments, assurance providers and any other groups with an interest in Sustainability Reporting will use the information for the following purposes:

  ◆ Get a overview of national best practice examples and why the countries have awarded the local winners.

  ◆ Benchmark sustainability reporting practices against other countries

  ◆ Benchmark assurance practice against other countries

  ◆ Allow companies to explore the practice and trends in the countries where they wish to find suppliers or business-partners

  ◆ Help analysts and students to get an overall picture on which countries are ahead in the field of sustainability reporting.

  (www.sustainabilityreporting.eu/index.htm)

- **Ethical Corporation**: Toby Webb is our founder of Ethical Corporation. They are providing business intelligence for sustainability since 2001. Ethical Corporation is 100% focused
on global ethical business and observes how large companies are responding to the sustainable business agenda. They also provide information about conferences exploring best practices in CSR and business ethics.

(www.ethicalcorp.com/conferences/)

- **Global Reporting Initiative:** The Global Reporting Initiative (GRI) is a not-for-profit organization, generously funded by a diverse range of contributors, partners and supporter and is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting and presents information about global sustainability reporting guidelines as a way for organizations to become more sustainable and contribute to sustainable development.

  GRI’s Sustainability Reporting Framework is a reporting system that enables all companies and organizations to measure, understand and communicate this information. GRI’s mission is to make sustainability reporting standard practice; one which helps to promote and manage change towards a sustainable global economy.

  (www.globalreporting.org/Home)

- **Sustainability:** The institute is founded in 1987, they’ve evolved alongside the broader sustainability agenda and helped to define and shape the unique role of business within it. On issues from consumption, transparency, stakeholder engagement and strategy to innovation and transformation, they have helped many clients and partners better understand and create business and societal value in response to global challenges and explains global reporters programme from strategy consultancy and think-tank

  (www.sustainability.com/researchandadvocacy/globalreporters.asp?id=1486)

### **SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

12. Ethical Corporation highlights voluntary benchmark of corporate responsibility governance and management.

13. Accountability AA1000 presents standards to promote accountability, responsibility and sustainability.


### **ACTIVITY**

Visit the website www.globalreporting.org and find out the CSR standards given by them and make a presentation on it.
8.6 SUMMARY

- It is important for companies to be communicating with their stakeholders to demonstrate leadership, their values, vision, successes and failures in CSR.

- Transparency about what the company does, why and how it does is a fundamental principle of responsible business.

- CSR reports in addition to environmental performance of the organisation also report on the most important organisational social issues and non-financial key performance indicators.

- These activities can include issues such as community involvement, protection of human rights, creation of social dimensions at workplace and marketplace, stakeholder engagement, social investments, progress against last year’s commitments and more.

- A thorough CSR report will describe every element of a company’s CSR framework, the extent to which each element has been implemented, recent changes made and anticipated improvements.

- The report provides valuable and impartial information to allow stakeholders, including investors, to assess a company’s CSR strategy and their current and future performance.

- The most popular formats of CSR reporting are based on TBLR and GRI guidelines.

- Ultimately, the report is only as good as the operational performance it highlights.

- CSR Reports showing concrete actions taken and improvements made, in all aspects of a company’s CSR activities therefore have very strong impacts.

- CSR reporting is one of the anchors that enable a company to succeed as a high performance organisation.

- For a business to succeed amidst heightening environmental consciousness, not only does a company have to engage in CSR, but they must also find ways to report their CSR endeavors to stakeholders in forms that resonate with them.

- CSR strategy and reporting mechanism helps the company to engage with stakeholders and market the company on this level.

- Stakeholder review panels can be used to provide a more informal review of the report, either alone or in conjunction with a formal auditor.

- G4 is the fourth generation of the Global Reporting Initiative Guidelines and they were launched in May 2013.

- The aim of G4 is to help reporters prepare sustainability reports that matter – and to make robust and purposeful sustainability reporting standard practice.
CSR standalone reports may be utilized as an indicator of a decent corporate citizenship or may be utilized as a type of greenwashing.

In order to build a good corporate sustainability report (CSR), it is important to have a solid team in place.

**KEY WORDS**

- **Global Reporting Guideline:** Provides guidelines about global sustainability reporting
- **Key Performance Indicator:** Measures performance of relevant areas in a firm
- **Triple Bottom Line Reporting:** Taking into account ecological and social performance of firm.
- **Stakeholder engagement:** It is a key part of corporate social responsibility (CSR) and accomplishing the triple main concern. Organizations captivate their stakeholders in dialog to figure out what social and ecological issues matter most to them about their execution keeping in mind the end goal to enhance choice making and responsibility.
- **Global Reporting Initiative:** The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for companies and organizations to become more sustainable and contribute to a sustainable global economy.
- **Greenwashing:** It is a disinformation methodology made conceivable by data asymmetry because of absence of obligatory reporting models for CSR.

### 8.7 DESCRIPTIVE QUESTIONS

1. Why is reporting of CSR important?
2. What should be the contents of CSR Report?
3. What are the formats of CSR Reporting?
4. What should be additional references for CSR reporting?
5. Explain the G4 guidelines of Global Reporting Initiative.
6. Discuss stakeholder engagement.

### 8.8 ANSWERS AND HINTS

**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance and benefits of CSR reporting</td>
<td>1.</td>
<td>Reporting</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Clarity</td>
</tr>
</tbody>
</table>

Contd...
3. Social
4. Policies
5. Impartial

Formats of CSR communication and reporting
6. True
7. True
8. False
9. True

The reporting team
10. CSR team
11. Operational

Additional references for CSR reporting
12. False
13. True
14. False

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 8.2
   CSR reporting is one of the anchors that enable a company to succeed as a high performance organization.

2. Refer 8.2.5
   Factors that influence credibility in CSR reporting are Stakeholder participation, Honesty in reporting, Admitting limitations, and Maintaining consistency in providing information.

3. Refer 8.3
   The CSR communication and report can be made interesting by using a variety of communication devices and tactics to keep the stakeholder informed and engaged.

4. Refer 8.5
   The different websites can be referred by the CSR team to learn more about CSR standards and sustainability reporting.

5. Refer 8.2.6
   The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for companies and organizations to become more sustainable and contribute to a sustainable global economy.

6. Refer 8.2.5
   The report should identify the company's stakeholders and explain how it approaches and manages stakeholder engagement.
8.9 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCES


- http://www.globalreporting.org
CHAPTER

ROLE OF GOVERNMENT AND VOLUNTARY CODES IN CSR

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INTRODUCTORY CASELET

GOVERNMENT ROLE IN CSR

The role of government in ensuring or rather enforcing the compliance of corporate social responsibility has invited a rainbow of responses from different schools of thought. In the context of the Indian economy, the question has assumed prominence in the aftermath of the imposition of corporate income tax with retrospective effect amounting to ₹ 7,899.9 crore on the British telecom major Vodafone. The 2012-13 budget amendment that overturned a Supreme Court judgment in the Vodafone tax case has been singled out for undermining investor sentiment and was often cited as an example of India’s aggressive tax regime. Former FM Pranab Mukherjee had amended Section 9 of the Income-tax Act, 1961 in the 2012-13 budget retrospectively from the day of the commencement of the Act, sending a shockwave through the investor community. The amendment was prompted by an adverse Supreme Court decision that overseas transactions that involved Indian assets could not be taxed. Indian tax authorities had sought to impose a principal tax liability of ₹ 7,899.9 crore on Vodafone for failing to deduct tax on its $11-billion payment to Hutchison Telecommunications International for the acquisition of Hutchison Essar.

While supporters of government intervention in corporate social responsibility argue in favour of the imposition of the tax with retrospective effect, there is enough evidence to gauge the fact that the tax has damaged investor sentiment. At the microeconomic level, Vodafone stands to gain if the amendment mentioned above is repealed. At the macroeconomic level, it poses a double whammy to multi-national corporations. A company’s CSR record is best judged by its compliance with the regulatory and legal framework. A tax with retrospective effect though does compel business leaders and corporations to be sceptical of foreign direct investment and acquisition decisions in emerging economies like India.
After studying this chapter, you should be able to:

- Explain the role of government in shaping business behaviour
- Describe the various types of voluntary codes/standards available for corporates to work towards sustainability

9.1 INTRODUCTION

To create responsible business behaviour government should ensure that businesses should not hurt or harm society and the environment. Today governments all over the world are enacting laws to safeguard the interest of consumers and to protect the environment from greedy and unethical corporations. There are a wide variety of opinions about what the ideal regulatory framework for business behaviour should be, with many business organisations advocating voluntary codes arguing that they allow companies to be innovative in Corporate Social Responsibility. While the expectation from government is to create a good environment for business to flourish, the voluntary codes of CSR – outside the realm of government regulation aims at improving sustainable practices of business.

9.2 ROLE OF GOVERNMENT

Ironically, government itself is largely responsible for the emergence of the CSR concept. It is only prudent on the part of the government to lay a framework for responsible corporate behaviour and thus specify a code of conduct on compliance, regulatory and governance issues. CSR when not backed by a well-defined legal and political framework does not serve to motivate corporate behaviour to be socially responsible. Although corporate governance operates within the framework of public governance, excessive government intervention stifles enterprise and innovation. The United Nations Conference on Sustainable Development, also known as the Earth Summit 2012 aimed at reconciling economic and environmental goals of the global community. The conference that saw confluence of government representatives from countries across the world outlined three objectives:

- Securing renewed political commitment for sustainable development.
- Assessing the progress and implementation gaps in meeting previous commitments.
- Addressing new and emerging challenges.

Example: Responsible governments use incentives to institutionalise corporate social responsibility. Free market economy principles require governments to play the role of facilitators of business and industrial growth. In this context, governments need to draw a line between
legitimate intervention to safeguard interests of the host country and imposition of regulatory parameters that regress economic growth. The US government for instance has pioneered the cause of corporate social responsibility with well-defined and unambiguous terms of corporate behaviour while encouraging corporate enterprises to set shop in the American free market economy.

Example: In 2000, the Government of the United Kingdom appointed a Minister of Corporate Social Responsibility. In 2001, France became the first country to mandate a triple bottom-line balance sheet (financial, environmental and social) for firms with shares traded on the stock market. In 2002, the Belgian Parliament approved a law to promote socially responsible production through the establishment of a voluntary social responsibility label.

Such initiatives and the basic conditions necessary for CSR to prosper and develop linkages with an active civil society and government for developing good business environment are still scarce in many parts of the world. The Ministry of Corporate Affairs, government of India made it mandatory for companies having at least ₹ 5 crore net profit or ₹ 1,000 crore turnover or ₹ 500 crore net worth to spend two percent of their net profit on CSR spending, with effect from the financial year 2014-15.

Governments have a huge potential to influence corporate behaviour especially in under developed markets like India. Generally, government policies, rules and laws shape the regulation of businesses. In such markets, governments are required to regulate businesses to protect the interests of stakeholders and shareholders. In India, despite increased privatisation, government remains a huge investor, contractor and purchaser of goods and services. Governments should see that public purchasing, public investment and public/private partnerships should be based on developing sustainable practices embracing the full range of corporate responsibility.

The absence of business regulation is not good for organisations as well as the society. In the absence of government regulation, society will be misled, manipulated and exploited. It is therefore the responsibility of the government to regulate business, and more importantly provide a level playing field for all businesses to operate and grow. Governmental policies should be designed to facilitate ethical and sustainable business practices.

Proponents of CSR in India advocate the following ways for government to activate CSR:

- Governments should formulate and implement laws/ regulations to monitor the conduct and operate businesses in an ethical manner. In addition to the above, governments should regularly amend the provisions in the regulations to punish violators of the policy.

- Governments can assume a key role in the promotion of CSR, by
creating a climate favourable to business (that ensures respect and defence of property rights and the rule of the law) and establishing good governance standards.

*Example:* Promoting transparency and eliminating corruption

This promotion does not imply managing CSR initiatives or making them mandatory; rather it seeks to foster a climate conducive to sustainable development and responsible behaviour on the part of business enterprises.

- Governments can shape the regulation of businesses by giving incentives and grants to businesses that comply with government regulations. Governments can also provide direct incentives for promoting certain aspects of CSR through “green” fiscal instruments.

  *Example:* By ensuring that their procurement policies include safeguards to ensure compliance along with codes of conduct.

  Through these types of instruments, governments can promote decent work while also supporting the use of ecologically sustainable materials, processes and production technologies (for example, the use of recycled materials, the adoption of renewable energy, the efficient use of non-renewable resources and the reduction of environmental contaminants and waste products). They can also promote “green” products and services (for example, low-emission vehicles and ecotourism services).

- Governments can consider introducing provisions of incentives such as tax cuts, subsidies and low-interest loans for enterprises that abide by labour laws, international labour standards and sustainable practices which can go a long way in motivating corporates to be socially responsible.

**UN Conference on Sustainable Development**

In 2012, the United Nations Conference on Sustainable Development saw the confluence of world leaders. The conference highlighted seven areas, which need priority attention; these include decent jobs, energy, sustainable cities, food security and sustainable agriculture, water, oceans and disaster readiness. The objective of to secure renewed political commitment for sustainable development, assess the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development, and address new and emerging challenges. The conference focused on the following themes: (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development.

State whether the following statements are true or false:

1. To create responsible business behaviour government should ensure that businesses should not hurt or harm society and the environment.
2. The Government does not have the potential to influence corporate behaviour.
3. The voluntary codes of CSR which are outside the realm of government regulation aims at improving sustainable practices of business.
4. The absence of business regulation is good for organisations as well as the society.
5. Government policies, rules and laws are of no use in shaping the regulation of businesses.

M/s CD & Sons are situated at the bank of Yamuna river and are producing chemical toxins. They are disposing the waste material in the nearby river thereby polluting the water and the environment. The people living in this area are about to complaint against them. You are required to suggest them ways of disposing the waste and the importance of the CSR by telling the rules made by the Indian government in this regard.

The world economy witnessed growth during the 20\textsuperscript{th} century. Also the gap between the rich and poor widened. Environment and ecology have taken a beating. The corruption too has taken its toll. The ethics, morals and human values have been the victims of business competition. The situation further deteriorated with the globalization of economy during the last quarter of 20\textsuperscript{th} century. The human values have been relegated to secondary position.

The United Nation Organisation has adopted the Universal Declaration of Human Right during the year 1948. The ILO’s Philadelphia (in USA) declaration of 1944 was the fore runner. This declaration embodies:

- Labour is not a commodity.
- Freedom of expression and of association are essential to sustained progress.
- Poverty anywhere constitutes a danger to prosperity everywhere.
- All human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual
development in conditions of freedom and dignity, of economic
security and equal opportunity.

Thereafter emerged many international Human Rights Standards.
The corporates in both public sector and private sector and those with
transnational operations voluntarily adopted standards to uphold
Human Rights. In pursuit of more sustainable and inclusive global
economy, and to halt environmental and ecological degradation. Sri
Kofi Annan, the Secretary General, UNO, propounded the United
Nations Global Compact (UNGC) in 1999.

At the international level, governmental support is required for
broadening the criteria on which the International Monetary
Fund (IMF) and the World Trade Organisation (WTO) operates,
so that balancing the interests of investors and of the societies
in which they invest is facilitated. Governments are party to
these various international instruments like the United Nations
Universal Declaration of Human Rights, the Convention on the
Rights of the Child, and the core conventions of the International
Labour Organization, now encapsulated in the UN Human Rights
Sub-Commission's draft norms on the Responsibilities of Transnational
Corporations and other Business Enterprises in regard to observing
and respecting human rights. All of these have direct relevance to the
behaviour of companies, but governments fail to interpret them into
practice by amending national legislations. Till the time our laws are
not in place or are amended, governments at the international level
should exert moral pressure on businesses to voluntarily develop
ethical business standards privately, company officials regularly hint
that if voluntary instruments do not work, mandatory approaches will
become necessary.

Support of World Bank in Context to India

The World Bank seeks to strengthen the collaboration between
corporate business strategies and national development priorities
by supporting the Government of India’s Ministry of Corporate
Affairs (MCA) in its efforts to develop the CSR activities of corporate
enterprises. World Bank support is channeled through the Ministry’s
Indian Institute of Corporate Affairs (IICA) for the private sector and
the Department of Public Enterprises (DPE), Government of India for
state owned enterprises.

The main objective of the World Bank’s support – in the form of
ongoing technical assistance – is to foster an enabling environment
for the corporate sector to work towards social inclusion and the
achievement of the Millennium Development Goals in partnership
with government, non-government organizations, civil society
organizations and communities. The cornerstone of this assistance is
the World Bank’s ability to facilitate the sharing of best international
practice – from both developing and industrialized countries – to
inform India’s growing CSR agenda. Key areas of engagement include:
analytical activities, institutional design, shareholder consultations,
capacity building and knowledge sharing.
6. …………….. are party to the various international instruments.
7. Governments at the international level should exert moral pressure on businesses to voluntarily develop …………… business standards.

Make a presentation on the role of the government at international level for the support of CSR.

9.4 VOLUNTARY CODES IN CSR

Apart from government regulations, to develop sustainable business practices, which create both shareholder and societal value, there are various voluntary codes, which are formulated by international NGOs, business associations and UN agencies to guide businesses towards developing responsible practices.

“A voluntary code of conduct is an important element of corporate social responsibility (CSR) commitments on the part of businesses. The objective of the creation of voluntary codes of conduct for companies is to establish public trust in their business practices by demonstrating commitment and efforts to meet the type of behaviour that corresponds to societal expectations.”

9.4.1 OECD GUIDELINES FOR MULTI-NATIONAL CORPORATIONS

The Organisation for Economic Co-operation and Development (OECD) celebrated its 50th anniversary, but its roots go back to the rubble of Europe after World War II. Determined to avoid the mistakes of their predecessors in the wake of World War I, European leaders realised that the best way to ensure lasting peace was to encourage co-operation and reconstruction, rather than punish the defeated.

The OECD Guidelines for Multinational Enterprises are the most comprehensive set of government-backed recommendations on responsible business conduct in existence today. The governments adhering to the Guidelines aim to encourage and maximise the positive impact MNEs can make to sustainable development and enduring social progress. The OECD Guidelines for Multinational Enterprises (MNEs) are recommendations to enterprises made by the Governments of OECD member countries. Their aim is to ensure that

2. http://www.OECD.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html
MNEs operate in harmony with the policies of the countries where they operate. These voluntary standards cover the full range of MNEs’ operations. The Guidelines cover the range of MNE activities. The guidelines aim at good corporate practice and increasing MNEs social accountability. They guide MNEs for designing general operational policies, formulating appropriate information disclosure and systems for finance, taxation, employment and environmental regulation.

9.4.2 ILO CONVENTIONS³

The Core Labour Standards enshrined in the ILO Declaration on Fundamental Principles and Rights at Work (1998) are the basic minimum human rights enshrined within the ILO’s eight specialised conventions. The eight core Conventions are:

- Forced Labour (1930)
- Freedom of Association and Protection of the Right to Organize (1948)
- Right to Organize and Collective Bargaining & Equal Remuneration (1951)
- Equal Remuneration Convention, 1951
- Abolition of Forced Labour (1957)
- Discrimination (Employment and Occupation) (1958)
- Minimum Age Convention (1973)
- Elimination of the Worst Forms of Child Labour (1999)

ILO Conventions and recommendations cover a broad range of subjects concerning work, employment, social security, social policy and related human rights. In today’s globalised economy, international labour standards are essential components in the international framework for ensuring that the growth of the global economy provides benefits to all.

9.4.3 ISO 9000 AND ISO 14000⁴

The ISO issues guidelines for voluntary standardisation for an extremely wide variety of areas, primarily for technical aspects. ISO guidelines are accredited with these standards. More recently, they have developed environmental management standards ISO 14000 series. In addition, the ISO 9000 is a quality management system. ISO is currently in the process of developing an ISO standard for CSR. The guidance standard will be published in 2010 as ISO 26000 and is meant for voluntary use.

ISO 9000

The ISO 9000 family addresses various aspects of quality management and contains some of ISO’s best known standards. The standards

³ www.ilo.org
⁴ http://www.iso.org/iso/home.htm
provide guidance and tools for companies and organizations who want to ensure that their products and services consistently meet customer’s requirements, and that quality is consistently improved. Standards in the ISO 9000 family include:

- **ISO 9001**: 2008 – sets out the requirements of a quality management system
- **ISO 9000**: 2005 – covers the basic concepts and language
- **ISO 9004**: 2009 – focuses on how to make a quality management system more efficient and effective
- **ISO 19011**: 2011 – sets out guidance on internal and external audits of quality management systems.

**ISO 14000**

The ISO 14000 family addresses various aspects of environmental management. It provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance. ISO 14001:2004 and ISO 14004:2004 focus on environmental management systems. The other standards in the family focus on specific environmental aspects such as life cycle analysis, communication and auditing.

**ISO 14001:2004**

ISO 14001:2004 sets out the criteria for an environmental management system and can be certified to. It does not state requirements for environmental performance, but maps out a framework that a company or organization can follow to set up an effective environmental management system. It can be used by any organization regardless of its activity or sector. Using ISO 14001:2004 can provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved.

The benefits of using ISO 14001:2004 can include:

- Reduced cost of waste management
- Savings in consumption of energy and materials
- Lower distribution costs
- Improved corporate image among regulators, customers and the public

**9.4.4 SA8000**

Launched by Social Accountability International in 1997, SA 8000 is a standard addressing labour and workplace conditions. SA8000 builds on ISO 9000 auditing techniques, specifying corrective and preventive actions; encouraging continuous improvement; and focusing on

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5. [www.sa-intl.org](http://www.sa-intl.org)
management systems and documentation proving these systems. SA8000 certification is done by independent, external auditors and relates to the company’s actual performance in regard to labour conditions rather than published performance.

It is one of the world’s first auditable social certification standards for decent workplaces, across all industrial sectors. It is based on conventions of the ILO, UN and national law, and spans industry and corporate codes to create a common language to measure social compliance. It takes a management systems approach by setting out the structures and procedures that companies must adopt in order to ensure that compliance with the standard is continuously reviewed. Those seeking to comply with SA8000 have adopted policies and procedures that protect the basic human rights of workers. Below are the nine elements in the SA8000 Standard:

- **Child Labour**: No use or support of child labour; policies and written procedures for remediation of children found to be working in situation; provide adequate financial and other support to enable such children to attend school; and employment of young workers conditional.

- **Forced and Compulsory Labour**: No use or support for forced or compulsory labour; no required ‘deposits’ - financial or otherwise; no withholding salary, benefits, property or documents to force personnel to continue work; personnel right to leave premises after workday; personnel free to terminate their employment; and no use nor support for human trafficking.

- **Health and Safety**: Provide a safe and healthy workplace; prevent potential occupational accidents; appoint senior manager to ensure OSH; instruction on OSH for all personnel; system to detect, avoid, respond to risks; record all accidents; provide personal protection equipment and medical attention in event of work-related injury; remove, reduce risks to new and expectant mothers; hygiene – toilet, potable water, sanitary food storage; decent dormitories – clean, safe, meet basic needs; and worker right to remove from imminent danger.

- **Freedom of Association and Right to Collective Bargaining**: Respect the right to form and join trade unions and bargain collectively. All personnel are free to: organize trade unions of their choice; and bargain collectively with their employer. A company shall: respect right to organize unions and bargain collectively; not interfere in workers’ organizations or collective bargaining; inform personnel of these rights and freedom from retaliation; where law restricts rights, allow workers freely elect representatives; ensure no discrimination against personnel engaged in worker organizations; and ensure representatives access to workers at the workplace.

- **Discrimination**: No discrimination based on race, national or social origin, caste, birth, religion, disability, gender, sexual
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orientation, union membership, political opinions and age. No discrimination in hiring, remuneration, access to training, promotion, termination, and retirement. No interference with exercise of personnel tenets or practices; prohibition of threatening, abusive, exploitative, coercive behaviour at workplace or company facilities; no pregnancy or virginity tests under any circumstances.

- **Disciplinary Practices:** Treat all personnel with dignity and respect; zero tolerance of corporal punishment, mental or physical abuse of personnel; no harsh or inhumane treatment.

- **Working Hours:** Compliance with laws and industry standards; normal workweek, not including overtime, shall not exceed 48 hours; 1 day off following every 6 consecutive work days, with some exceptions; overtime is voluntary, not regular, not more than 12 hours per week; required overtime only if negotiated in CBA.

- **Remuneration:** Respect right of personnel to living wage; all workers paid at least legal minimum wage; wages sufficient to meet basic needs & provide discretionary income; deductions not for disciplinary purposes, with some exceptions; wages and benefits clearly communicated to workers; paid in convenient manner – cash or check form; overtime paid at premium rate; prohibited use of labor-only contracting, short-term contracts, false apprenticeship schemes to avoid legal obligations to personnel.

- **Management Systems:** Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

**Activity**

Visit the website www.ilo.org and find out more about the fundamental and governance conventions and the benefits of international labour standards.

### 9.4.5 UN DRAFT PRINCIPLES FOR BEHAVIOUR OF TRANS-NATIONAL CORPORATIONS

These draft principles drawn up by a working group of the UN Subcommittee on Human Rights would provide an internationally binding set of principles by which TNCs should operate. The principles are broad in that they include aspects of non-discrimination, war crimes, workers’ rights, environmental protection, and consumer protection as well as interpreting TNCs’ responsibilities with regard to international law. However, it remains to be seen whether the UN Human Rights Committee and eventually national governments will ever ratify these draft principles and thus make them binding.

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under international law. It is also unclear what, if any, enforcement mechanism would be included in this mechanism.

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

- **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.

9.4.6 **LEED**

The LEED (Leadership in Energy and Environmental Design) Green Building Rating System® is a voluntary, consensus-based national standard for developing high-performance, sustainable buildings. LEED provides a complete framework for assessing building performance and meeting sustainability goals. It emphasises state of the art strategies for sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality. LEED recognises achievements and promotes expertise in green building through a comprehensive system offering project

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1. www.usgbc.org/LEED/
certification, professional accreditation, training and practical resources. To receive LEED certification, building projects satisfy prerequisites and earn points to achieve different levels of certification. Prerequisites and credits differ for each rating system, and teams choose the best fit for their project.

**Continuous Improvement**

Behind the LEED program is an immense infrastructure developed to support the leaders in the industry as they innovate and create cutting-edge, high performance buildings. We make significant investments each year to maintain, operate and improve LEED and its delivery. No other rating system has an infrastructure that comes close.

**Lifetime of Returns**

LEED-certified buildings cost less to operate, reducing energy and water bills by as much as 40%. Businesses and organizations across the globe use LEED to increase the efficiency of their buildings, freeing up valuable resources that can be used to create new jobs, attract and retain top talent, expand operations and invest in emerging technologies.

LEED buildings have faster lease-up rates and may qualify for a host of incentives like tax rebates and zoning allowances. Not to mention they retain higher property values.

**9.4.7 GRI**

Global Reporting Initiative’s (GRI) Sustainability Reporting Guidelines set a globally applicable framework for reporting the economic, environmental, and social dimensions of an organisation’s activities, products, and services. It is the most widely used and internationally recognised standard for corporate sustainability measurement and reporting. The cornerstone of the Framework is the Sustainability Reporting Guidelines. As a result of the credibility, consistency and comparability it offers, GRI’s Framework has become a de facto standard in sustainability reporting.

Sustainability is a journey. Along the way, organizations need to set goals, measure performance, and integrate a sustainability strategy into their core planning. GRI’s Reporting Framework allows all organizations to take the first steps towards a sustainable global economy.

Some of the distinctive elements of GRI’s Framework – and the activity that creates it – include:

**Multi-stakeholder input**: GRI’s approach is based on multi-stakeholder engagement; this is considered the best way to produce universally-applicable reporting guidance that meets the

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8. [http://www.globalreporting.org](http://www.globalreporting.org)
needs of all report makers and users. All elements of the Reporting Framework are created and improved using a consensus-seeking approach, and considering the widest possible range of stakeholder interests. Stakeholder input to the Framework comes from business, civil society, labor, accounting, investors, academics, governments and sustainability reporting practitioners.

**A record of use and endorsement:** Every year, an increasing number of reporting organizations adopt GRI’s Guidelines. From 2006 to 2011, the yearly increase in uptake ranged from 22 to 58 percent. New audiences for sustainability information, like investors and regulators, are now calling for more and better performance data. Annual growth in the number of reporters is expected to continue, as GRI works for more reporters and better reporting.

**Governmental references and activities:** GRI was referenced in the Plan of Implementation of the UN World Summit on Sustainable Development in 2002. Use of GRI’s Framework was endorsed for all participating governments. Several governments consider GRI’s Framework to be an important part of their sustainable development policy, including Norway, the Netherlands, Sweden and Germany.

**Independence:** GRI’s governance structure helps to maintain its independence; geographically diverse stakeholder input increases the legitimacy of the Reporting Framework. GRI’s funding approach also ensures independence. GRI is a stichting – in Dutch, a non-profit foundation – with a business model that aims for a degree of self-sufficiency. Funding is secured from diverse sources; governments, companies, foundations, partner organizations and supporters.

**Shared development costs:** The expense of developing GRI’s reporting guidance is shared among many users and contributors. For companies and organizations, this negates the cost of developing in-house or sector-based reporting frameworks.

**Bridge building:** GRI’s basis in multi-stakeholder engagement contributes to its ability to build bridges between different actors and sectors – like business, the public sector, labor unions and civil society – and to mediate.

**9.4.8 DOW JONES SUSTAINABILITY INDEX**

The Dow Jones Sustainability Indices were launched in 1999 as the first global sustainability benchmarks and is described as the first global index tracking the financial performance of the leading sustainability-driven companies worldwide. The family tracks the stock performance of the world’s leading companies in terms of economic, environmental and social criteria. Company questionnaire is designed to assess opportunities and risks deriving from economic, environmental and social activities of companies. Inclusion in the Index is a competitive process; selection is considered a mark of distinction for companies that want investors to see them as sustainability leaders.

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http://www.sustainability-index.com
The Dow Jones Sustainability Indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices.

9.4.9 FTSE4GOOD

The FTSE4Good Index Series was created by FTSE, a respected global financial index company based in Britain, in response to the increasing interest in Socially Responsible Investment (SRI). Its inclusion criteria measure the performance of companies that meet globally recognised corporate responsibility standards. The visibility and reputation of FTSE4Good provides companies with a powerful vehicle to communicate their CSR achievements. FTSE indices are used extensively by a range of investors such as consultants, asset owners, fund managers, investment banks, stock exchanges and brokers. The indices are used for purposes of: investment analysis, performance measurement, asset allocation, portfolio hedging and creation of index tracking funds.

FTSE4Good can be used in four main ways:

- **Investment:** As a basis for creating index-tracking investments, financial instruments or fund products focusing on responsible investment
- **Research:** To identify environmentally and socially responsible companies
- **Reference:** As a reference by which companies with a transparent and evolving global corporate responsibility standard can assess their progress and achievement
- **Benchmarking:** As a benchmark index to track the performance of responsible investment portfolios

All rights in the FTSE4Good Ratings vest in FTSE and EIRIS (“EIRIS”). “FTSE” is a trade mark of the London Stock Exchange plc and is used by FTSE under licence. “EIRIS” is a trade mark of EIRIS. Neither FTSE nor EIRIS nor their licensors shall be liable (including in negligence) for any loss arising out of use of FTSE4Good Ratings by any person. Distribution of the FTSE4Good Ratings and the use of the FTSE4Good Ratings to create financial products requires a licence from FTSE.

**ACTIVITY**

Make a report on the global trends highlighting the need for human rights principles for transnational corporations and other business enterprises in about 250 words.

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**http://www.ftse.com/ftse4good/index.jsp**
9.4.10 SMART GROWTH NETWORK\[11\]
The Smart Growth Network (SGN) is a partnership of government, business and civic organizations that support smart growth. It was formed in response to increasing community concerns about the need for new ways to grow local communities while boosting the economy, protecting the environment, and enhancing community vitality. Its focus is on community engagement and development, with emphasis on integrative solutions to a mix of community issues, such as traffic, housing, employment and environment. Smart Growth is gaining attention in recent years because it provides an alternative to single-issue focus; engages companies and stakeholders in productive problem solving. It is widely used by companies that seek to build strong community bonds.

Since its creation in late 1996, the Network has become a storehouse of knowledge about smart growth principles, facilitating the sharing of best practices and acting as a catalyst for implementation of ideas.

The Smart Growth Network is led by a core group of partner organizations. The SGN Web site, Smart Growth Online, features an extensive array of smart growth-related news, events, information, research, presentations, and publications.

9.4.11 EQUATOR PRINCIPLES\[12\]
The Equator Principles is a framework for financial institutions to manage environmental and social issues in project financing. The Principles are intended to serve as a common baseline for the implementation of individual, internal, environmental and social procedures and standards for project financing activities across all industry sectors globally. The Principles were developed and adopted by IFC and 20 of the world’s leading banks, and quickly became a global market standard for availing project finance.

The EP apply globally, to all industry sectors and to four financial products (1) Project Finance Advisory Services, (2) Project Finance, (3) Project-Related Corporate Loans and (4) Bridge Loans. The relevant thresholds and criteria for application is described in detail in the Scope section of the EP.

Currently 79 Equator Principles Financial Institutions (EPFIs) in 34 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets.

EPFIs commit to implementing the EP in their internal environmental and social policies, procedures and standards for financing projects and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to, comply with the EP.

\[11\] http://www.smartgrowth.org
\[12\] http://www.equator-principles.com
While the EP are not intended to be applied retroactively, EPFIs apply them to the expansion or upgrade of an existing project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact.

The EPs have greatly increased the attention and focus on social/community standards and responsibility, including robust standards for indigenous peoples, labour standards, and consultation with locally affected communities within the Project Finance market. They have also promoted convergence around common environmental and social standards. Multilateral development banks, including the European Bank for Reconstruction and Development, and export credit agencies through the OECD Common Approaches are increasingly drawing on the same standards as the EPs.

The EPs have also helped spur the development of other responsible environmental and social management practices in the financial sector and banking industry (for example, Carbon Principles in the US, Climate Principles worldwide) and have provided a platform for engagement with a broad range of interested stakeholders, including non-governmental organisations (NGOs), clients and industry bodies.

9.4.12 UN GLOBAL COMPACT

The UN Global Compact is a framework for business that are committed to aligning their operations and strategies with ten universally accepted principles. The universally accepted ten Principles are derived from: The Universal Declaration of Human Rights; ILO’s Declaration of Fundamental Principles and Rights at Work; The Rio Declaration of Environment and Development; and the UN Convention against Corruption. By doing so, business, as a primary agent driving globalisation can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. The Global Compact asks companies to embrace, support and enact their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

- **Human Rights:** (i) Business should support and respect the protection of internationally proclaimed human rights; (ii) Make sure that they are not complicit in human right abuses.

- **Labour Standards:** (i) Business should uphold the freedom of association and effectively recognize the right to collective bargaining; (ii) The elimination of all forms of forced and compulsory labour; (iii) The effective abolition of child labour; (iv) The elimination of discrimination in respect of employment and occupation.

- **Environment:** (i) Business should support a precautionary approach to environmental challenges; (ii) Undertake initiatives

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13. [http://www.unglobalcompact.org/AboutTheGC/](http://www.unglobalcompact.org/AboutTheGC/)
to promote greater environmental responsibilities; (iii) Encourage the development and diffusion of environmentally friendly technologies.

- **Anti-corruption:** (i) Business should work against corruption in all its forms, including extortion and bribery.

The Global Compact is a leadership platform, endorsed by Chief Executive Officers, and offering a unique strategic platform for participants to advance their commitments to sustainability and corporate citizenship.

The UN Global Compact works toward the vision of a sustainable and inclusive global economy which delivers lasting benefits to people, communities, and markets.

To help realize this vision, the initiative seeks to:

- Mainstream the Global Compact’s Ten Principles in business strategy and operations around the world; and
- Catalyze business action in support of UN goals and issues, with emphasis on collaboration and collective action.

With these objectives in mind, the Global Compact has shaped an initiative that provides collaborative solutions to the most fundamental challenges facing both business and society. The initiative seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector’s solution-finding strengths, and the expertise and capacities of a range of key stakeholders. The Global Compact is global and local; private and public; voluntary yet accountable.

The benefits of engagement include the following:

- Adopting an established and globally recognized policy framework for the development, implementation, and disclosure of environmental, social, and governance policies and practices.
- Sharing best and emerging practices to advance practical solutions and strategies to common challenges.
- Advancing sustainability solutions in partnership with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests.
- Linking business units and subsidiaries across the value chain with the Global Compact’s Local Networks around the world — many of these in developing and emerging markets.
- Accessing the United Nations’ extensive knowledge of and experience with sustainability and development issues.
- Utilizing UN Global Compact management tools and resources, and the opportunity to engage in specialized work streams in the environmental, social and governance realms.
International frameworks used to implement CSR at the business level are linked to: labour standards; International labour standards; Human rights: Global Compact, Human Rights Assessment; UN declaration: a mixture of the two – OECD guidelines, International Business Leaders Forum (IBLF); Sector initiatives: EUREPGAP, Ethical Trading Initiative or Codes of Conduct.

9.4.13 COALITION OF ENVIRONMENTALLY RESPONSIBLE ECONOMIES\textsuperscript{14} (CERES)

The CERES is a non-profit organization advocating for sustainability leadership. They mobilize a powerful network of investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy.

CERES is uniquely situated at the nexus of the business, investment and advocacy communities. Drawing on the expertise of the CERES Coalition, they convene and direct stakeholder engagements with CERES network companies to find smart strategies and meaningful performance improvements on key environmental and social issues. They unique engagement model features diverse teams of credible, external stakeholders that provide ongoing input to companies on policies, strategies, disclosure and bottom-line performance.

The CERES report is a standardised format for corporate environmental reporting developed through collaboration by companies, institutional investors and environmental organisations. The CERES report establishes the environmental performance data that should be disclosed, suggests methods of measurement, and helps companies quantify their environmental performance. The reports undergo a joint pre-publication review to ensure conformity to the standard.

The Global Initiative for Sustainability Ratings (GISR) is an independent, global, non-commercial, initiative whose mission is to create a world-class corporate sustainability ratings standard as an instrument for transforming the definition of value and value creation by business in the 21\textsuperscript{st} century in a way that aligns with the national and global sustainability agenda.

The last decade has witnessed the rise of sustainability as a defining element of responsible business strategy and performance. As organizations work to address the sustainability challenges of the 21\textsuperscript{st} century, financial markets must develop better ways to assess sustainability performance.

CERES and the Tellus Institute have partnered on the Global Initiative for Sustainability Ratings (GISR) to create a non-commercial, generally accepted sustainability ratings standard that meets the highest standards of technical excellence, independence and transparency.

\textsuperscript{14} \url{http://www.ceres.org/page.aspx?pid=705}
Tracking results, analyzing data and implementing actions that address sustainability risks and opportunities can no longer be treated as optional, but must instead become integral to a company’s way of doing business. Transparent information not only helps to decrease risk but also highlights sustainability opportunities that have enormous value potential.

Choose the correct option:

8. Issue of forced labour is addressed by:
   (i) LEED  
   (ii) OECD  
   (iii) CERES  
   (iv) ILO

9. Smart Growth Network deals with:
   (i) Financial development of firms  
   (ii) Labour issues  
   (iii) Community development  
   (iv) Sustainable Reporting

10. As per UN Draft principles, TNCs should not:
    (i) Discriminate  
    (ii) Exploit consumers  
    (iii) Exploit labour rights  
    (iv) All of the above

11. LEED is:
    (i) Leadership in Energy and Environmental Design  
    (ii) Leadership in Efficiency and Environmental Design  
    (iii) Leadership in Energy and Ethics Design  
    (iv) Leadership in Ethics and Environmental Design

12. The focus of Smart Growth Network (SGN) is on:
    (i) Ensuring conformity to the standard  
    (ii) Community engagement and development  
    (iii) Increasing use of interest in socially responsible investment  
    (iv) None of the above

Fill in the blanks:

13. The objective of the creation of voluntary .................. for companies is to establish public trust in their business practices.

Contd...
14. The aim of ............ guidelines is to ensure that MNEs operate in harmony with the policies of the countries where they operate.

15. Dow Jones Sustainability Index (DJSI) is described as the first global index tracking the ............ performance of the leading sustainability-driven companies worldwide.

16. The CERES report is a standardised format for corporate ................. reporting.

17. ......................... is launched by Social Accountability International in 1997.

**ACTIVITY**

Visit the website www.unglobalcompact.org and find out about the role of business in respecting and supporting rights of indigenous peoples at UN permanent forum on indigenous issues.

### 9.5 SUMMARY

- Globalisation has changed the role of the state in the market and consequently the basis on which private enterprise operates.

- Globalisation of the supply chain has pressurised countries to review its own laws for regulating business behaviour with its stakeholders.

- Though government has a fundamental role in setting up the parameters for the private sector, CSR voluntary standards developed at the international level today are influencing the way in which industries operate around the globe. This is certainly true in India given its dependence on export-led economic growth.

- The voluntary code of conduct requires firms to adopt policies that sometimes exceed national legal requirements.

- CSR codes may take the form of individual company codes, sector-based codes (for sectors such as energy, forestry, chemicals and textiles and apparel) as well as voluntary codes made by national governments or by international organisations such as the UN or the OECD. Voluntary codes of conduct that govern social and environmental impacts of companies without state enforcement constitute a relatively new approach to solving societal problems.

- To accelerate the process of developing sustainability the task for the government is to make sure that the process of global economic and social change activated by business is managed properly and fairly.

- CSR is not just a management tool for business. It can be a powerful ally of public policy in the social and environmental field, both within our borders and beyond.
The OECD Guidelines for Multinational Enterprises are the most comprehensive set of government-backed recommendations on responsible business conduct in existence today.

The Core Labour Standards enshrined in the ILO Declaration on Fundamental Principles and Rights at Work (1998) are the basic minimum human rights enshrined within the ILO’s eight specialised conventions.

There are nine elements in the SA8000 Standard such as Child labour, forced and compulsory labour, Health and safety, Freedom of Association and Right to Collective Bargaining, Discrimination, Disciplinary Practices, Working hours, Remuneration, Management system.

The LEED (Leadership in Energy and Environmental Design) Green Building Rating System® is a voluntary, consensus-based national standard for developing high-performance, sustainable buildings.

The Equator Principles is a framework for financial institutions to manage environmental and social issues in project financing.

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies in the areas of labour, environment and anti-corruption.

Dow Jones Sustainability Indices: The Dow Jones Sustainability Indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices.

ISO9000: The ISO 9000 family addresses various aspects of quality management and contains some of ISO’s best known standards.

ISO 14000: The ISO 14000 family addresses various aspects of environmental management. It provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance.

FTSE4Good Index: This is a measure of socially responsible investments.

Global Reporting Initiatives: Gives global guidelines for sustainability reporting.


OECD Guidelines: Ensures that MNEs work in consonance with host country’s policies.

Contd...
NOTES

- **SA 8000**: Addresses labour and workplace conditions.
- **Smart Growth Network**: Focuses on community engagement and development.
- **UN Global Compact**: Initiative for businesses that align their operations and strategies in areas of labour, anticorruption and environment.
- **Voluntary Codes**: Govern social and environmental impact of business without enforcement of law.

### 9.6 DESCRIPTIVE QUESTIONS

1. What is the role of the government in shaping business behaviour?
2. What are voluntary codes? Discuss any two voluntary codes and its importance in developing sustainable business.
3. In your opinion should governments regulate business behaviour? Justify your answer with suitable examples.
5. Discuss in brief about DOW Jones Sustainability Index.
6. What are the OECD guidelines for multi-national corporations?
7. Explain UN draft principles for behaviour of trans-national corporations.

### 9.7 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
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<tbody>
<tr>
<td>Role of Government</td>
<td>1.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>False</td>
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<tr>
<td></td>
<td>3.</td>
<td>True</td>
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<td></td>
<td>4.</td>
<td>False</td>
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<tr>
<td></td>
<td>5.</td>
<td>False</td>
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<tr>
<td>Government Support at International Level</td>
<td>6.</td>
<td>Governments</td>
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<td></td>
<td>7.</td>
<td>Ethical</td>
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<td>Voluntary codes in CSR</td>
<td>8.</td>
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<td>Codes of conduct</td>
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<td>Environmental</td>
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<td></td>
<td>17.</td>
<td>SA 8000</td>
</tr>
</tbody>
</table>
HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 9.2

CSR when not backed by a well-defined legal and political framework does not serve to motivate corporate behaviour to be socially responsible.

2. Refer 9.4

Apart from government regulations, to develop sustainable business practices, which create both shareholder and societal value, there are various voluntary codes, which are formulated by international NGOs, business associations and UN agencies to guide businesses towards developing responsible practices.

3. Refer 9.3

The corporates in both public sector and private sector and those with transnational operations voluntarily adopted standards to uphold Human Rights.

4. Refer 9.4.3

The ISO issues guidelines for voluntary standardisation for an extremely wide variety of areas, primarily for technical aspects.

5. Refer 9.4.8

The Dow Jones Sustainability Indices were launched in 1999 as the first global sustainability benchmarks and is described as the first global index tracking the financial performance of the leading sustainability-driven companies worldwide.

6. Refer 9.4.1

The OECD Guidelines for Multinational Enterprises are the most comprehensive set of government-backed recommendations on responsible business conduct in existence today.

7. Refer 9.4.5

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

9.8 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


- FTSE4 GOOD
NOTES

- **UN Draft Principles for Behaviour of Trans-National Corporations**
  
  [Link](www2.ohchr.org/english/issues/globalization/business/docs/lawhouse2.doc)

- **UN Global Compact**
  
  [Link](http://www.unglobalcompact.org/AboutTheGC/)


- CorporateResponsibility–WhoisResponsible/file/corporateres.pdf

E-REFERENCES

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- [http://www.globalreporting.org](http://www.globalreporting.org)
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- [http://www.iso.org/iso/home.htm](http://www.iso.org/iso/home.htm)
- [www.usgbc.org/LEED/](http://www.usgbc.org/LEED/)
- [http://www.smartgrowth.org](http://www.smartgrowth.org)
- [www.sa-intl.org](http://www.sa-intl.org)
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CG AT INFOSYS

The first Indian company that was awarded the CMM Level 5 certification by the SEI, Carnegie Mellon University was also the first Indian IT company to be enlisted on NASDAQ. For over three decades, Infosys has been the torchbearer of clean corporate governance. The most notable of the seven founding members and the present CEO N R Narayana Murthy has chaired the SEBI Committee on corporate governance, been a regular speaker at conferences on the same and during his first stint with Infosys walked the talk. He along with the other founding members of the company laid down a framework for corporate governance and culture that was based on meritocracy. Ownership and management were divorced. It was made amply clear that family members of any of the founding members would not be entitled to official appointments at the board level. Murthy and his peers had also specified a strict retirement age for all board members and directors of the company.

Over the next three decades leadership changed hands. The Indian IT industry witnessed stiff challenges, a strengthening rupee and the global meltdown of 2008. In the new millennium when HCL Technologies beat Infosys in the race for acquiring Axon in the United Kingdom, industry watchers raised few eyebrows. Yet, the overall mood was cautiously optimistic. When Infosys lost the position of being the second largest software exporter in India to Cap Gemini in 2012, it was clear that the Infosys 3.0 vision was eroding fast. The situation called for corrective action. In 2013, the former CEO of the company N R Narayana Murthy, on request from the board of directors made a comeback to the company. Moreover, this time his son Rohan Murthy, a Junior Fellow in the Society of Fellows at Harvard with a PhD in computer science, accompanied him.

If the first innings of N R Narayana Murthy was about creating an example of corporate governance, the second innings was about tweaking the corporate governance model to steer the company (and perhaps his legacy) to safety shores. Corporate India watched in abysmal silence as Infosys powered by the return of its most charismatic leader announced a fight back in the stock markets. June 2013 marks the completion of one-year term of Murthy in his second stint at Infosys. If corporate governance is about safeguarding the interests of shareholders, Murthy is a hero. Infosys stocks have risen by more than fifty percent since his return. If corporate governance is defined as adhering to a protocol of conduct, then perhaps the definition should be changed.
After studying this chapter, you should be able to:

- Understand the concept and need for corporate governance
- Understand the role of main constituents of corporate governance
- Discuss the growth of corporate governance at local and global level
- Know the role and functions of independent directors and the Board
- Examine the theories of corporate governance
- Discuss the need to strengthen good corporate governance in India

10.1 INTRODUCTION

Corporations around the world are increasingly recognising that sustained growth of their organisation requires cooperation of all stakeholders, which requires adherence to the best corporate governance practices. In this regard, the management needs to act as trustees of the shareholders at large and prevent asymmetry of benefits between various sections of shareholders, especially between the owner-managers and the rest of the shareholders. The issues of governance, accountability and transparency in the affairs of the company, as well as about the rights of shareholders and the role of Board of Directors have never been as prominent as they are today. Corporate governance malpractices such as the scandals of Enron, WorldCom, Lehman Brothers and the dramatic decline of stock markets have fuelled an age-old debate on the fundamental issues of corporate governance: for what purpose the corporation exists and whose interests it serves.

10.2 CORPORATE ETHICS

The word ‘ethics’ has originated either from the Latin word “Ethicus” or the Greek word “Ethicos”. Both these words originated from the word “ethos” which means character. Ethics is a system of moral principles, rules, and conduct. As a science of moral principles, ethics gives guidelines such as “what is right?” and “what is wrong?”

Ethical problems are faced by people in all the countries and at all times. In all organisations, family business and religions, situations arise that demand right decisions. Centuries ago, Duryodhana said in the Mahabharata: “I know what is right but I am not able to act accordingly, I also know what is wrong but I am not able to restrain myself doing it”.

The famous Indian philosopher Kautilya says, “We are shaped by our thoughts. We become what we think, when the mind is pure, joy follows like a shadow that never leaves”.

Ethics can be described as philosophy in action. Business ethics is a branch of ethics dealing with application of ethical principles in business. The human beings have freedom of action to communicate good or bad to the world. While good acts are performed, people are happy and period of good activity is called the golden era.

Ethics encourages constructive actions. There are three types of constructive actions:

- Certain obligatory actions to be performed by every individual, such as good quality products, fair price and customer care; the non-performance of these activities bring disgrace.
- Certain activities are to be prohibited such as false weighing, inferior quality and high prices.
- Certain other actions, called optional actions bring goodness and welfare to all.

Example: Handling a grievance of a customer is an optional activity.

The level of ethical action in a society depends on the goodwill and maturity of the society. Higher the level of ethical action, grater is the status of the society. The purpose of ethical action is to welcome the good and the avoidance of bad, “Service to man is the service to God” is a sound and wise principle, Indian tradition “Sarve Janaahaa Sukhino Bhavantu” (let all the people be happy) is very much relevant in these days of globalisation.

**Scope of Corporate Ethics**

Corporate ethics is simply applying the basic principles of ethics to the field of business which is the major area of making profit. Corporate ethics demonstrate that profit can be made on a sustainable basis by following certain norms and respecting other. Indian goals have to be combined to achieve mutual benefits. An effective team can be limit based on ethical practices.

Corporate ethics is not just compliance to law. One firm can observe the law but can be unmindful of fair practices. On many occasions, contract labour practices have been unfair and unethical. Exploitation takes place in one form or the other.

The corporate ethics programmes and policies should be top-driven. The success of ethical programme in an organisation depends on the degree of commitment by the top management.

Corporate ethics are not just related to an individual but to the whole organisation. They are concerned with a group that involves in all activities of businesses line production, purchase, selling, finance and managing.
Corporate ethics are shifting the focus from shareholders to stockholders. Business ethics are concerned with a code of ethics and not merely a code of conduct.

**Three Principles of Corporate Ethics**

The following are the abiding principles of ethics:

- **Standardisation:** Favouritism and partiality should be discouraged. Double standards have to be given up. Standardised rules should be adopted which promotes a uniform standard for all and, hence, everybody will be happy with the administration. There is no place for ill-will or frustration.

- **Workable:** The rules of corporate ethics should be practical and workable so that tangible benefits can be experienced. The benefits of business corporate should be made available to all the stockholders. The rules of the business should not suffer from a theoretical bias and work for practical purposes.

- **Driven form the Top:** Corporate ethics should always be driven from the top. Corporate ethics can work only isf the top management is seriously committed to it. Unless and until, the top management is committed to ethical considerations, the implementation of ethical programmes would be difficult to be implemented.

**SELF ASSESSMENT QUESTIONS**

Choose the correct option:

1. Corporate ethics is shifting the focus from shareholders to:
   
   - (i) Creditors
   - (ii) Stockholders
   - (iii) Government
   - (iv) All of the above

**ACTIVITY**

Visit the website www.forbes.com and find out about the ethics violations by top 5 CEOs and make a presentation.

**10.3 ETHICS AND FUNCTIONAL AREAS OF BUSINESS**

A variety of factors is responsible for the operation of business ethics:

- **Leadership:** Business is all about the interaction of customers, suppliers, employees, financiers and managers. An effective leadership is very much required for the success of business.
Bill George says: “There is no conflict between serving all your stockholders and providing excellent returns for stockholders. In the long-term, it is impossible to have one without the other. However, serving all these stockholders groups requires discipline, vision and committed leadership”. If a leader is strong and follows good skills, he will attain success in his goals.

A value-based leader can lead others on the basis of sound values and effective processes. The ethical leader frames actions in ethical terms. According to the ethical leader, leadership is a fully ethical task.

Example: Johnson and Johnson responded to the Tylenol incident after it held a series of challenge meetings all round the world.

Above all, the ethical leaders search best people and develop them.

- **Strategy and Performance**: Ethics is closely related to the strategy followed by the business organisations. An ideal strategy should not be limited to generated revenue only. It should take into account the ethical values engendered by the proposed decisions.

  Corporate governance is the formal system of accountability and control of ethical organisational decisions involving the use of resources. Accountability for organisational decisions begins with a strategic mission and vision.

  An effective board of directors serves as a type of insurance against the business cycle and fluctuations of the economy. Many investors believe in the stockholder model of corporate governance. A stockholder model follows a strategy of social investing in terms of which social and ethical criteria are integrated in investment decisions.

- **Environment**: Business ethics is also divided by the type of environment in which a business organisation is situated. There are two aspects of environment, namely external and internal. Internal environment refers to all aspects like vision, mission, power structure and other related matters. External environment refers to elements which are outside the organisation like government policy, monetary policy, fiscal policy, general economic conditions and labour standards. These factors influence business ethical practices.

- **Corporate Culture**: The corporate culture varies from company to company and time to time. It all depends on the nature of leader; the competition should be healthy, based on fair rules. A good corporate culture should take care of the interests of all the stockholders. It should take care of the customers and employees.

  Culture is a body of learnt beliefs, traditions and guides for behaviour among the members of an organisation. Corporate
culture includes norms, physical settings, modes of dress, special language, rituals, heroes and stories.

Organisational culture may be strong or weak. In a strong culture, the standards and guidelines are known and shared by all. It is providing the behaviour of all on a day-to-day basis.

Corporations are paying attention to ethical programmes. An ethical programme consists of the rules and policies of an organisation by motivating ethical performance. Rules and policies are framed for orientation, training, compensation, promotion and auditing.

- **Individual Characteristics**: The individual characteristics influence the ethical behaviour. Many ethical issues are related to individuals.

  *Example*: Sexual harassment is an individual matter; the individuals may differ in their characteristics from one extreme to the other with regard to ethics. Some others are extremely unethical. There are many in between these two extremes.

### SELF ASSESSMENT QUESTIONS

1. Fill in the blank:
2. A value-based leader can lead others on the basis of sound .......... and effective processes.

### ACTIVITY

Conduct a survey in 5 private sector banks and find out the various factors which influence their ethical behaviour.

### 10.4 WHAT IS CORPORATE GOVERNANCE?

There is no single definition of Corporate Governance. “Corporate governance is traditionally defined as the ways in which a firm safeguards the interests of its financiers (investors, lenders, and creditors). The modern definition calls it the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in the firm’s relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). This framework consists of (1) explicit and implicit contracts between the firm and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.”¹

¹ Corporate Governance. (n.d.). Available at http://www.businessdictionary.com/definition/corporate-governance.html
In the words of Narayan Murthy, Chief Mentor, Infosys, “Corporate governance is maximising the shareholder value in a corporation while ensuring fairness to all stakeholders, customers, employees, investors, vendors, the government and the society-at-large. Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run. It is about owners and the managers operating as the trustees on behalf of every shareholder - large or small.”

State whether the following statements are true or false:

3. Traditional view of corporate governance means the ways in which a firm safeguards the interests of all stakeholders.

4. According to Narayan Murthy “Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run.”

The three key constituents of corporate governance are (a) the Board of Directors, (b) the Shareholders, and (c) the Management. A brief description about the same is given below.

**Board of Directors**

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organisation. The board’s activities are determined by the powers, duties, and responsibilities delegated to it or conferred on it by an authority outside itself. These matters are typically detailed in the organisation's byelaws. The byelaws commonly also specify the number of members of the board, how they are to be chosen, and when they are to meet.

**Shareholders**

Any person, company, or other institution that owns at least one share in a company is known as a shareholder. A shareholder may also be referred to as a “stockholder”. Shareholders are the owners of a company. They have the potential to profit if the company does well, but that comes with the potential to lose if the company does poorly.

As owners of companies, shareholders are required to play an active role in exercising their rights. They can bring the company directors to task if they believe that the business is not being run in the best interest of the company. By participating actively, shareholders can encourage openness, integrity and above all, accountability of
the board and in so doing, enhance the practice of good corporate governance.

Management

The term management means “senior management.” It means personnel of the company who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

Table 10.1 describes the roles of the constituents in Corporate Governance.

<table>
<thead>
<tr>
<th>TABLE 10.1: ROLE OF CONSTITUENTS</th>
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<tbody>
<tr>
<td>Constituents</td>
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<tr>
<td>Board of Directors</td>
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<tr>
<td>Shareholders</td>
</tr>
<tr>
<td>Management</td>
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</tbody>
</table>

Self Assessment Questions

Fill in the blank:

5. The three key constituents of corporate governance are the Board of Directors, ...........and the management.
10.6 CORPORATE GOVERNANCE DEBATE

Corporate governance is concerned with the regulation, supervision, or performance and conduct oversight of the corporation. The orthodox view is that the aim of corporate governance is to ensure that suppliers of capital (stockholders) get a return on their investment by increasing the profits of the business. The modern view of corporate governance is beyond the realm of law. It cannot be regulated by legislation alone. Legislation can only lay down a common framework – the “form” to ensure standards. The “substance” will ultimately determine the credibility and integrity of the process. Substance is inexorably linked to the mindset and ethical standards of management. Hence, companies should add value to as many organisational stakeholders as is practicable (Bain & Band, 1996). This reflects a movement that requires firms to take a more responsible and ethical role in their societal context focused upon the notion of “corporate citizenship”. The focus here is on stakeholders (people or organisations with an interest or concern - which may or may not be financial - in a firm). The debate between the continuum of stockholder versus stakeholders has taken a centre stage and is a matter of debate both at local as well as global level.

SELF ASSESSMENT QUESTIONS

Choose the correct option:

6. The orthodox view of corporate governance is concerned with the:
   (i) Financial statements
   (ii) Labour issues
   (iii) Suppliers of capital
   (iv) Stakeholders

ACTIVITY

Conduct a debate and find out the views of people regarding the corporate governance and make a report.

10.7 THEORIES OF CORPORATE GOVERNANCE

Studies of corporate governance practices across several countries conducted by the Asian Development Bank, International Monetary Fund, Organisation for Economic Cooperation and Development and the World Bank reveal that there is no single model of good corporate governance. Amongst a couple of theories of corporate governance, there are two main theories: (a) Shareholder-oriented governance: the Principal-Agent or finance model and (b) Stakeholder- oriented model.
The Principal-Agent model starts from an assumption that the social purpose of corporations is to maximise shareholders’ wealth (Coelho et al., 2003; Friedman, 1970). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal’s objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Berle & Means, 1932). There are two problems in this model. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk (Eisenhardt, 1989, p. 58). The principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most effective regulators of managerial discretion.

Perhaps the most fundamental challenge to the orthodoxy is the ‘Stakeholder model’, with its central proposition that a wider objective function of the firm is to be more equitable and more socially efficient than one confined to shareholder wealth (Keasey et al., 1997, pp. 8-9). The well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a “stake” in its long-term success, is recognised. The goal of corporate governance is to maximise the wealth creation of the corporation as a whole. Specifically, a stakeholder is defined as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984, p. 25), and this is “meant to generalise the notion of stockholder as the only group to whom management needs to be responsive” (Freeman, 1984, p. 31). These definitions were formulated from the base that modern corporation is affected by a large set of interest groups, including shareholders, lenders, customers, employees, suppliers and management, which are often referred to as the primary stakeholders, who are vital to the survival and success of the corporation. To these the corporation adds secondary stakeholders, such as the local community, the media, the courts, the government, special interest groups and the general public, that is society in general.

Proponents of the stakeholder model hold that its efficiency is demonstrable in two principal ways (Keasey et al., 1997). The first shows that firms developing a reputation for the ethical treatment of suppliers, customers and employees are able to build up trust relations, which support profitable investments and mutually beneficial exchanges. This is because ethical behaviour reduces the costs of social association. If firms build a reputation for ethical collaborations over a long period,
they are able to substitute co-operative outcomes for unsatisfactory and unethical ones. Hence, they are better able to pursue competitive advantage through both internal and external relationships (Jones, 1995). The second argument for the efficiency of this approach draws on Japan and Germany as examples of successful industrial societies in which extensive stakeholder involvement with the firm is pervasive, and typically, corporate goals are defined more widely than shareholders’ profits. In both countries, the corporation is viewed as an enduring social institution, with personality, character and aspirations of its own, with a proper public interest - the interests of a wide range of stakeholder groups, and with public responsibilities (Kay & Silberston, 1995). In both countries, suppliers and major customers are linked to the corporation through interlocking shareholdings and cross-directorships. The interests of labour receive particular safeguards in decision-making, which include the German co-determination system, and the Japanese lifetime employment guarantee and consumers-based decision-making to name a few, (Keasey et al., 1997, pp. 9-10).

Corporate governance is a social rather than purely economic reality. As a business process, corporate governance cannot be isolated from social and other non-economic conditions and factors such as power, legislation, culture, social relations and institutional contexts.

**SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

7. Corporate governance is a social rather than purely economic reality.

8. The Principal-Agent model is based on the assumption that the social purpose of corporations is to maximise shareholders’ wealth

**10.8 RESPONSIBILITIES OF CORPORATE GOVERNANCE**

Modern corporate governance standards expect companies to fulfil three different forms of corporate responsibilities:

- **Political Responsibilities**: The basic political obligations are: abiding by legitimate law; respect for the system of rights and the principles of constitutional state.

- **Social Responsibilities**: The corporate ethical responsibilities, which the company understands and promotes either as a community with shared values or as a part of a larger community with shared values.

- **Economic Responsibilities**: Acting in accordance with the logic of competitive markets to earn profits on the basis of innovation
and respect for the rights/democracy of the shareholders which can be expressed in terms of managements’ obligation as ‘maximising shareholders value’.

9. Modern corporate governance standards expect companies to fulfil which form of corporate responsibility:
   (i) Political
   (ii) Economic
   (iii) Social
   (iv) All of the above

10.9 GLOBAL GROWTH OF CORPORATE GOVERNANCE

In the changing global scenario, it has become necessary to bring in effective governance practices in the corporate sector. Various important and valuable lessons have been learnt from the series of corporate collapses that occurred in different parts of the world over time. Accordingly, several codes, guidelines and principles have been made and implemented covering varied aspects of corporate governance. They were introduced in order to restore investors’ confidence as well as to enhance corporate transparency and accountability. They seek to establish the accountability standards of Directors and CEOs as well as define the roles and responsibilities of the Board of Directors and stakeholders in the company. Over the years, the issue of corporate governance has received a high level of attention. Box 10.1 below lists the main reports submitted by various committees to improve and develop appropriate framework, for promoting good corporate governance standards, codes and practices to be followed globally.

BOX 10.1: IMPORTANT COMMITTEE REPORTS ON CORPORATE GOVERNANCE

- CalPERS’ Global Principles of Accountable Corporate Governance (1999)

Contd...
The recommendations and principles made by various committees on corporate governance have been mainly focused on structure of the company, financial and non-financial disclosures, compliance with codes of corporate governance, competitive remuneration policy, shareholders rights and responsibilities, financial reporting and internal controls, etc. All these efforts have helped to bring favourable changes in the operating systems of Board of Directors, Company’s management and administration; as well as improve the face of relationship between supervisory and executive bodies.

SELF ASSESSMENT QUESTIONS

Fill in the blank:
10. In the changing global scenario, it has become necessary to bring in effective ............practices in the corporate sector.

ACTIVITY

Make a presentation on the recommendations of different committees which are set up for the purpose of corporate governance.

10.10 HISTORY OF CORPORATE GOVERNANCE IN INDIA

Pre-Liberalisation

When India attained independence from British rule in 1947, the country was poor. However, it still possessed sophisticated laws regarding “listing, trading, and settlements.” It even had four fully operational stock exchanges. Subsequent laws, such as the 1956 Companies Act, further solidified the rights of investors.
In the decades following India’s independence from Great Britain, the country turned away from its capitalist past and embraced socialism. The 1951 Industries Act was a step in this direction, requiring, “that all industrial units obtain licenses from the central government.” The 1956 Industrial Policy Resolution stipulated that the public sector would dominate the economy. To put this plan into effect, the Indian government created enormous state-owned enterprises, and India steadily moved toward a culture of “corruption, nepotism and inefficiency.” As the government took over floundering private enterprises and rejuvenated them, it essentially “converted private bankruptcy to high-cost public debt.”

The absence of a corporate-governance framework exacerbated the situation. Government accountability was minimal, and the few private companies that remained on India’s business landscape enjoyed free reign with respect to most laws; the government rarely initiated punitive action, even for nonconformity with basic governance laws. Boards of directors invariably were staffed by friends or relatives of management; and abuses by dominant shareholders and management were commonplace. India’s equity markets “were not liquid or sophisticated enough” to punish these abuses. Until recently, hostile takeovers were almost entirely non-existent in India, and therefore, the poorly governed Indian firms had little to worry about in terms of following corporate laws once they had raised capital through their initial public offering. Thus, corporate governance in India was in a dismal condition by the early 1990s.

Post-liberalisation

In 1999, the Indian Parliament created the Securities and Exchange Board of India (“SEBI”) to “protect the interests of investors in securities and to promote the development of, and to regulate the securities market.” In the years leading up to 2000, as Indian enterprises turned to the stock market for capital, it became important to ensure good corporate governance industry-wide. Additionally, a plethora of scams rocked the Indian business scene, and corporate governance emerged as a solution to the problem of unscrupulous corporate behaviour.

In 1998, the Confederation of Indian Industry (CII), unveiled India’s first code of corporate governance. However, since the Code’s adoption was voluntary, few firms embraced it. Soon after, SEBI appointed the Birla Committee to develop a code of corporate governance. In 2000, SEBI accepted the recommendations of the Birla Committee and introduced Clause 49 into the Listing Agreement of Stock Exchanges. Clause 49 outlines requirements vis-a-vis corporate governance in exchange-traded companies. In 2003, SEBI instituted the Murthy Committee to scrutinise India’s corporate-governance framework further and to make additional recommendations to enhance its effectiveness. SEBI has since incorporated the recommendations of the Murthy Committee, and the latest revisions to Clause 49 became law on January 1, 2006.
Corporate governance reforms in India have focused primarily on the “role and composition of the board of directors.” Each of the three sets of recommendations (the Confederation of Indian Industry (CII) Code recommendations from 1997, the Kumar Mangalam Birla Committee recommendations from 2000, and the Murthy Committee recommendations from 2003) has advanced a more nuanced and sophisticated understanding of corporate governance in this respect.

A peculiar characteristic feature of Indian corporate governance that persists until date is the convergence of management and ownership. Modern corporate capitalism strives to embrace democracy by separating the two and thus imbibing best practices at functional levels from a professional talent pipeline.

Example: While the CII Code was silent on the financial-literacy levels expected of directors, the Murthy Committee recommended that companies train their “Board members ... in the business model of the company as well as the risk profile of the business parameters of the company.”

Another notable recommendation of the Murthy Committee was that the Audit Committee be comprised entirely of “financially literate non-executive members with at least one member having accounting or related financial management expertise.” The Birla Committee, in contrast, required only that the “majority and chair” of the audit committee be independent and that at least one director be well-versed in finance.

The SEBI laws that took effect on January 1, 2006, are based in part on the Murthy Committee’s recommendations and represent a substantial improvement over the laws that previously were in effect. The new laws require that when the “Chairman of the Board is a non-executive director, at least one-third of the Board should be comprised of independent directors,” and when “the chairman is an executive director, at least half of the Board should be comprised of independent directors.” The definition of independent directors is sufficiently strict. The presence of sizeable independent representatives on the board, scrutinising the decisions of the management, is widely considered as a means of protecting the interests of shareholders and, where appropriate, other stakeholders. Their duty is to provide an unbiased, independent, varied and experienced perspective to the board.
Further, the law mandates that “two-thirds of the members of the audit committee shall be independent directors.” Finally, every firm must “submit a quarterly corporate-governance compliance report to the stock exchanges.”

**NOTE**

**Independent Directors**

According to the latest SEBI rules, an independent director is one who:

- Apart from receiving the director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect the independence of the director;
- Is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- Has not been an executive of the company in the immediately preceding three financial years;
- Is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following: (i) the statutory audit firm or the internal audit firm that is associated with the company, and (ii) the legal firm(s) and consulting firm(s) that have a material association with the company.
- Is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and
- Is not a substantial shareholder of the company, i.e., owning two percent or more of the block of voting shares.

Source: http://www.clause49.com/clause49.htm

The new law that has taken effect on January 1, 2006, falls short on a number of key criteria. It creates no official requirement for whistleblower protection, it does not address the problem of institutional-investor apathy in India, and it does not necessitate director retraining, to name just a few shortcomings.

**SELF ASSESSMENT QUESTIONS**

Choose the correct option:

12. The Birla Committee required that the “majority and chair” of the audit committee be independent and that at least:

   (i) One director be well-versed in finance
   (ii) Two directors be well-versed in finance
   (iii) Three directors be well-versed in finance
   (iv) All directors be well-versed in finance
NOTES

ACTIVITY

Collect 10 articles from newspapers and find out the current state of corporate governance in the world as a whole.

10.12 BOARD COMPOSITION IN INDIA

In various countries as per their legal framework the board comprises executive, non-executive/independent, nominee directors, associate directors and a couple of other directors.

In India as per Clause 49 of the listing agreement, the Board of Directors (BOD) of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors. If the Chairman of the Board is a non-executive director, at least one third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

NOTE

Types of Directors in the Board

- Executive directors are the directors of the company who are involved in the day to day management of the company.
- Independent/Non-Executive directors are not involved in the day to day management of the company and are appointed from outside the company. The rationale behind appointing non-executive directors is that, as they are not involved in the day to day management of the company, they can bring an independent voice and perspective to the board.
- Nominee Directors are those who represent third parties in the Board like government officials, foreign collaborators, holding companies and financial institutions or other lenders, etc., These directors are nominated to represent their interest on the Board.
- Alternate Directors are officiating Directors. If any Director is absent for a period of three months or more from the State in which the meetings of the board are ordinarily held the Board has the powers to appoint ‘Alternate Directors’. The Alternate Director merely fills a temporary vacancy in the office of a Director, which already exists and, no new office of Director is created by his appointment.

SELF ASSESSMENT QUESTIONS

Fill in the blank:

13. In India if the Chairman of the Board is a non-executive director then at least .................. of the Board should comprise of independent directors.
10.13 CORPORATE GOVERNANCE: NEED TO STRENGTHEN

As India Inc. goes global, economic crime is emerging as a bigger threat than before. When companies in India expand their reach to other countries, they are exposed to not just ‘home-grown’ frauds, but also frauds prevalent in other markets. Amongst the growing unethical business practices in India, Ernst & Young (2008) reports that the incidence of fraud is becoming an increasing menace. 55% of Indian companies in the past two years had reported incidents of fraud and a PricewaterhouseCoopers (PwC) study (2007) indicates the average direct loss from fraud per company at the global level is $2.4 million and for India it is $1.5 million. The report claims only 34% of Indian companies have insurance covers for losses due to fraud against 45% globally. Industry insiders point to several acquisition deals that have turned sour and resulted in litigations after the acquired company managements failed to meet key conditions. 34% of companies in India reported loss of a business opportunity due to the likely payment of bribe by a competitor, suggesting that business relationships and success may not be determined only on the basis of a product or service quality, efficacy and price. Consequently, employees, business associates and shareholders are worst affected in the process.

According to KPMG survey (2008) on the state of corporate governance in India, majority of respondents believe that while corporate governance should be practiced through principle-based standards and moderate regulations, there is a need for stronger regulatory review and exemplary enforcement.

10.13.1 HOW TO IMPROVE CORPORATE GOVERNANCE

Quality of corporate governance primarily depends on the following factors, namely: integrity of the management; ability of the Board; adequacy of the processes; commitment level of individual Board members; quality of corporate reporting; participation of stakeholders in the management; etc. Since, this is an important element affecting the long-term financial health of companies, good governance framework also calls for effective legal and institutional environment, business ethics and awareness of the environmental and societal interests. The main constituents of good corporate governance listed below have to be incorporated by each company to improve its credibility in the market.

- **Divorce of Management and Ownership:** Ownership refers to the legal custodian of the business. Management of the business requires professional skills and a degree of autonomy to the managers, agreed upon consensually between the owners and managers.

- **Role and Powers of the Board:** The foremost requirement of good corporate governance is the clear identification of powers,
roles, responsibilities and accountability of the Board, CEO and the Chairman of the Board.

- **Legislation:** Understanding the legislative and regulatory framework is fundamental to effective corporate governance.

- **Code of Conduct:** It is essential that an organisation's explicitly prescribed code of conduct is communicated to all stakeholders and is clearly understood by them. There should be some system in place to periodically measure and evaluate the adherence to such code of conduct by each member of the organisation.

- **Board Independence:** An independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective. Hence, the majority of board members should be independent of both the management team and any commercial dealings with the company. Such independence ensures the effectiveness of the board in supervising the activities of management as well as making sure that there are no actual or perceived conflicts of interests.

- **Board Skills:** In order to be able to undertake its functions effectively, the board must possess the necessary blend of qualities, skills, knowledge and experience so as to make quality contribution. This includes operational or technical expertise, financial skills, legal skills as well as knowledge of government and regulatory requirements.

- **Management Environment:** This includes setting up of clear objectives and appropriate ethical framework, establishing due processes, providing for transparency and clear enunciation of responsibility and accountability, implementing sound business planning, encouraging business risk assessment, having right people and right skill for jobs, establishing clear boundaries for acceptable behaviour, establishing performance evaluation measures and evaluating performance and sufficiently recognising individual and group contribution.

- **Board Appointments:** To ensure that the most competent people are appointed on the board, the board positions must be filled through the process of extensive search. A well defined and open procedure must be in place for reappointments as well as for appointment of new directors.

- **Board Induction and Training:** It is essential to ensure that directors remain abreast of all development, which impact or, may impact corporate governance and other related issues.

- **Board Meetings:** These are the forums for board decision making. Such meetings enable directors to discharge their responsibilities. The effectiveness of board meetings is dependent on carefully planned agendas and provision of relevant papers and materials to directors sufficiently prior to board meetings.
Strategy Setting: The objective of the company must be clearly documented with a long term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.

Business and Community Obligations: Though the basic activity of a business entity is inherently commercial, yet it must also take care of the community’s obligations. The stakeholders must be informed about the approval by the proposed and ongoing initiatives taken to meet the community obligations.

Financial and Operational Reporting: The board requires comprehensive, regular, reliable, timely, correct and relevant information in a proper format and of a quality that is appropriate to discharge its function of monitoring corporate performance.

Monitoring the Board Performance: The board must monitor and evaluate its combined performance and also that of individual directors at periodic intervals, using key performance indicators besides peer review.

Audit Committee: It is inter alia responsible for liaison with management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the board on key issues.

Risk Management: Risk is an important element of corporate functioning and governance. There should be a clearly established process of identifying, analysing and treating risks, which could prevent the company from effectively achieving its objectives. The board has the ultimate responsibility for identifying major risks to the organisation, setting acceptable levels of risks, and ensuring that senior management takes steps to detect, monitor, and control these risks.

The mandatory and non-mandatory requirements of Clause 49 to be complied with for improving corporate governance are listed at the end of the chapter in the Annexure. [Refer Annexure I, IA, IB, IC, ID]

10.13.2 BENEFITS OF CORPORATE GOVERNANCE

In today’s globalised world, corporations need to access global pools of capital as well as attract and retain the best human capital from various parts of the world. Instances of financial crisis like Subprime crisis, Madoff Investment Securities scam, Satyam scam, have brought the subject of corporate governance to the surface. This is because financial and non-financial disclosures made by any firm are only as good and honest as the people behind them. Under such a scenario, unless a corporation embraces and demonstrates ethical conduct, it will not be able to succeed. Several studies in India and abroad have indicated that markets and investors take notice of the credibility offered by good corporate governance procedures designed by the company and helps them to take long term investment decisions. The corporation being a congregation of various stakeholders, its growth is directly dependent...
on the cooperation rendered by all the stakeholders. Hence, there is a need to shift the emphasis on compliance of corporate governance with substance, rather than form, and develop intellectual honesty and integrity. Effectiveness of corporate governance system cannot merely be legislated by law; neither can any system of corporate governance be static. As competition increases, the environment in which firms operate changes and in such a dynamic environment the systems of corporate governance also need to evolve. Companies like Infosys and Wipro have demonstrated that adoption of good corporate governance practices provides stability and growth to the enterprise.

Benefits of Corporate Governance

- Improving strategic thinking in the Board through induction of independent directors who bring in experience and new ideas.
- Rationalising the management and constant monitoring of risk that a firm faces globally. Effective governance reduces perceived risks, consequently reduces cost of capital and enables board of directors to take quick and better decisions which ultimately improves bottom line of the corporates.
- Limiting the liability of top management and directors by carefully articulating the decision making process.
- Assuring the integrity of financial reports and other communication.
- Gain long term reputational effects and strengthening of stakeholders’ relationship amongst key internal and external stakeholders.
- Builds confidence amongst stakeholders as well as prospective stakeholders. Investors are willing to pay higher prices to the corporates demonstrating strict adherence to internally accepted norms of corporate governance.

10.13.3 EFFORTS TO IMPROVE CORPORATE GOVERNANCE

A National Foundation for Corporate Governance (NFCG) is set up in association with the CII, ICAI and ICSI to provide a platform to deliberate on issues relating to good corporate governance, to sensitise corporate leaders on the importance of good corporate governance practices as well as to facilitate exchange of experiences and ideas amongst corporate leaders, policy makers, regulators, law enforcing agencies and non-government organisations.

Good corporate governance recognises the diverse interests of shareholders, lenders, employees, government, etc. The underlying

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4: Confederation of Indian Industries
5: Institute of Chartered Accountants of India
6: Institute of Company’s Secretaries of India
principles of corporate governance revolve around certain basic interrelated segments displayed in Figure 10.1.

![Figure 10.1: Interrelated Segments of Corporate Governance](image)

For effective corporate governance there is a need of selecting meritorious, diverse, ethical and socially oriented executives. Boards of directors cannot function effectively if they do not have the “right people” as members and the “right chairman” as leader. Moreover, they must also be supported by the “right” attitudes on the part of management, the external auditor and other advisors. Sound, effective corporate governance must include a Board of Directors independent from management but accountable to the company and its shareholders. It is also important to understand that diversity and independence are important because the best collective decisions are the product of disagreement and contest, not consensus or compromise. All board members need to have knowledge and experience that allows them to demonstrate results orientation, strategic orientation and at the same time, be both independent and collaborative.

With ethical intellectual capital governing new companies like Wipro, Dr. Reddy’s Lab and Infosys who have a large global workforce, they have developed a “no tolerance” policy towards any kind of fraud. Wipro has developed a code of business conduct that defines dos and don’ts and tolerance levels in the company. Even proxy bribing by vendors or partners is not permitted. Recently Wipro terminated 100 employees after it was discovered that these employees had furnished fake resumes in connivance with the external hiring agency. Similarly, a senior employee, who had wrongfully claimed medical reimbursement for a corrective eye surgery, too was forced to resign. Wipro values its policies above everything else. The penalty is the same across the company and penal policies are the same.

**SELF ASSESSMENT QUESTIONS**

State whether the given statement is true or false

14. Scams like Madoff Investment Securities have brought the subject of corporate governance to the surface.
**GOOD CORPORATE GOVERNANCE AND CSR**

Good corporate governance is the foundation of CSR. Systemic organisational failures and negative social consequences are created by corporate governance structures and processes, which impact stakeholder relationships and are risks for business. Viewed from this context, CSR is a risk management strategy for business.

*Example:* Violation of market place, work place, or environmental frame-works can impact the profitability of business and reputation.

To overcome these risks, businesses need risk management strategy which can be designed by formulating and implementing CSR strategy and preparing triple bottom line reports.

As CSR is fundamentally concerned with transparency, accountability and performance, it is important for the CSR decision-making structure to be an integral component of the corporate governance system. For developing ethical business standards within the organisation there are several options for board participation in CSR activities.

*Example:* A board member could be tasked with a broad responsibility for CSR activities; a new member who has specific CSR expertise could be appointed; CSR responsibilities could be added to the work of existing board committees; a new CSR board committee could be formed; or the entire board could be involved in CSR decisions.

Recognising the fact that businesses are vital partners in development, the governance standards and the stakeholder social responsibility practices adopted by the companies need to be strategically aligned to achieve both business and social goals. Corporate Governance & CSR are crucial elements to foster sustainability of businesses and society.

**SELF ASSESSMENT QUESTIONS**

Choose the correct option:

15. Good corporate governance is the foundation of:
   (i) Risk management
   (ii) Transparency
   (iii) CSR
   (iv) Accountability

**CORPORATE DISCLOSURE AND INVESTOR PROTECTION IN INDIA**

Corporate disclosure means the act of releasing all the necessary relevant information of a company that may influence an investment decision.

It includes disclosure about companies’ objectives, financial details, operating profit, governance structure and policies, details of the board of directors, etc.
If the rights of minority shareholders in firms are poorly protected, those who control the firms can more easily use its resources to pursue their own objectives. Therefore investor’s protection is important.

Investor’s protection in India is needed because of the following reasons:

- Corporate scams and accounting scandals
- Insider trading
- Non disclosure of material facts
- Vanishing companies who disappears after taking money of the investors.
- Money Laundering
- Terrorist Funding

SEBI was established as a measure for investor protection in India in 1992. The SEBI has introduced an automated complaints handling system to deal with investors’ complaints. For this SEBI issues fortnightly press releases disclosing names to the companies against whom maximum number of complaints have been received. A representative of SEBI supervises the allotment of share process. Besides many other measures it also issues advertisements frequently to make investor aware of various issues to the securities market and of their rights and remedies.

**Classification of Complaints:** The complaints received by the SEBI are categorised in five types:

- **Type I:** Non-receipts of refund orders/allotment letters/stock investment.
- **Type II:** Non-receipt of dividend.
- **Type III:** Non-receipt of share certificates/bonus shares.
- **Type IV:** Non-receipt of debentures certificate/interest on debentures/re redemption amount of debentures/interest on delayed payment of interest.
- **Type V:** Non-receipt of annual reports, right issue forms/interest on delayed receipt of refund orders/dividends.

The following measures were initiated by the SEBI:

- Vetting offer documents and prospectus of the scheme launched by the companies
- Advertising codes for issue
- IPO Grading
- Improves functioning of Stock exchanges in India
- Securities Appellate Tribunal
- Disclosure of NAV of Mutual Funds daily
- Publications/Awareness Programmes
- Stringent requisites for an intermediary
Consequences of Investor’s Protection

There are two broad areas in which investor protection has an impact which are as follows:

- Financial Markets
- Real Consequences

Financial Markets: Investor protection has encouraged the development of capital market because when they are protected from expropriation they are ready to pay for more for securities thereby making it more attractive for entrepreneurs to issue more securities.

Real Consequences: Investor protection influences the real economy through its effect on financial markets. Financial development can accelerate economic growth in three ways:

- Enhance savings.
- It can channel these savings into real investment and thereby foster capital accumulation.
- To the extent that the financiers exercise some control over the investment decisions of the entrepreneurs, financial development improves the efficiency of resource allocation, as capital flows toward the more productive uses. All three channels can in principle have large effects on economic growth.

Self Assessment Questions

Fill in the blank:

16. Corporate disclosure means the act of releasing all the necessary relevant information of a company that may influence an......... decision.

10.16 CURRENT CSR BILL AND ITS IMPACT ON THE SOCIETY

The new Companies Bill has replaced the Company Act of 1956. One of the objectives of this bill is to encourage Indian companies to use CSR to integrate economic, environmental and social objectives with their operations and growth. Section 135 of this Act prescribes a mandatory CSR spend of 2% of PBT for companies with net worth of ₹500 crores or turnover of ₹1000 crores or net profit of ₹5 crores. If the companies failed to spend the said amount on CSR activities then they have to issue an annual statement specifying the reasons for the same.

CSR bill is comprehensive in terms of where the funds could be deployed and companies have the liberty to choose action areas which are most strategic, beneficial for them as per their CSR policy. All social development activities like education, healthcare,
environmental sustainability, gender equality, employability etc. are covered for guidance purposes.

The sections 134, 135, Schedule III and Schedule VII of the Companies Bill 2012 deal with CSR. The sections 134 and 135 are part of Chapter IX on Accounts of Companies.

As per the new bill, the company shall give preference to the local area and areas around where it operates for spending the amount earmarked for CSR activities.

**Composition and Role of CSR Committee**

- Board will consist of 3 or more directors, out of which at least one director shall be an independent director. This composition needs to be disclosed in the mandatory reporting.
- Formulate and recommend to the Board a CSR Policy, the amount of expenditure to be incurred and monitoring of the Policy from time to time.
- Approval of the policy recommended by CSR Committee; disclose content of the Policy in its report and company website.
- The board also has to ensure that the company undertakes activities as per CSR Policy and spends in every financial year at least the referred amount in the law.

In Schedule VII of the Bill there are 9 specified and 1 provisional generic categories of CSR activities such as:

- Eradicating extreme hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women
- Reducing child mortality and improving maternal health
- Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases
- Ensuring environmental sustainability
- Employment enhancing vocational skills
- Social business projects
- 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
- Such other matters as may be prescribed.

**Impact of CSR Activities on Society**

- The companies who are seeking better reputation CSR activities serve as an effective way while contributing to the society.
Educational endeavours in the society will increase by more number of companies participating in the field as it can give a positive image by participation by being concerned about the younger generations and a hopeful future.

Students will get the better job opportunities due to various educational activities sponsored by the companies as CSR activities.

By undertaking activities in education, companies can broaden and enhance their mission and vision by targeting specific goals and objectives in the education ecology.

By having direct focused programs relating to education, companies can receive high visibility, make large direct impact, and capitalise on the opportunity to really leverage their strengths and resources.

Quality of education is improved when companies participate in the field by imparting the specific skill set. Even though Govt. and NGOs are playing their part in promoting education, they lack specific skill sets that companies can bring in. Some of these are:

♦ Corporate players are believed to be generally better at administrating complex tasks and managing resources effectively to meet specific needs.
♦ Higher involvement from a financial perspective to strengthen the education system in underdeveloped regions.
♦ Deeper participation of businesses will lead to greater expertise by engagement of the company’s most valuable resources in educational activities.

Employment level in the country will increase due to companies giving job specific skill sets by reducing the gap between education qualifications and job requirements.

Better standard of living will be provided in the rural areas because of the CSR activities.

State whether the following statement is true or false:
17. Section 135 of the New Companies Act prescribes a mandatory CSR spend of 5% of PBT for companies with net worth of ₹ 500 Cr.

10.17 SUMMARY

It is true that ‘corporate governance’ has no unique structure or design and is largely considered ambiguous.

There is still lack of awareness about its various issues like, quality and frequency of financial and managerial disclosure, compliance
with the code of best practice, roles and responsibilities of Board of Directories, shareholders rights, etc.

- There have been many instances of failure and scams in the corporate sector, like collusion between companies and their accounting firms, presence of weak or ineffective internal audits, lack of required skills by managers, lack of proper disclosures, non-compliance with standards, etc. As a result, both management and auditors have come under greater scrutiny.

- Industry bodies like CII, NASSCOM7 and regulators like SEBI should look at a more unified approach towards handling corporate misgovernance and at developing benchmarks in good governance practices.

- The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for taking key investment decisions.

- If companies are to reap the full benefits of the global capital market, capture efficiency gains, benefit from economies of scale and attract long term capital, adoption of corporate governance standards must be credible, consistent, coherent and inspiring.

- Hence, in the years to come, corporate governance will become more relevant and a more acceptable practice worldwide.

- Good corporate-governance practices can help increase investment, decrease corruption, and reduce wasting of scarce resources.

- India’s corporate-governance destiny will be shaped by how effectively its legislature, judiciary, and SEBI implement transparent and effective corporate-governance laws and to what extent company is committed to improve its long-term sustainability.

**KEY WORDS**

- **Alternate Director**: Temporarily fills in office of an existing director.
- **Clause 49**: Outlines requirement of corporate governance in companies.
- **Corporate Governance**: How firm safeguards interest of its stakeholders.
- **Independent Directors**: Not involved in company day to day operations and are appointed from outside.
- **Principle Agent Model**: Believes that firm’s prime motive is shareholders’ wealth maximisation.
- **Stakeholder Model**: Holds that firm should take care of all its stakeholders.

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7 The National Association of Software and Services Companies
10.18 **DESCRIPTIVE QUESTIONS**

1. What is Corporate Governance?
2. Discuss the functions of the main constituents of Corporate Governance.
3. Discuss the growth of corporate governance in India.
4. Discuss why and how should India strengthen its corporate governance.
5. Examine Clause 49 and discuss what it highlights.
6. What is the relationship between CSR and corporate governance?
7. What will be the impact of new CSR bill on the society?

10.19 **ANSWERS AND HINTS**

**ANSWERS FOR SELF-ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Ethics</td>
<td>1.</td>
<td>(ii)</td>
</tr>
<tr>
<td>Ethics and functional areas of business</td>
<td>2.</td>
<td>Values</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>3.</td>
<td>False</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>True</td>
</tr>
<tr>
<td>Constituents of Corporate Governance</td>
<td>5.</td>
<td>Shareholders</td>
</tr>
<tr>
<td>The Corporate Governance Debate</td>
<td>6.</td>
<td>(iii)</td>
</tr>
<tr>
<td>Theories of Corporate Governance</td>
<td>7.</td>
<td>True</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>True</td>
</tr>
<tr>
<td>Responsibilities of Corporate Governance</td>
<td>9.</td>
<td>(iv)</td>
</tr>
<tr>
<td>Global growth of Corporate Governance</td>
<td>10.</td>
<td>Governance</td>
</tr>
<tr>
<td>History of Corporate Governance in India</td>
<td>11.</td>
<td>False</td>
</tr>
<tr>
<td>The current state of Corporate Governance in India</td>
<td>12.</td>
<td>(i)</td>
</tr>
<tr>
<td>Board composition in India</td>
<td>13.</td>
<td>One third</td>
</tr>
<tr>
<td>Corporate Governance: Need to Strengthen</td>
<td>14.</td>
<td>True</td>
</tr>
<tr>
<td>Corporate Governance and Corporate Social Responsibility</td>
<td>15.</td>
<td>(iii)</td>
</tr>
<tr>
<td>Corporate disclosure and Investor protection in India</td>
<td>16.</td>
<td>Investment</td>
</tr>
</tbody>
</table>
Current CSR Bill and its impact on society

17. False

HINTS FOR DESCRIPTIVE QUESTIONS

1. Refer 10.4
   Corporate governance is traditionally defined as the ways in which a firm safeguards the interests of its financiers (investors, lenders, and creditors).

2. Refer 10.5
   The three key constituents of corporate governance are (a) the Board of Directors, (b) the Shareholders and (c) the Management.

3. Refer 10.10
   In the changing global scenario, it has become necessary to bring in effective governance practices in the corporate sector.

4. Refer 10.13
   As India Inc. goes global, economic crime is emerging as a bigger threat than before. When companies in India expand their reach to other countries, they are exposed to not just ‘home-grown’ frauds, but also frauds prevalent in other markets.

5. Refer 10.10
   In 2000, SEBI accepted the recommendations of the Birla Committee and introduced Clause 49 into the Listing Agreement of Stock Exchanges.

6. Refer 10.14
   Good corporate governance is the foundation of CSR.

7. Refer 10.16
   The new Companies Bill has replaced the Company Act of 1956. One of the objectives of this bill is to encourage Indian companies to use CSR to integrate economic, environmental and social objectives with their operations and growth.

SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

NOTES


- Ernst & Young. (2008). Corruption or Compliance- Weighing the Costs. The Tenth Global Fraud Survey.


- Private Equity in Developing Countries: Pacanins, G. (1997). Private Equity in Developing Countries.


Report of the Kumar Mangalam Birla Committee on Corporate Governance.: Securities and Exchange Board of India. (2000). *Report of the Kumar Mangalam Birla Committee on Corporate Governance*.


**E-REFERENCES**

- http://www.clause49.com/clause49.htm
- http://www.ey.com/Publication/vwLUAssets/FIDS_Corruption_or_compliance_weighing_the_costs/$FILE/Corruption_or_compliance_weighing_the_costs.pdf
- http://www.nfcgindia.org/home.html
- http://www.sebi.gov.in/commreport/corpgov.html
ANNEXURE I

CLAUSE 49 - CORPORATE GOVERNANCE

The company agrees to comply with the following provisions:

Board of Directors

Composition of Board

- The Board of Directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.
- For the purpose of the sub-clause (ii), the expression ‘independent director’ shall mean a non-executive director of the company who:
  - apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
  - is not related to promoters or persons occupying management positions at the board level or at one level below the board;
  - has not been an executive of the company in the immediately preceding three financial years;
  - is not a partner or an executive or was not a partner or an executive during the preceding three years, of any of the following:
    - the statutory audit firm or the internal audit firm that is associated with the company, and
    - the legal firm(s) and consulting firm(s) that have a material association with the company.
  - is not a material supplier, service provider or customer or a Lessor or lessee of the company, which may affect independence of the director; and
  - is not a substantial shareholder of the company, i.e., owning two percent or more of the block of voting shares.

Non-executive Directors’ Compensation and Disclosures

All fees/compensation, if any, paid to non-executive directors, including independent directors, shall be fixed by the Board of...
Directors and shall require previous approval of shareholders in the general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

**Other Provisions for the Board and Committees**

- The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. The minimum information to be made available to the board is given in Annexure– I A.

- A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

**Code of Conduct**

- The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.

- All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

**AUDIT COMMITTEE**

**Qualified and Independent Audit Committee**

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

- The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

**Meeting of Audit Committee**

The audit committee should meet at least four times in a year and not more than four months shall lapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.
NOTES

Powers of Audit Committee
The audit committee shall have powers, which should include the following:
- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers necessary.

Role of Audit Committee
The role of the audit committee shall include the following:
- Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
  - Matters required to be included in the Director’s Responsibility Statement to be included in the Board’s report in terms of clause (2AA) of section 217 of the Companies Act, 1956
  - Changes, if any, in accounting policies and practices and reasons for the same
  - Major accounting entries involving estimates based on the exercise of judgment by management
  - Significant adjustments made in the financial statements arising out of audit findings
  - Compliance with listing and other legal requirements relating to financial statements
  - Disclosure of any related party transactions
  - Qualifications in the draft audit report.
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

Discussion with internal auditors any significant findings and follow up there on.

Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

To review the functioning of the Whistle Blower mechanism, in case the same is existing.

Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Review of Information by Audit Committee

The Audit Committee shall mandatorily review the following information:

Management discussion and analysis of financial condition and results of operations;

Statement of significant related party transactions (as defined by the audit committee), submitted by management;

Management letters/letters of internal control weaknesses issued by the statutory auditors;

Internal audit reports relating to internal control weaknesses; and

The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee

Subsidiary Companies

At least one independent director on the Board of Directors of the holding company shall be a Director on the Board of Directors of a material non listed Indian subsidiary company.

The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of Directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Disclosures

Basis of Related Party Transactions

- A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
- Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.
- Details of material individual transactions with related parties or others, which are not at an arm’s length basis should be placed before the audit committee, together with Management’s justification for the same.

Disclosure of Accounting Treatment

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management’s explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

Board Disclosures – Risk Management

The company shall lay down procedures to inform Board members about the risk assessment and minimisation procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

Proceeds from Public Issues, Rights Issues, Preferential Issues, etc.

When money is raised through an issue (public issues, rights issues, preferential issues, etc.), it shall disclose to the Audit Committee, the usage/applications of funds by major category (capital expenditure, sales and marketing, working capital, etc.), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilised for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. The audit committee shall make
appropriate recommendations to the Board to take up steps in this matter.

**Remuneration of Directors**

- All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report.
- Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:
  - All elements of remuneration package of individual directors summarised under major groups, such as salary, benefits, bonuses, stock options, pension, etc.
  - Details of fixed component and performance linked incentives, along with the performance criteria.
  - Service contracts, notice period, severance fees.
  - Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.
- The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company’s website and reference drawn thereto in the annual report.
- The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
- Non-executive directors shall be required to disclose their shareholding (both own or held by/for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment.

These details should be disclosed in the notice to the general meeting called for appointment of such director.

**Management**

- As part of the directors’ report or as an addition thereto, a Management Discussion and Analysis Report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company’s competitive position:
  - Industry structure and developments
  - Opportunities and Threats
  - Segment-wise or product-wise performance
  - Outlook
NOTES

♦ Risks and concerns
♦ Internal control systems and their adequacy
♦ Discussion on financial performance with respect to operational performance
♦ Material developments in Human Resources/Industrial Relations front, including number of people employed

☒ Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for example, dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

Shareholders

☒ In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:
♦ A brief resume of the director;
♦ Nature of his expertise in specific functional areas;
♦ Names of companies in which the person also holds the directorship and the membership of Committees of the Board; and
♦ Shareholding of non-executive directors as stated in above

☒ Quarterly results and presentations made by the company to analysts shall be put on company’s web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own website.

☒ A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as ‘Shareholders/Investors Grievance Committee’.

☒ To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

CEO/CFO Certification

The CEO, i.e. the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO i.e. the whole-time Finance
Director or any other person heading the finance function discharging that function shall certify to the Board that:

- They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
  - these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
  - these statements together present a true and fair view of the company’s affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company’s code of conduct.
- They accept responsibility for establishing and maintaining internal controls and that they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- They have indicated to the auditors and the Audit committee:
  - significant changes in internal control during the year;
  - significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  - instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company’s internal control system.

Report on Corporate Governance

- There shall be a separate section on Corporate Governance in the Annual Reports of the company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure- I C and list of non-mandatory requirements is given in Annexure – I D.
- The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of the quarter as per the format given in Annexure I B. The report shall be signed...
either by the Compliance Officer or the Chief Executive Officer of the company.

**Compliance**

- The company shall obtain a certificate from either the auditors or practicing company and annex the certificate with the directors’ report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

- The non-mandatory requirements given in Annexure-I D may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance)/non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.
ANNEXURE IA*

INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS

- Annual operating plans and budgets and any updates.
- Capital budgets and any updates.
- Quarterly results for the company and its operating divisions or business segments.
- Minutes of meetings of audit committee and other committees of the board.
- The information on recruitment and remuneration of senior officers just below the board level, including appointment or removal of Chief Financial Officer and the Company Secretary.
- Show cause, demand, prosecution notices and penalty notices which are materially important.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any material default in financial obligations to and by the company, or substantial non-payment for goods sold by the company.
- Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
- Details of any joint venture or collaboration agreement.
- Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- Significant labour problems and their proposed solutions. Any significant development in Human Resources/Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme, etc.
- Sale of material, nature of investments, subsidiaries or assets, which is not in the normal course of business.
- Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividends delay in share transfers etc.

* Downloaded from http://www.nfcgindia.org/clause49%20_2004.pdf
ANNEXURE IB

FORMAT OF QUARTERLY COMPLIANCE REPORT ON CORPORATE GOVERNANCE

Name of the Company:
Quarter ending on:

<table>
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*Downloaded from http://www.nfcgindia.org/clause49%20_2004.pdf*
Note:

1. The details under each head shall be provided to incorporate all the information required as per the provisions of the Clause 49 of the Listing Agreement.

2. In the column No. 3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the Clause 49 I of the Listing Agreement, “Yes” may be indicated. Similarly, in case the company has no related party transactions, the words “N.A.” may be indicated against 49 (IV A).

3. In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the “Remarks” column as – “will be complied with at the AGM”. Similarly, in respect of matters which can be complied with only where the situation arises, for example, “Report on Corporate Governance” is to be a part of Annual Report only, the words “will be complied in the next Annual Report” may be indicated.
ANNEXURE IC

Suggested List of Items to be Included In the Report on Corporate Governance in the Annual Report of Companies

- A brief statement on company’s philosophy on code of governance.
- Board of Directors:
  - Composition and category of directors, for example, promoter, executive, non-executive, independent non-executive, nominee director, which institution represented as lender or as equity investor
  - Attendance of each director at the Board meetings and the last AGM.
  - Number of other Boards or Board Committees in which he/she is a member or Chairperson
  - Number of Board meetings held, dates on which held.
- Audit Committee:
  - Brief description of terms of reference
  - Composition, name of members and Chairperson
  - Meetings and attendance during the year
- Remuneration Committee:
  - Brief description of terms of reference
  - Composition, name of members and Chairperson
  - Attendance during the year
  - Remuneration policy
  - Details of remuneration to all the directors, as per format in main report.
- Shareholders Committee:
  - Name of non-executive director heading the committee
  - Name and designation of compliance officer
  - Number of shareholders’ complaints received so far
  - Number not solved to the satisfaction of shareholders
  - Number of pending complaints
- General Body meetings:
  - Location and time, where last three AGMs held.
  - Whether any special resolutions passed in the previous 3 AGMs
  - Whether any special resolution passed last year through postal ballot details of voting pattern
Person who conducted the postal ballot exercise

Whether any special resolution is proposed to be conducted through postal ballot

Procedure for postal ballot

Disclosures:

Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.

Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.

Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause

Means of communication.

Quarterly results

Newspapers wherein results normally published

Any website, where displayed

Whether it also displays official news releases; and

The presentations made to institutional investors or to the analysts.

General Shareholder information:

AGM: Date, time and venue

Financial year

Date of Book closure

Dividend Payment Date

Listing on Stock Exchanges

Stock Code

Market Price Data: High., Low during each month in last financial year

Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.

Registrar and Transfer Agents

Share Transfer System

Distribution of shareholding

Dematerialisation of shares and liquidity
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♦ Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity
♦ Plant Locations
♦ Address for correspondence
ANNEXURE ID

NON-MANDATORY REQUIREMENTS

- **The Board:** A non-executive Chairman may be entitled to maintain a Chairman’s office at the company’s expense and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company.

- **Remuneration Committee**
  - The board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company’s policy on specific remuneration packages for executive directors including pension rights and any compensation payment.
  - To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.
  - All the members of the remuneration committee could be present at the meeting.
  - The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

- **Shareholder Rights:** A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.

- **Audit qualifications:** Company may move towards a regime of unqualified financial statements.

- **Training of Board Members:** A company may train its Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

- **Mechanism for evaluating non-executive Board Members:** The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of Directors, excluding the director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend/continue the terms of appointment of non-executive directors.

- **Whistle Blower Policy:** The company may establish a mechanism for employees to report to the management concerns about
NOTES

unethical behaviour, actual or suspected fraud or violation of the company’s code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimisation of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organisation.
## CASE STUDIES

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CSR INITIATIVES OF SCOTIABANK

Scotiabank Peru was founded in 2006 and is headquartered in Lima, Peru and is the local subsidiary of Canadian Bank of Nova Scotia. This bank is the result of a merger between local banks Wiese Sudameris and Banco Sudamericano. The bank provides retail, corporate, commercial and investment banking services for individuals and businesses. At present, the bank has 178 branches and 500 ATMs in Peru.

In 2010, Scotiabank Peru launched a unique product in collaboration with the World Bank and care (an aid organization dedicated to fighting poverty), for their Water and Sanitation program. Its goal was to provide small loans to very low income families to help them improve basic sanitation conditions. The product offering included financing and education that was delivered by the Bank’s partners. Scotiabank has been part of this program since its inception in 2008.

The product was targeted to clients in rural and urban Peru with monthly incomes of under $200 per family. Many of these clients had little access to basic sanitation facilities, let alone banking services. This financial service allows families to improve water and sanitation conditions, as well as their knowledge of the links between hygiene, health and nutrition.

While the key social benefit of the program is helping communities obtain a better quality of life through access to credit for sanitation purposes, there are environmental benefits, such as reduced contamination in public latrines, rivers and streams.

The Water and Sanitation program was shortlisted for the 2010 Financial Times Sustainable Banking Awards in the achievement in Basic Needs Financing category. The Financial Times awards highlight international banks that demonstrate leadership and innovation in corporate social responsibility. The achievement in Basic Needs Financing category was new for the awards in 2010, and recognizes a form of microfinance that focuses on providing financing for essential needs such as energy, food and water.

QUESTIONS

1. Critically analyse the social benefits of water and sanitation program. [Hint: Refer para 3]

2. Why Scotiabank Peru launched water and sanitation program in collaboration with World Bank? [Hint: Refer para 2]

Primary industries include farming, forestry, fishing, mining, quarrying and oil supply. They are the starting point for nearly all production. Mined raw materials include coal, iron ore and copper as well as diamonds, platinum and gold.

There is an important distinction between farming, forestry, fishing and mining, quarrying and oil production. If carefully managed, crops, trees and animals (including fish) can be renewed and replaced. Mineral deposits, however, cannot. This makes it extremely important to use them wisely. Some, (e.g. most metals) are highly recyclable. Others, like coal, are not. These characteristics make the mining, oil and gas and quarrying industries particularly challenging, both for governments and the people who wish to manage them responsibly.

This presents challenges, especially when economic growth drives the usage of raw materials, e.g. iron ore which is used in the manufacture of steel for use in cars and many other products. World iron ore consumption has grown and is forecast to continue growing this decade.

This growth is driven by China. China’s rapid industrialisation and construction boom means over the coming years China may grow to account for up to 50% of demand.

Anglo American is one of the world’s largest mining and natural resources companies. With operations in over 60 countries, it employs over 200,000 people worldwide (9,500 in the UK) with interests in:

- base and ferrous metals (e.g. copper and iron ore)
- precious metal (e.g. gold, platinum)
- coal
- industrial materials (e.g. aggregates - in the UK Tarmac).

The company operates in a growth sector dealing largely in non-renewable resources and principally in developing or transition economies. This case study considers how a business that depletes natural resources can contribute to sustainable development.

The Importance of Sustainable Development

Sustainable development includes passing on to future generations a stock of ‘capital’ that is at least as big as the one that our own generation inherited. Capital in this sense means the world’s assets, these include money, buildings and less tangible assets such as the stoke of skills and social systems, as well as natural resources.

Many ores that are mined have no intrinsic value - they need to be mined and processed in technically complete systems before...
they can be turned into money when the resources company sells them. Anglo American is committed to contributing to sustainable development. It was designated the mining sector leader for 2004/5 in the Dow Jones Sustainability Index. In 2005 it also received the Business in the Community International Award for its contribution to the Millennium Development Goals in Africa.

Global demand for most metals continues to grow at 2%-4% per annum. Recycling and re-use can only meet some of this growth. As more people aspire to a higher standard of living, firms working in the primary sector face the challenge of finding and mining the materials needed to make the goods required.

Responsible use of all natural resources benefits both the next generation and companies (because the costs are reduced). It includes reducing the amount of resources that are used (input - e.g. iron and coal) for the amount of product (output - e.g. steel).

In August 2002, South Africa hosted the World Summit on Sustainable Development (WSSD). The Summit wrestled with the problem that huge imbalances in wealth between countries provide the biggest challenge for global development. Mineral deposits are vital to the development of many poorer nations as well as to the continuance of rich countries’ lifestyles. Extracting these sensitively allows these poorer countries to develop their education and health systems and other forms of human and social capital.

The United Nations set out the Millennium Development Goals for the year 2015. These include:

- developing a global partnership for sustainable development
- halving the numbers of people living on less than $1 a day or suffering from hunger
- ensuring all children complete primary schooling
- halting the spread of AIDS and other major diseases.

Many businesses accept they have a responsibility to work with international bodies (e.g. the United Nations or the World Bank), governments, Non-governmental Organisations (e.g. Sightsavers International, Oxfam or Save the Children) and communities worldwide to work towards sustainable development. In mining, this typically involves using natural capital (the rewards from extracting raw materials) to build social and human capital (e.g. schools, hospitals and worthwhile jobs and skills).

Anglo American strives to achieve this as described below. Amongst other things, it also involves encouraging recycling; improving mine safety; stewardship of biodiversity and restoring worked-out mines and quarries to alternative uses.
Responsibility to Stakeholders

All businesses have stakeholders. Stakeholders are the individuals and groups with an interest in – or who are affected by – what a company produces, where and by what means.

Anglo American has a responsibility to its stakeholders and it needs their support to meet the organisation’s objectives. For example, treating staff and respecting local communities makes it easier to recruit the new employees necessary for growth to create more value for shareholders.

Not all stakeholders have the same priorities. Employees interested in pay and working conditions may take a different stance from that of shareholders interested in profits and dividends or customers interested both in good quality and low prices. Different governments will take varying views on how far they should benefit from a company’s presence in their country, and in what ways.

Stakeholders’ Viewpoints

This links to the idea of ‘sustainability’ – meeting present needs without compromising the ability of future generations to achieve their own needs.

UK corporate law requires companies to be primarily accountable to their shareholders. Anglo American believes, however, that shareholders’ interests are best served when the Company shows an intelligent regard for other stakeholders too. After all, it is in the interests of all stakeholders that the Company not only survives but also flourishes over the longer-term.

Anglo American therefore seeks to be the partner of choice for its stakeholders by operating in a way that is acceptable to them all. An increasing number of investment funds (potential shareholders) also look at the risk management and sustainability of the companies in which they invest.

Stakeholders and Ethics

Anglo American recognises that its reputation is determined by the quality of the relationships it builds with its stakeholders. It also recognises that each of its operations should try to meet legitimate local expectations as well as national requirements and some international norms.

The community ranges from people living next door to a paper mill to anyone living alongside a road used by the company’s vehicles. Managing relationships is key to building a strong reputation and being a good corporate citizen.

Communicating this work to stakeholders is important, Anglo American produces a ‘Report to Society’ each year. These need to be accurate and informative. The company’s 2005 report won...
the ‘Association of Certified and Chartered Accountants’ award for sustainability reporting.

Anglo American has empowered each of its key operating businesses. These businesses manage within the context of its own industry within a framework of principles – The Good Citizenship Business Principles. This communicates its commitment to its stakeholders. It states that the Company seeks to make a contribution to the economic, social and educational wellbeing of the stakeholders associated with its operations:

- Government – compliance with laws, regulation, opposition to corruption
- Employees – fair labour practices, workplace equality, health and safety
- Environment – minimising waste and the consumption of natural resources, protection of biodiversity, climate change
- Community – respect for individual’s rights and dignity.

These principles apply across all the company’s stakeholders, dignity is relevant to employees as well as the community.

**Commitment to Stakeholders**

Anglo American’s Chief Executive, is interested in ‘all the things that make the difference between a company that will be here for years - or one that will sustain over centuries.’ He believes that, in order to assess a company’s true worth ‘you need to look at how well it treats its people and the environments and communities in which it operates’.

Anglo American requires all its significant operations to have Community Engagement Plans. These are 3-year plans that local managers shape and review with all significant stakeholders. Thus, the Company is better placed to understand and respond to community concerns.

Anglo American recognises that it can use its core business to contribute to the development of human and social capital where it operates. For example, it helps to improve local provision of transport, communications, power, water and other services. The Company invests in the development of its employees and supporting bursaries, educational and health facilities. The company does this because it believes firmly in its principles and acts upon them for the benefit of all its stakeholders in the long run. Investment in education and healthier communities provides a happier and more effective workforce.

One of the best examples of this investment in human capital is Anglo American’s provision of anti-AIDS drugs to employees in South Africa (almost a quarter of its employees are HIV). In August 2002 the company announced that it would provide its miners with the same anti-retrovirals that have helped arrest AIDS.
in the developed world. This decision made headlines worldwide because the Company recognised a problem that many people felt that the South African Government was largely bypassing at the time.

Anglo American could have argued that HIV/AIDS was a problem for society as a whole, not a company concern. However, it chose to act because it believes that business has a wider social responsibility as part of the process of sustainable development. Anglo American’s action encouraged the government and other companies to provide these drugs.

More recently, Anglo American has developed a leading-edge Socio-Economic Assessment Toolbox (SEAT) as a means of further improving the impact of its activities. Wherever a natural resource is depleted, it seeks to balance this by improving human and social capital and minimising any environmental impacts. For example, creation of training programmes for local people and support for the development of local businesses.

It investigates the long term impact - i.e. over the next generation - of Anglo American moving into an area. Managers work with local communities to investigate future impacts and to enhance the development of social and human capital. The Group positions itself as the partner of choice in sustainable development projects through such investments.

**Conclusion**

Mining and quarrying play a key role in the modern world. They also pose unique problems relating to sustainability. Building partnerships is essential to the ongoing development of Anglo American and to the countries and communities in which it operates.

Anglo American is continually looking to reassess ways in which it can contribute towards building better societies in its own spheres of operation, for example by supporting UK Government-sponsored initiatives like:

- the UN Global Compact
- the Extractive Industries Transparency Initiative - this is an anticorruption initiative under which oil, gas and mining companies in specific countries declare the total amount of tax they have paid and the host government makes a parallel declaration (‘publish what you pay’). This makes it more difficult for wholesale embezzlement to occur by corrupt politicians or officials and helps stimulate a debate about how time-limited resource revenues should be used.
- the Voluntary Principles on Security and Human Rights bring together a number of governments (inc the UK and
US), major oil and mining companies and leading human rights NGOs. The Principles seek to establish best practice around security risk assessment, control of private security, and interactions with public security forces. The objective is to prevent corporate security needs impacting adversely on the human rights of local communities.

The Good Citizenship Principles and SEAT also provide good examples of this ongoing development.

**QUESTIONS**

1. Discuss how Anglo American is contributing to society? [Hint: Refer heading 3 & 4]
2. Evaluate why sustainable development is important? [Hint: Refer heading 1]
3. Why the company made the commitments to the stakeholders? [Hint: Refer heading 5]

*Source: http://businesscasestudies.co.uk/anglo-american/working-for-sustainable-development-in-primary-industry/introduction.html*
AMWAY CSR INITIATIVE

Corporate Social Responsibility (CSR) means businesses and organisations working responsibly and contributing positively to the communities they operate in. It involves working with employees, their families, the local community and society at large to improve their quality of life.

Companies that operate in a socially responsible way strengthen their reputations. In business, reputation is everything. It determines the extent to which customers want to buy from you, partners are willing to work with you and your standing in the community.

The Company

Amway is one of the world’s largest direct sales organisations with over 3 million Independent Business Owners (IBOs) in over 80 markets and territories worldwide. It is a family-owned business with a strong emphasis on family values. Its IBOs are often couples. Many of these are raising families. They therefore have a strong bond with children. These families are more than happy to partner with Amway, who, as part of its Corporate Social Responsibility strategy, works with UNICEF, the United Nations Children’s Fund.

As a family company, Amway is committed to playing a part in improving the lives of children in need across the globe. In this way, the company is able to show its commitment to the support of global causes.

Amway defines a global cause as ‘a social issue affecting many people around the world engaged in a struggle or plight that warrants a charitable response’.

As a private company, the families who own Amway are its sole shareholders. It is important that Amway communicates regularly with its stakeholders. They can affect or be affected by the business.

Amway uses different ways to communicate with its various groups of stakeholders. The method chosen depends on the message and the person receiving the message:

- Websites, emails and voice mail updates promote products and services to ABOs and customers and keep them up-to-date
- Industry and trade memberships enable Amway to share and receive industry information
- Publications target key sales messages, for example, its monthly newsletter for ABOs, Amway Focus
- Events and exhibitions help Amway to communicate to ABOs, consumers and guests about running an Amway business and the products it can provide.
How Stakeholders affect Amway

Amway is a direct selling company, selling products directly to consumers without going through traditional retail outlets or ‘high street’.

The Supply Chain

A supply chain links the finished products to end consumers. Amway has its own distinct supply chain, placing a strong emphasis on its ABOs. They are able to focus on individual customers and their needs.

This supply chain is different from a more conventional supply chain that sells goods to final consumers through retail outlets. Amway’s way of working depends on building lasting connections with the end consumer. Feedback provided by consumers and ABOs helps to shape future changes in products and the service provided.

Suppliers must produce quality goods that Amway ABOs can sell with confidence. The goods should offer value for money and provide guarantees that they will meet Amway standards. Suppliers may contribute to the design and appearance of Amway products.

ABOs

ABOs operate independently as small businesses. They develop direct supply channels and sell products to friends and customers that they know or meet. They need to have a flexible approach to business. They require Amway to provide high quality, value for money products with a 100% satisfaction guarantee.

ABOs determine for themselves how they will conduct business. This is a ‘self regulatory’ environment. However, they sign a contract to work within Amway’s Rules of Conduct and Code of Ethics. If ABOs do not conduct business within these rules, their behaviour could reflect back on the company.

Consumers

Consumers affect how Amway develops and promotes products. They do this by indicating their preferences and requirements through feedback. Amway can then make more of particular products or change the format of others. Consumer demand also influences how much stock Amway needs to carry. Consumers can show where Amway needs to address issues or concerns to improve the business.

Contd...
With many different types of stakeholders, it is possible that different groups will have different key objectives or priorities. For example, a business needs to make a profit but customers want low prices. The company might find it difficult to support price cuts, as this would reduce its profit. These two priorities might be in conflict.

**How Amway affects its Stakeholders**

Amway’s vision is ‘helping people live better lives’.

Amway’s business plays a key role in the communities in which it operates. Amway has a global strategy for producing, distributing and marketing its products worldwide. It also has a strategy for promoting corporate social responsibility (CSR) in a global way. CSR refers to the role that a company plays in meeting its wider commitments as a citizen. Such commitments include supporting worthy causes and always acting in an ethical, honest way.

Amway operates in many different markets worldwide and has a range of affiliates and ABOs. It therefore has to devise and communicate its plans for corporate social responsibility activities carefully to take account of different priorities and interests. From the outset, Amway established some clear objectives. These were to:

- build loyalty and pride among ABOs and employees
- enhance Amway’s reputation as a caring organisation
- make a real difference to human lives.

This helps to maintain Amway’s reputation with all its stakeholders.

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<tr>
<td>ABOs</td>
<td>The Amway brand as a responsible organisation helps them earn money.</td>
</tr>
<tr>
<td>Consumers</td>
<td>The products they buy must meet quality standards and are from responsible producers.</td>
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<tr>
<td>Amway staff</td>
<td>The company demonstrates its values by doing the right thing.</td>
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<tr>
<td>Community partners</td>
<td>A partner organisation that shares beliefs and supports fundraising.</td>
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Amway contributes time, effort and money to support its business communities:

- It creates appropriate Amway products for ABOs to sell.
- It develops campaigns that support the business and social aims of the company. Getting the image right is vital in a business that relies on building relationships with individuals and the wider community.
Amway regularly seeks to develop new products in line with market research aimed at finding out what customers want.

Its employees volunteer at different charity organisations.

It has shared $294 million (around £150 million) with non-profit organisations since the company began.

Global Cause Program

Amway produced its Global Cause Program in 2002 as the result of extensive research. Amway defines a global cause as ‘a social issue affecting many people around the world engaged in a struggle or a plight that warrants a charitable response’.

The Global Cause Program:

- helps Amway to bring its vision to life
- declares what the organisation stands for
- builds trust and respect in Amway brands
- establishes corporate social responsibility as a high priority

In developing its global cause strategy, Amway also listened to what its ABOs cared about. Many favoured a cause to help children.

This led to Amway’s partnership with UNICEF’s Immunisation Plus programme. This aims to provide vaccination against the six most serious diseases affecting children in the developing world. Amway’s business image benefits from the relationship with UNICEF. UNICEF benefits from the fundraising Amway and its ABOs contribute.

Ethical Business

Ethical enterprises do more than simply provide goods and services for customers. They also make a real contribution to the communities in which they operate by:

- creating employment and job security
- providing products that give consumers good value for money
- contributing to creating a more caring and cared-for community.

Competitive Advantage

Businesses operate in a competitive environment. They may compete on a number of factors:

- price
- range of products
- quality
- speed of service
- customer service.

Contd...
Amway is a global enterprise. It must comply with the laws of the many different countries in which it operates. Its business ethics provide a framework to guide the behaviour of the company and its stakeholders.

As part of its business values, it protects its consumers through the quality of the products and by offering guarantees of satisfaction. It promotes and supports ethical selling behaviour amongst the ABOs through its codes of conduct.

However, in a highly competitive market where businesses are similar, Amway needs to find a way of achieving competitive advantage. Demonstrating a positive involvement in the community and attention to environmental issues can provide a business with competitive advantage. It shows that the company behaves in an ethical way, shares its values and enhances its image as a responsible organisation.

Amway recognises that to respond to CSR issues, it must base its business on the principles of ‘relevance, simplicity and humanity’. For example, Amway set up the ‘One by One’ programme following discussions with various organisations involved in providing help to underprivileged communities worldwide.

Amway is also active in a number of programmes to reduce its impact on the environment, including:
- supporting organic farms to grow the plants for its vitamin and mineral products
- training employees to protect the environment, for example, encouraging re-use and recycling to conserve resources
- changing product formulations to be more concentrated and biodegradable, which reduces packaging and waste
- using sources of renewable energy, for example, a wind farm at its World Headquarters will provide 10% of energy needs
- measuring its environmental impact by auditing its activities to internationally recognised standards

All these activities carry a cost, therefore Amway needs to balance the costs of its corporate social responsibility programmes against not only the benefits of doing so, but also the cost of not doing so.

Business practices that do not take account of ethical behaviour might lead stakeholders to reconsider their relationship with the company. Suppliers might stop trading or customers might stop buying (which would result loss of revenues). At the company level, it might lead to infringement of the law or loss of reputation, which would influence the wider public.

**Conclusion**

Amway is a family business with family values. Its IBOs are people who want to make a difference to the communities in which they...
operate and to the wider world community. This is Corporate Social Responsibility (CSR) in action.

The clue to Amway’s success is the careful planning of its strategy and its involvement with many stakeholders in getting the strategy right. Of course, it is early days in the latest chapter of a strong relationship between Amway and UNICEF.

Evaluation is taking place to measure the success of the initiative in terms of meeting fundraising goals. Customer research is carried out to test customers’ views on the relationship and to find out how aware the general public is about what Amway is doing in the field of CSR.

1. Discuss how stakeholders affect the company. [Hint: Refer heading 2]
2. Discuss how the company affects its stakeholders. [Hint: Refer heading 3]

Source: http://businesscasestudies.co.uk/amway/the-role-ofstakeholders/introduction.html #axzz33St5xS2o
The Dhirubhai Ambani Foundation every year recognises meritorious students at district level through rewards and scholarship schemes through “Dhirubhai Ambani SSC - Merit Reward Scheme” and “Dhirubhai Ambani Undergraduate Scholarship Scheme”.

The ‘Dhirubhai Ambani SSC Merit Reward Scheme’ for class X and ‘Dhirubhai Ambani Undergraduate Scholarship Scheme’ for class XII, were instituted in 1996 for the first three meritorious students from each of the district of Maharashtra, Gujarat and later in Goa. The schemes were extended in 1998 to the first meritorious student amongst the Physically Challenged category.

The Foundation has reached out to a total number of 4763 meritorious students, including 472 Physically Challenged, from 64 districts of the states of Maharashtra, Gujarat, Goa and the Union Territory of Daman, Diu, Dadra Nagar Haveli in the last 10 years. During 2005 the SSC Merit Rewards were received by 264 meritorious students while 307 received the Scholarships. They represent each of the 64 districts of the state of Maharashtra, Gujarat, Goa and the Union Territory of Daman, Diu, Dadra Nagar Haveli and include 71 Physically Challenged and the first ten in the merit order list of CBSE for each of the state and three from Goa.

The SSC Merit Reward consists of ₹ 3,000 in cash, a good quality bicycle which reflects the desire of the Patron Trustee to motivate meritorious students from Rural India. The Physically Challenged meritorious student is rewarded with ₹ 6,000. The Undergraduate Scholarship for Meritorious HSC students, payable each year till graduation ranges between ₹ 9,500 and ₹ 31,500 p.a. depending up on the stream chosen by the Scholar. A certificate of Merit from the trustees is given ceremoniously to each of the meritorious student.

These schemes have been well appreciated by the students and parents as they are purely merit based; encourage education of a girl child and offer equal opportunity to Physically Challenged Meritorious students.

‘Reliance Kargil Scholarship Scheme’

The Scheme to support educational needs of the children of defence personnel who sacrificed their lives or were disabled during Kargil war, instituted with the generous contribution from Reliance employees. During the year 87 children received financial support for their education from standard IV to XII under the scheme.
“Dhirubhai Ambani Scholars Scheme” for Meritorious Children of Reliance Shareholders.

The Scheme was announced in 2003 as a one time measure to commemorate the silver jubilee of the company’s listing on the Bombay Stock Exchange. In the first year 900 meritorious children of the shareholders received the Scholarships. These Scholars are eligible to get the scholarships annually till they complete their undergraduate studies, provided they secure minimum of 60 per cent marks in each of their annual University Examination. A total of 772 scholars, having secured the stipulated marks/grade at the first year university examination continued to receive the Scholarship for the second year for their education leading to Degree/Diploma course. Of these 540 scholars who are pursuing degree courses in Engineering, Medicine and allied subjects while the rest 232 have chosen courses in commerce, arts and law faculties.

**QUESTIONS**

1. Discuss the CSR initiative taken up by Reliance. [Hint: Refer heading 1, 2, 3]
2. How the Reliance scheme is benefiting the students and the society [Hint: Refer heading 1]
3. What were the possible benefits of CSR initiatives of Reliance on physically challenged students? [Hint: Refer heading 1]

*Source: www.karmayog.org*
We all want to do our bit for the betterment of society. We all want to be good Samaritans.

So what’s stopping us?

Often we don’t know how to go about it, where to begin or simply put it on hold due to the lack of time!

What if you could contribute to the social cause without putting any extra effort?

What if every underprivileged child in the country could be educated because you paid your bills or shopped using a credit card.

Wouldn’t you call that a miracle?

**The Miracle Card**

The Miracle Card – a one of a kind credit card, popularly referred to as a card with a conscience, ensures that every time you spend, you spend for a cause.

It funds a programme aimed at bringing joy to millions of rural, underprivileged children by sponsoring their education and overall development. An everyday banking product combined with an everyday activity resulting in everyday goodness!

**The ‘Gift a Future– Spread a Smile’ Miracle**

The Miracle begins as soon as a member signs up for the card.

For every member, we debit a nominal amount of INR 50 on the card which is matched by a similar contribution from CBOP thus totaling to INR 100 per card. This amount is sent to the ‘Gift a Smile’ initiative run by AOL which focuses on creating ‘first time literates’.

**How can INR 100 make a difference?**

Imagine when all the proposed 500,000 people subscribe to the card. The amount changes from a mere INR 100 to a monumental 5 crores!

This money is in turn put into Ved Vignan Maha Vidyapeeth, a school in Bangalore committed to providing free education to underprivileged children from rural backgrounds thus helping them break the shackles of poverty and face the world with more confidence.

It costs INR 10,000 to sponsor a kid’s education for one year (including food, travel, uniform, books). Hence with an estimated corpus of INR 5 crores, the miracle can potentially add 3,500...
more kids to school (INR 1.5 crores going towards funding the infrastructure).

A miracle when the member uses the card

Whenever card members spend on this card they earn Seva points as against reward points on other credit cards. The difference here being, instead of redeeming, the Miracle card is committed to contribute 100 percent of the rewards to the cause and though the points look miniscule for individual customers, the collective base presents quite an overwhelming picture.

Example: Using nominal assumptions, if members spend on average INR 1,700 per month on this card (the national average is INR 2,000 per month), the card programme could potentially contribute another INR 3.5 crores every year – an amount sufficient to sustain the 3,500 children throughout their schooling period.

A miracle for all involved

Within the first eighteen months we have signed up 200,000 members resulting in sponsoring education for 1000 kids with a contribution of INR 1.5 crores.

And this miracle happened simply because we sourced card applications; people subscribed to these and used the card.

Thus each member gets to participate in a self-sustaining miracle without having to do anything extra. The card works for both members as well us as the bank.

For the member it provides all the regular features of a normal credit card besides the added goodness of sponsoring underprivileged kids to school without any extra effort.

For the bank it helps complete the retail portfolio and at the same time aligns the business to CSR. The more business we do, the more underprivileged kids get to go to school.

QUESTIONS

1. What was the CSR initiative taken up by the Bank? [Hint: Refer heading 1]
2. What was the impact of CSR initiative on the Bank? [Hint: Refer heading 5]

KINGFISHER'S CSR STRATEGY

Kingfisher is Europe’s largest home improvement retailer, with 1,300 stores and 9,000 employees in 16 countries. Its operating companies include BCC (The Netherlands), Promarkt (Germany), Vanden Borre (Belgium), Darty (France), Comet (UK), B&Q (UK), Koçtas (Turkey) and Réno-Dépôt (Canada).

In 2001 the group achieved a turnover of £12.1 billion ($17.5 billion) and a pre-tax profit of £606 million ($878 million).

At the end of 2001, Kingfisher unveiled a group-wide initiative to monitor, improve and report on corporate social responsibility issues at the level of individual companies.

The group has identified six ways in which it believes CSR can help its business:

- **Being ready for the future**: identifying and managing issues which have the potential to affect the bottom line, either positively or negatively;
- **Respect for people**: making Kingfisher companies attractive places to work, and thereby retaining skilled staff;
- **Stores that communities welcome**: maximising customer loyalty and improving morale among the workforce;
- **Product innovation**: identifying ‘green’ products that consumers will want to buy;
- **Saving costs**: recognising that many CSR initiatives are largely good housekeeping, such as reducing waste and retaining staff more effectively;
- **Brand**: using innovation and excellence within individual operating companies to enhance the reputation of the group as a whole.

Kingfisher has devised a ‘ladder’ model to simplify the assessment of CSR within operating companies. The ladder has four rungs. The bottom rung is ‘Managing the risk’, and the next rung up is ‘Managing the issues’, followed by ‘Creating an opportunity’ and finally ‘Leadership’ at the top. Company managers will have to decide where their businesses currently stand on each of 12 separate ‘ladders’, each representing a key issue such as waste, climate change or community relations (see below). They are also asked to identify where they would like eventually to be on the ladder, and to propose a realistic timescale.

The CSR initiative will be co-ordinated by a nine-person ‘social responsibility committee’, which now includes six members of the main board of directors as well as Kingfisher’s head of social responsibility, Dr Alan Knight. A ‘social responsibility team’, working closely with the committee, will provide coaching and advice to managers within individual operating companies, and...
will also be responsible for reporting progress both internally and to the outside world.

One of the challenges for Kingfisher is to develop a strategy that is flexible enough to accommodate the differences between individual businesses yet strong enough to reflect a common vision.

Kingfisher’s definition of social responsibility entails ‘making sure that in helping our customers improve their quality of life we do not destroy someone else’s’. It adds: ‘That might mean improving the working conditions in the factories that make the products we sell, using renewable energy sources, or making sure our equal opportunities policies are robust.’

Group chief executive Sir Geoff Mulcahy says several of Kingfisher’s subsidiaries have been active in CSR for some years already, particularly in terms of environmental stewardship. ‘We believe it is now time to co-ordinate these activities more rigorously, at group level.’

The 12 key issues identified by Kingfisher:

- The way we treat all our people is becoming more important than ever
- Every product will soon be telling a story - and they will all need to be good
- Communities will reject businesses who are not good neighbours
- Our suppliers need to be cleaner and greener too
- We are selling more wood, but it is becoming harder to find
- Chemicals are causing increasing concern and controversy
- We need to plan what happens when our customers want to dispose of the products they bought from us
- Packaging waste will become a bigger financial waste
- We will be judged by the way the people who make our products are treated
- Moving more stock is good - more traffic congestion is bad
- Climate change equals changes to homes - appliances will change too
- When we throw rubbish away it takes our profits with it

CSR INITIATIVES OF EATON INDIA

Eaton’s CSR activities in India began when the company started operations in Pune after the acquisition of Aeroquip Vickers in 1999. Since then, Eaton has worked with several local and national NGOs such as Maher, Gurukul, NMP+, DeepGriha Society amongst others on various causes and has extended contributions in the form of man-power, donations and relief material. Over a period, Eaton has aligned its causes to consolidate its CSR strategy, which is now focused on three important causes – Health, Education and Environment.

Eaton’s CSR strategy strives to support and encourage employee involvement in community programs and offer opportunities to employees to make a positive impact on the community. To cite a recent example, through Eaton’s volunteering and funding programs, employees of the company have sponsored education of 9 economically challenged girl students in association with DeepGriha Society. Besides, the education initiatives which require active engagement of teaching faculties, is also completely driven by Eaton volunteers.

Commitment to Ethics

Rooted in Eaton’s corporate philosophy of “Doing Business Right,” Eaton’s commitment to sustainability goes beyond environmental stewardship to include promoting the health, safety and development of employees, and empowering the communities in which we work. Eaton has also been recognized for its uncompromising business ethics that guide every decision it makes around the world.

Eaton India CSR Committee

The Eaton India CSR Committee consists of over 231 registered volunteers who are leading the efforts of Eaton’s CSR activities in India. The committee is responsible for:

- Developing an annual community involvement plan
- Developing a budget to support activities
- Conducting employee-giving campaigns
- Organizing volunteer activities

The registration is open for all Eaton India employees who wish to volunteer for community involvement activities. Community involvement in India is driven by volunteers. Eaton has established a Community Involvement Team, comprised of cross-functional employees committed to making a positive difference to the community. For each of the projects identified under this initiative, there is a core committee enabling end-to-end execution. Any interested employee can register to participate in any of the identified projects. Each Business leader at Eaton in India mentors an identified vertical under this initiative.

Contd...
CSR Meetings

CSR committee holds regular meetings to:
- Make new strategies and review past performance
- Respond to community requests for donations and support
- Select proposals to be submitted to the Contributions Committee

Eaton’s Umbrella CSR Causes: Health, Environment and Education

Health Program: Taking the Wheel

Objective: To provide clinical, counseling and outreach services to truck drivers in Pune in order to address high levels of HIV/AIDS infection and transmission amongst this cohort.

Activities
- Health Camp for 200 Truckers in Ranjangaon area
- Movie Screening for children of Truck drivers with lunch
- Interaction with truck drivers’ kids
- International Women’s Day with HIV affected women – 12th March; Kick start of Income Generation Program for women with HIV+ or Family member effected by HIV, Loan of Rs 5000 extended to each of the 5 selected women as per a defined criteria
- Interactive session of women employees with affected females as well as with NGO NMP+

Others
- Health Camps at ZP Schools across Ranjangaon, Nashik and Ahmednagar
- JOY OF GIVING WEEK – Collected Toys and clothes from Eaton employees and distributed the same among the needy PLHIV (People living with HIV) families and children

Environment Ongoing Programs:
- Afforestation at Baner hills in Pune – Till date 550 trees have been planted
- Nature Club at Ranjangaon plant premises

Eaton is committed to the cause of “Green and Sustainability” and increasing awareness around environment among employees. With a view to supporting the “Go Green program” Ranjangaon plant team has formed “Nature Club” on 30th of April 2012. This is also a part of the plant’s employee engagement initiatives.

Nature Club Objectives
- Continue to inspire awareness about and appreciation for the Earth’s environment

Contd...
Stimulate awareness and action on reducing CO₂

Provide employees an opportunity to share ideas and strengthen Eaton’s reputation as a leader in sustainability

Leverage the knowledge and creative skills of employees to promote tree plantation and care towards nature

Education Ongoing Programs: Gurukul

Collaboration with NGO Gurukul’s school for economically and socially backward students on supporting their infrastructure and curriculum

Promotion of employee participation

ITI Finishing School

Program to enhance employability of ITI graduates

Selection of ITI’s in proximity to Eaton plants to enable employee engagement

Program at ITI Satpur near Nashik currently in progress

Faculties from Eaton

Placement support

Don Bosco Technical Institute, Chinchwad

Technical knowledge up-gradation sessions for underprivileged youth who have passed their 10th/12th standard examinations

Impacted 150 students by December 2012

All guest faculties from Eaton

Other Schools Supported

Eaton is sponsoring and participating in A World in Motion (AWIM) program from last three years. Eaton volunteers help students to prepare for the challenges of tomorrow through personal discovery. Employee volunteers share information with students about existing science and technology related careers and thus play an important role in the developing future engineers and scientists. For the year 2013 Eaton proposes to partner with 5 PMC schools.

1. Explain the CSR initiatives taken by Eaton India. [Hint: Refer heading 4, 5, 6]

2. Why Eaton India has developed its CSR strategy in accordance with the local and national NGOs? [Hint: Refer para 1]

Source: http://csrworld.net/csr-initiatives-of-Eaton.asp
IMPLEMENTING CSR STRATEGY

Primark is a subsidiary company of the ABF (Associated British Foods) Group. The company was launched in 1969 in Ireland trading as Penny’s. By 2000, there were over 100 stores across Britain and Ireland. By 2012 Primark had 238 branches across the UK, Ireland and Europe. Primark has become distinctive for offering unbeatable value while never losing its innovative, fashion-driven edge.

Like many retail fashion businesses, Primark does not manufacture goods itself. Its expertise lies in understanding its customers and working with its suppliers to produce goods to Primark’s specification. It then gets the right goods to the right places at the right prices. Its profitability depends on sheer volume of sales. Primark’s value-for-money prices rely on low costs. These are achieved in part through economies of scale and efficient distribution.

Primark’s products are mainly sourced from suppliers in Europe and Asia. Its key sourcing countries are China, India, Bangladesh and Turkey. Putting the manufacturing of garments into these countries creates jobs. These are often at better rates of pay than other types of work on offer, improving overall standards of living.

Primark has initiated a programme of activities which supports its corporate social responsibility (CSR) stance and ensures that its trading meets the company’s values and ethical standards. Underpinning its programme of activities is Primark’s Code of Conduct which ensures that all workers making its products are treated decently, paid a fair wage and work in good working conditions.

This case study looks at Primark’s involvement in the HER project (Health Enables Returns) which is raising awareness and delivering healthcare education to female workers in supplier countries.

What is CSR?

Businesses need to acknowledge and respond to factors in their environment, for example, changes in available workforce or the business’ impact on its local communities. Corporate social responsibility represents the responsibility that a business has towards all its stakeholders, not just to owners or shareholders, to deal with their needs fairly.

Internal stakeholders include shareholders and employees. Shareholders want a return on their capital and this depends on making a profit. That in turn means by adding value.

Employees want job security, good pay and conditions and job satisfaction. External stakeholders include customers,
suppliers, non-governmental organisations, workers and the local communities where products are made. All of these have different needs.

An organisation therefore needs to be able to respond and demonstrate responsibility in different ways. This might include activities as wide-ranging as encouraging employees to volunteer in community projects; sponsoring and supporting charity work; or contributing time and money to improving its environmental impact.

**Why Primark Embraces CSR**

As an international business with a global supply chain and a growing retail base, Primark believes that business has a responsibility to act and trade ethically and that, by doing so, it can be a force for good. Its business directly contributes to the employment of more than 700,000 workers across three continents. Ensuring that their rights are respected is key to its continued growth.

Primark does not own the companies or factories that produce its goods, but it does have a responsibility to the workers in those factories, to its customers and shareholders, to ensure that its products are made in good working conditions. The HERproject in Bangladesh is an example of how Primark is actively seeking to make positive changes in the lives of its supplier workforces.

In Bangladesh, over 50% of the manufacturing workforce is made up of women. The jobs available to women in garment factories give them greater independence and help to reduce poverty.

However, these women often have little education and low levels of literacy as they drop out of education early to help their families.

They also lack basic knowledge of health, hygiene and nutrition and an understanding of how a woman’s body works. Poor hygiene often causes persistent and painful infections. Childbirth is particularly hazardous and post-birth complications are common.

There is little understanding of the symptoms of sexually transmitted diseases (including HIV) or the means of preventing transmission. Far more women than men are malnourished and many women suffer from anaemia. These issues, often combined with a lack of access to qualified medical advice, mean that the female workforce is particularly vulnerable.

The HERproject uses education as the key tool against all these interrelated problems. The programme aims not only to improve the health of female workers through training and education, but also to give them the tools to help them take charge of their personal and working lives. These benefits in turn pass on to their families and help to enhance whole communities.

*Contd...*
Making CSR happen

The HERproject is an initiative started by BSR (Business for Social Responsibility), a non-governmental organisation that works with over 250 companies on environmental, social and human rights. The HERproject has so far helped over 50,000 women in different countries. It has done this through working with companies like Primark, Primark’s suppliers and local health providers.

The HERproject is simple but surprisingly powerful:

- A small number of female staff in a factory (around 10%) is selected to become health education trainers called ‘peer group educators’.
- The local health service provider trains the peer group educators, who are then responsible for training the other women based in the workplace, passing on the message and helping to disseminate what they have learned.

The process emphasises mutual help and encouragement. The women trainers are effective because they fully understand the local culture. They are not seen as outsiders imposing strange ideas. Instead, the trainers understand why the women may be reluctant to seek help with issues that can be sensitive. They can build their self-confidence as well as their practical knowledge.

‘I didn’t have anyone to tell me how to look after myself, it wasn’t taught at school. The trainers told me that many diseases come from the unpurified water that I was taking from the tap. This water can be the cause of sickness, cholera and diarrhoea. At first my family said to me, how do you know this stuff? You work in a garments factory! I told them it’s what I have learnt from the HERproject. When I began to give them advice they started to get interested in the project. Everyone I have told now boils their water and they don’t suffer like before.’ Umme Habiba (garment worker)

The HERproject is also helping others not directly involved in the project. Outside the workshops informal learning continues. Women build supportive relationships and talk to each other out of work. This is reinforced by the project helping to set up factory clinics and creating vital referral links to local hospitals.

Selina Kamal is a factory quality inspector and a peer educator for HERproject. Through her own training she is now more aware of the importance of cleanliness for herself and her children. They all now drink purified water and eat more vegetables. She has already helped a friend, Shilpi, who is a school teacher.

‘I came to Selina after I had two miscarriages and irregular periods. Selina advised me to go the doctor as she knew something must be wrong. The doctor prescribed medication for my problem.’ Shilpi (Teacher)

Contd...
The Value of the HERproject

Improving the health of women workers in Bangladesh and helping to empower and educate the female workforce is an important ethical goal in its own right. The benefits to communities can also be seen. Over time, initiatives like this can support key issues such as reducing infant mortality.

Factories in Bangladesh taking part in HERprojects have seen healthy returns on the money invested by Primark in the programme. This has been achieved through improvements in productivity, a more stable workforce, lower absenteeism, decreased labour turnover, improved quality and a reduction in housekeeping costs. As an example, the managing director of one factory in Bangladesh found that absenteeism in the factory fell by 55% during the first six months of the HERproject. Turnover of female workers dropped from over 50% to around 12%.

Mrs Kaniz Fatema is the managing director of a medium-sized factory in Dhaka, Bangladesh. When the HERproject was introduced to her factory a year ago, she was unconvinced, viewing it as ‘just another project’. However, just one year later her view has been transformed. Women’s health is now high on her agenda. A healthier workforce is literally paying dividends.

Absenteeism and labour turnover are down by a startling 50%. Productivity is up and even internal staff communication is more effective. Mrs Kaniz Fatema now employs a female doctor and has set up a scheme to provide sanitary napkins to her female workers, helping to embed a new culture within the factory and allowing health education in the factory to continue after the project ends.

‘HERproject has made a real difference in my factory. The workers have increased their productivity as they are now looking after themselves better. I have become a lot closer to my female workers. I have also told other factory managers about the success of the project at our factory. The male workers are now asking when we will start a similar project for them.’ Mrs Kaniz Fatema (Factory Manager)

Other benefits are harder to measure but are increasingly recognised by the factory managers. Getting women to communicate effectively on health matters builds trust and confidence. This feeds back into better communication with supervisors and managers. This, in turn, leads to improved teamwork and the motivation to accept more responsibility and leadership roles in the community.

‘Workers now stay longer and are more productive. The HERproject has also helped my relationship with the women workers. They are not so shy to talk to me anymore. If there are problems, I now hear about them.’ Mr Riaz (Factory Manager)
This demonstrates the principles of the Hawthorne effect theory of motivation. Theorist Elton Mayo found that factory workers with long hours of routine work were motivated by someone taking an interest in them and their work. Feeling that they mattered as individuals, they experienced a new connection with the job. As a result, productivity improved. In a similar way, by focusing on the women workers and their health issues, the HERproject is also delivering improved motivation.

**Conclusion**

The industrialised countries of the world benefit from the lower costs of labour in countries such as Bangladesh and India. However, more consumers are now asking if this is ethical and questioning its sustainability.

Some trade-offs between stakeholder needs are inevitable. CSR does not come free. It involves a real commitment of resources, management time and energy. On the other hand, as studies of the HERproject in other countries have shown, each dollar invested in the health of female employees can yield more than three dollars in business benefits. In addition, the improvements in human well-being are incomparable.

Despite criticism of globalisation, business and trade can be a force for good. This is increasingly recognised in the ways that consumers assign values to brands. Primark is making progress in taking on wider responsibilities and devising relevant projects that work on the ground. It has done this with help from NGOs and organisations such as BSR. Its approach with the HERproject is not purely about business benefits, but focused on making a difference to the lives of its supplier workers.

To date, 4,500 women in Primark’s factories have been trained under the HERproject in Bangladesh. The project results have shown such benefit that the project is being rolled out to Primark’s suppliers in China and India. Primark’s ongoing involvement with the women workers in Bangladesh and other supplier countries will help to provide it with a sustainable and ethical business model.

1. Explain the basis for a company undertaking CSR activities. [Hint: Refer heading 2]

2. Analyse why the HERproject has been a business success, over and above improving the well-being of the workforce. [Hint: Refer heading 4]

3. Evaluate to what extent you think Primark has been able to reconcile the interests of its shareholders and those of the employees of its suppliers. [Hint: Refer heading 3]

Source: http://businesscasestudies.co.uk/primark/#axzz335t5xS2o
CSR INITIATIVES OF FORBES MARSHALL

Over the years, Forbes Marshall has believed in the philosophy of contributing and giving back to the community it operates in. Thus when the factory was originally set up in Pune in 1958, Darius Forbes felt it was insufficient to merely purchase land from the farmers who were the original owners of the land, it was necessary to now actively and positively contribute to the community the company would be operating in. So the first jobs in the company were offered to relatives of the farmers who were then trained for operation and machining skills. Within the suburb of Kasarwadi lighting was provided on lanes leading to homes as well as basic sanitation facilities were looked into. The company also assisted in providing good housing facilities as well, to those who moved into this area.

Presently the social initiatives of Forbes Marshall are located in three main geographical areas of Pune - Kasarwadi the industrial suburb where the main factory lies, Morwadi an urban slum adjacent to the factory at Pimpri (6 kilometers away from the factory at Kasarwadi) and Bopkhel village inside the CME campus at Dapodi (about 5 kilometers away from Kasarwadi).

Most of the initiatives are in the areas of health and education encompassing not just child and adolescent education but also attitudinal and personality development, legal rights, awareness building and skill training for women as per their interest levels such that there can be additional incomes in the homes and finally life skill education initiatives for adolescents.

Forbes Marshall usually partners with NGOs (non profit organizations) who have the expertise in various areas as well as like minded philosophies and thoughts on how to make positive changes happen in the lives of the people we are touching.

FM does not decide what is needed by the target audience, rather a participative technique is used - this is where the group, over a workshop spanning 2-3 days, actually talks about their overall vision, the impediments that are preventing that vision from happening, what needs to change (within themselves – or on issues within their control) – finally, action plans are made and people are distributed into smaller groups who work on the plans in a time bound manner. FM acts as a catalyst in making the changes happen.

Social Impact Awards

Forbes Marshall has always believed in the philosophy of contributing and giving back to the community it operates in. Thus when the factory was originally set up in Kasarwadi Pune in 1958, Darius Forbes felt it was insufficient to merely purchase land from the farmers who were the original owners of the land;
it was necessary to now actively and positively contribute to the community the company would be operating in. So the first jobs in the company were offered to relatives of the farmers who were then trained for operation and machining skills. In Kasarwadi, street lighting was provided and basic sanitation facilities were looked into.

**Education**

Forbes Marshall supports ‘Gammatwadis’ or fun preschools that prepare young children for formal schooling. Launched in 1999, this initiative has now matured and is running successfully. We have also partnered with the local municipal authorities to extend in service training programs to more than a hundred balwadi teachers.

Forbes Marshall also supports ‘Akanksha’ an NGO involved in teaching and supporting children by giving them a strong educational foundation, a good time, self esteem and values, and help them plan a steady livelihood as a step towards improving their standard of living.

Our ‘Prerna Kendras’ or motivational centers for children from municipal schools, ‘Balbhavans’ or activity centres, study hall facilities at our Welfare Centre and support to the ‘School Library Project’ are some of the other programs we are involved with to ignite young minds, build self esteem and inculcate values for a socially responsible community.

The Livelihood Advanced Business School (LABS) program developed by Dr. Reddy’s Foundation, Hyderabad trains the youth from under privileged backgrounds to earn a livelihood. Forbes Marshall collaborates with LABS to run their programs in Pune and has been successful in tapping opportunities in the hospitality and service sectors. These opportunities have enabled the youngsters to earn a steady income and aspire for an improved standard of living.

**Shehernaz Medicare**

Witnessing a road accident on his way to work and having to carry the victims to Sassoon Hospital in his car, Darius Forbes, Director, Forbes Marshall, realized the need for a hospital in the vicinity. What started off as a dispensary in the factory premises in 1973 is today a fully equipped hospital, with about 30 beds, called Shehernaz Medicare Centre, named in the memory of Shehernaz Dalal at the Kasarwadi campus. The hospital has an operation theatre, a clinical diagnostic laboratory, radiology, physiotherapy and dentistry departments, a full time surgeon and physician and several visiting specialists including an orthopaedic surgeon, an oncologist and a psychiatrist. The hospital is open to employees, their families and...

Contd...
everyone from the local communities of Kasarwadi, Morwadi and Bopkhel. A token payment of ₹ 2/- (about 1¢) is all it takes to seek admittance for treatment.

Health camps, like those for cancer detection and eye check-ups, are held from time to time throughout the community and when necessary, patients are referred to and treated at the appropriate facilities. As a result of these camps, we have been able to reach out to a greater number of our community members.

Additionally, with the help of our doctors, we conduct health awareness talks on a regular basis that cover topics such as basic nutrition, dental hygiene and other basic good health practices.

**Special Projects**

In spite of India producing some of the best doctors, engineers, computer programmers, academicians and managers for the world, we have a literacy level of only around 60% in the country, with women’s literacy being much lower. Hence it is essential to be involved with basic primary level education in India. We also believe in the philosophy that when we educate a woman, we educate a family.

We have special projects for creating awareness amongst the community members and educating them. Some of our special projects are:

**TARANG:** Training for Adolescents on Reproductive Health and Gender. The TARANG program provides adolescents with opportunities to develop their communication skills, attentive listening, negotiating, decision-making, being assertive and identifying resource for help and advice. TARANG helps equip young people to differentiate between accurate and the inaccurate information, discuss a range of moral and social issues and handle problems related to adolescence.

**Women Empowerment**

140 Self Help Groups (SHG) in Kasarwadi, Bopkhel and Morwadi, two federations, more than 2800 members. one credit cooperative society. transactions worth lakhs of rupees. considerable number of women starting their own business. and that is not enough! The women want to touch the sky!

Apart from meeting their financial needs, a very important impact of this initiative is that there are almost no child marriages, which were prevalent earlier. The number of girls studying for graduation and post graduation courses has increased. Women who were home bound have now started coming together out of their homes for meetings, going to banks and even approaching Government officials for their civil rights. Their negotiation skills have developed. Awareness in terms of health, hygiene and legal...
rights has increased and the quality of life has been positively impacted. Through this platform, many awareness and skill building programmes for women are conducted. Some women are now looking beyond their needs and have started helping people in their community.

**Health Outreach**

A special programme is designed to create health awareness in the neighbouring communities. Information on anaemia, hygiene, contagious diseases and HIV/AIDS is given by the community health workers.

Health check up camps is organized in these communities. Health awareness sessions are conducted for the community members.

Special camps are organized for blood check up, cancer check up, counselling and guidance is given to the needy.

Once a week a doctor goes to one of the communities to conduct a health camp for women and children and medicines are distributed.

Under the de-addiction activity, substance abusers are counselled, the family members also are given counselling services and special training programmes are organized for women from less privileged backgrounds.

Information sessions are conducted for the prevention of HIV and sexually transmitted infections in Government and private schools. Street plays are organized in the community on various health related issues.

**Training and Consulting**

The members of the department of social initiatives are consulted by various other Corporates and NGOs for initiating new projects. Members of the CSR department are on the advisory committees of several organizations and are invited to train their staff members.

Some of the areas covered in these training sessions are:

- Education
- HIV/AIDS
- Communication Skills
- Team Building
- Personality Development

**QUESTIONS**

1. Evaluate the basis of undertaking or implementing CSR strategies by Forbes Marshall. [Hint: Refer para1]

2. Analyse the impact of CSR initiatives that were taken up by the Forbes Marshall. [Hint: Refer heading 1,2,3]

When we visit a shopping centre or go into the centre of a modern city, we take for granted all the services and facilities that are available. The skyline of almost every city within the UK is dotted with new developments designed to serve the needs of modern consumers. These building and property developments have changed the towns and cities and improved our everyday lives. At the heart of such initiatives have been creative projects designed to revitalise urban areas. Examples of these are the new Bullring in Birmingham, the Cardinal Place re-development at Victoria in London and the new shopping quarter in Canterbury.

Land Securities, the UK's leading property company, played a key role in each of these developments. It has had a huge influence on the day-to-day lives of people living across the UK. Quoted on the London Stock Exchange, it is a member of the FTSE 100. Land Securities owns property worth more than £15 billion across the UK. Its core purpose is to make the best use of all its property in order to deliver results.

Land Securities has a rolling five-year plan that helps it to look forward in order to meet its customers’ future needs. This case study focuses on Land Securities’ business strategy. It describes how the company uses planning processes to provide a clear direction for the organisation.

Planning

Planning helps to identify how business objectives are achieved. One of the most important functions of management is planning. Planning helps to identify how business objectives are achieved. It involves thinking ahead, setting objectives and creating the means to achieve them. It also involves setting up the processes needed to measure how well an organisation is performing against its business objectives. Planning provides the starting point for making the decisions and taking the actions that build the organisation's future. When plans are put together, they will usually involve an element of change. For example, the plan may involve internal or external changes for an organisation which will result in new decisions and actions. It is vital that there is effective communication with all groups of stakeholders so that they know the plan is working. Every six months, the management team at Land Securities reviews business performance against its plan and communicates these results to its stakeholders.

Business Strategies and Plans

In recent years Land Securities has developed a new business strategy. This is ‘to invest in property in sectors where we have...
expertise and operational skills which give us competitive advantage’. By using existing skills this will provide Land Securities with advantages over its competitors. In order to meet this strategy, Land Securities’ five-year plan focuses on providing a range of buildings and services where people can live, work and relax. Using existing skills will provide Land Securities with advantages over its competitors.

As a property business, Land Securities has to make the properties it owns work effectively in order to generate good results. It focuses on creative and customer-focused developments to improve the value of the properties that it owns through property management, development and other activities. An example of this is the Bullring in Birmingham. This creates income for its shareholders through the profits it makes.

A rolling plan is one with a planning cycle that is regularly reviewed and refined based on performance. For the plan to be successful, it is important that the company has business objectives which are measurable and that it regularly reviews its progress against these objectives.

**Key Performance Indicators**

Land Securities calls these business objectives Key Performance Indicators (KPIs). The KPIs are very specific and clearly defined, so they can be used to measure the performance of the organisation. By monitoring whether the business meets its KPIs, Land Securities gains valuable feedback. This helps it to adjust and refine its business strategies and set new KPIs/business objectives.

**KPIs and Stakeholders**

Some of Land Securities’ KPIs or business objectives are financial, while others are non-financial. A financial example is ‘to create sustainable, long-term returns for shareholders. (Sustained real growth in earnings per share to be at least 3% per annum over
rolling three-year periods, with annual revenues and profits to exceed target(s). KPIs or business objectives provide a series of precise measures against which business decisions and further action might need to be taken. A non-financial example is to ‘ensure high levels of customer satisfaction with overall customer satisfaction in retail and London to exceed targets’.

**Measuring Performance**

**TABLE 1: MEASURING PERFORMANCE OF DIFFERENT STAKEHOLDERS**

<table>
<thead>
<tr>
<th>Stakeholder</th>
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<tbody>
<tr>
<td>Customers</td>
<td>Customer satisfaction surveys. These provide valuable feedback as they illustrate that Land Securities understands the needs of its customers and communicates with them.</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Health and safety audits. In the industry in which Land Securities operates, health and safety is very important. By using health and safety audits to monitor how well the organisation is meeting its targets, as well as a health and safety plan, Land Securities has received a Royal Society for the Prevention of Accidents (RoSPA) Gold Award for its health and safety management.</td>
</tr>
<tr>
<td>Investors</td>
<td>Business ratios. For example, the return on capital employed is found by dividing operating profit by total net assets and turning this into a percentage. A return of more than 6.5% indicates that the cost of investors has been met or exceeded.</td>
</tr>
<tr>
<td>Employees</td>
<td>Reward and recognition of employees. Land Securities also provides learning and development opportunities for its employees. It maintains and develops good communications with staff.</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Land Securities takes on 70-90 suppliers each month. The company develops good relationships with these suppliers. It also ensures that its suppliers comply with the highest possible standards.</td>
</tr>
<tr>
<td>Community</td>
<td>Land Securities links its property developments with community activities such as the study support centre in the White Rose Shopping Centre in Leeds. This provides learning facilities for children in the area.</td>
</tr>
<tr>
<td>Environment</td>
<td>Land Securities measures CO₂ emissions from its activities. It also develops waste management systems to reduce the impact of its activities upon the environment.</td>
</tr>
</tbody>
</table>

These KPIs or business objectives provide a series of precise measures against which business decisions and further action might need to be taken. They also help to show how well the business is meeting the needs of its stakeholders.

*Contd...*
The table shows how the various business objectives or KPIs measure the impact of the business on each stakeholder group. Objective setting through KPIs is viewed as extremely important by Land Securities. By evaluating its performance each year against these objectives, new targets can be set, which enables the business to grow further.

**Exercising Corporate Responsibility**

The process of using business strategy and planning to measure and meet the needs of stakeholders is called corporate responsibility. At Land Securities, corporate responsibility is about taking a wide view of everything it does. This provides positive benefits for stakeholders and helps to reduce negative influences.

Corporate responsibility helps Land Securities to achieve a balance between the requirements of the property industry and the responsibilities that it has to its seven key stakeholder groups.

Objective setting through the use of KPIs is important for Land Securities. Evaluating its performance each year against these objectives helps new objectives to be set. This moves the business forward. Corporate responsibility helps Land Securities to achieve a balance between its work in the property industry and all its other responsibilities.

**Financial/Non-financial Reporting**

Land Securities reports on both the financial and non-financial aspects of its performance to each of seven stakeholder groups. This is part of its corporate responsibility role. For example, Land Securities uses Customer Relationship Management programmes to manage relationships with its customers. Customer visits are also used as part of the reporting process. Land Securities uses the ways in which it deals with its customers to differentiate and distinguish itself from its competitors.

**Health and safety:** Regular articles about health and safety appear in Landmark, the in-house magazine. The company produces a health and safety plan each year and reports progress against objectives.

**Shareholders:** Land Securities communicates with its shareholders through its annual and corporate responsibility reports. Its website also plays an important role. Senior management meet regularly with investors to update them on the performance of the business.

**Employees:** Employees are kept informed about events within the business in many ways. Its in-house magazine, Landmark, deals with a whole range of business issues. Other means of communication are internal poster campaigns, employee conferences, intranet, weekly newsletters and mini campaigns. These are all designed to keep employees informed and up-to-date.

*Contd...*
**Suppliers:** Suppliers are key stakeholders. In order to listen to their views, Land Securities holds supplier conferences. It also keeps suppliers up-to-date about developments within the industry. It uses a brochure outlining some of the approaches that Land Securities is taking on development issues.

**Local communities:** Land Securities consults with local communities throughout a development project. This goes from the earliest stage right through all the processes of construction. It communicates with local communities, local and national government representatives and pressure groups.

**Environment:** A recent conference reported the progress made by Land Securities in managing the environment. The conference helped it to share its good practices and consider new ways of taking responsibility for the environment.

**Conclusion**

Land Securities takes a wide view of its responsibilities for developing and improving the UK’s urban areas. The need for planning is at the heart of this process. Land Securities develops creative projects and sets rigorous financial and non-financial objectives called Key Performance Indicators. It is therefore able to exercise corporate responsibility in order to meet the needs of its seven different stakeholder groups. Reporting on such developments enables Land Securities to inform its stakeholders about what is happening within the business. It also enables its stakeholders to provide valuable feedback for use within its planning cycle. This helps Land Securities to plan ahead.

### Questions

1. How does the company measure its corporate responsibility performance? [Hint: Refer heading 7]
2. What kind of CSR initiative was taken up by the company? [Hint: Refer heading 6]

PHILIPS DO BRASIL LTD.

Philips-Brazil is a subsidiary of Royal Philips Electronics (Philips) of the Netherlands. Philips is a global leader in lighting, healthcare, and consumer products. Philips operates in about 150 countries has over 115,000 employees including over 4,000 in Brazil. My interview with Philips-Brazil was conducted with Flavia Moraes. Ms. Moraes is the Regional Sustainability Officer of Latin America for Philips. Philips-Brazil issued a CSR report in 2010 following the G3 guidelines of the GRI. The 2010 report met the criteria for a B application level (A+ being the highest). The 135 page report was available in English and Portuguese. The 2010 report was verified by the external consulting organization Business and Social Development Brazil. In addition to the GRI, Philips-Brazil joined the UN Global Compact on May 5, 2007 and issued a Communication on Progress report in 2010.

The CSR movement at Philips-Brazil is a direct result of the vision of its parent company in Holland. Philips promotes their product lines as being a sustainable solution to addressing the energy and healthcare issues facing society. Philips-Brazil’s CSR report used the GRI’s G3 guidelines as a framework to follow. This was done by the direction of Philips who has taken similar reporting steps since 2002. However, as General Manager for Sustainability in Latin America, Flavia Moraes faces some different issues of CSR than what is being addressed by Philips. For example, while Philips is a publicly traded company and included in the Dow Jones Sustainability World Index, the stakeholders in Latin America are not as vocal or influential to the CSR activities of Philips-Brazil, and therefore the dialogue with this group is not as strong as it is in Europe.

Being part of a large MNC, Philips-Brazil has the resources to identify stakeholder needs, collect data, and issue their external reports. They view it as more of an investment than a cost of doing business. While they do get direction from Philips, they do not receive any help or resources from the local government. Ms. Moraes believes that “the movement towards CSR reporting by small and medium sized companies in her country will be a slower process because of the costs involved, lack of resources (internal and external), and that they are scared of being too transparent to society and that would ruin their reputation.” Philips-Brazil has access to more financial and human resources than smaller companies in their country. In addition, Philips-Brazil receives assistance from the GRI which helps them classify and rank their report. Small or medium sized companies may have more difficulties because they may not have a parent company providing the resources, such as technology, information, and leadership that help in the reporting process. The primary reason for issuing a report was for compliance with a requirement established by the
parent company. The report appeared to be issued more out of need than want.

While the requirement to issue a CSR report came from the parent company, there were pressures domestically that influenced their reporting practices. According to Ms. Moraes the main stakeholders of her company are the Government, NGOs, media, and academics. She stated “if we want to do a social investment in Brazil, we have to have a partnership with the Government, otherwise we don’t have the scale, we don’t achieve many people. So I would say the Government is the most important one (referring to external stakeholders).” In addition Ms. Moraes expanded on how several social NGOs and environmental NGOs, such as Greenpeace and the World Wildlife Federation, have influenced their decision making and reporting processes. She described how important the process was of using their CSR reports as a way to communicate their vision to the media and NGOs, and how they act as a business tool to enhance their reputation in the community and with the Government. This supports the facts that there are often numerous reasons for issuing a report.

**QUESTIONS**

1. Explain the reasons for the issue of CSR reports by Philips. [Hint: Refer para 4]
2. Why the company has given due importance to stakeholder needs and on external reports? [Hint: Refer para 3]

*Source: International Journal of Business and Social Research (IJBSR), Volume -2, No.-2, 2012*
WALMART

Walmart’s Profile

Walmart Supercenters (hereafter Walmart) has a full offering of groceries and general merchandise in a single store. Walmart offers to its customers a one-stop shopping experience and is the largest private employer in the US as well as being the world’s largest retailer. It has more than 10,130 retail units under 69 different banners in 27 countries. They all share a common goal: ‘Saving people money so they can live better’. Walmart employs 2.2 million associates worldwide68 and generated net sales of $ 443 billion during the fiscal year of 2012.

Walmart was founded in 1962, with the opening of the first Walmart discount store in Rogers, Arkansas (US). The company was incorporated as Wal-mart Stores, Inc. on 31st October 1969. The company’s shares began trading on OTC (Over-The-Counter) markets in 1970 and were listed on the NYSE two years later.

Walmart’s CSR Policies and Reporting

Several authors have pointed to Walmart as an important emerging private actor in the transformation of lawmaking in the CSR field, referring to it as a ‘global legislator.’ They highlight how Walmart is able to use its contractual relationships to regulate behaviour among its suppliers around the globe with respect to product quality, working conditions for the suppliers’ employees, and ethical conduct. Since 2007 Walmart publishes its annual report on its website. It was initially called the ‘Global Sustainability Report’ and later changed to ‘Global Responsibility Report’ in 2011. Mike Duke, Walmart’s CEO (Chief Executive Officer), says ‘This change reflects the new social and environmental dimensions we have added to our efforts (…) We believe transparency and accountability are part of being a good and responsible company.’ Walmart’s annual report publishes its constant and progressive work towards social responsibility issues. The Global Responsibility Report 2011 is divided into three main reporting parameters: Environment, Social and Goals.

Walmart’s 2011 report covers every corner of CSR issues. It points out how its successful ‘Sustainability 360’ model has helped Walmart to be the retail leader in the market. It also communicates the significant progress made by and the new reduction goals of greenhouse gas emissions of its supply chain by 2015. Walmart’s financial contributions in kind, such as investments in education, health, commitments to fight hunger, support for local farmers and access to healthier and affordable food, can also be found in Walmart’s Global Responsibility Report 2011.

Walmart’s current performance, policies and financial figures at first sight portray Walmart as a role model company on CSR.

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Walmart’s Conflicts

Walmart has faced many obstacles over the years. It seems that legal and social challenges have acted as important reasons for the development of its code of conduct and annual reporting. This statement can be illustrated in two relevant cases: Walmart Stores Inc. v. Dukes et al. and the press reports accusing Walmart of using child labour.

Walmart Stores Inc. v. Dukes et al.

Walmart Stores Inc. v. Dukes et al. started a decade ago and is still being heard by the US Courts. It commenced as a national class action against Walmart. Plaintiffs Betty Dukes, Patricia Surgeson, Edith Arana (‘plaintiffs’), on behalf of themselves and others similarly situated, allege that female employees in Walmart and Sam’s Club retail stores were discriminated against based on their gender. They stated that they were discriminated against regarding pay and promotion to top management positions, thereby violating the Civil Rights Act of 1964 (42 U.S.C. §§ 2000e et seq. of Title VII). In 2004, the US District Court for the Northern District of California certified a national class of female employees challenging retail store pay and management promotion policies and practices under the Federal Rule of Civil Procedure Article 23(b)(2). Walmart appealed to the Ninth Circuit in 2005, arguing that the seven lead plaintiffs were not typical or common of the class. Walmart appealed to the Supreme Court in August 2010 after the US Court of Appeals for the Ninth Circuit upheld class certification. Finally, the situation changed on 20th June 2011 when the US Supreme Court reversed the class certification.

The Court held that the nationwide class certification approved by the lower courts was not consistent with the Federal Rule of Civil Procedure Article 23(a) governing class actions. Justice Antonin Scalia concluded that the millions of plaintiffs and their claims did not have enough in common: ‘Without some glue holding the alleged reasons for all those decisions together, it will be impossible to say that examination of all the class members’ claims for relief will produce a common answer to the crucial question why I was disfavored.’

Dukes v. Walmart Stores, which in 2001 was estimated to comprise more than 1.5 million women, included all women employed by Walmart nationwide at any time after 26th December 1998. It would have been the largest class action lawsuit in US history.

Despite the Supreme Court resolution, time, money and efforts invested up to this point, the case did not end there. In October 2011, the plaintiffs’ lawyers filed an amended lawsuit limiting the class to female Walmart employees in California. This suit is expected to be the first of many additional class action lawsuits against the retailer at the state or regional level. The new lawsuit, filed in the
US District Court for the Northern District of California, alleges discriminatory practices against more than 90,000 women regarding pay and job promotion as well as requiring non-discriminatory pay and promotion criteria.

**Walmart Caught using Child Labour in Bangladesh**

At the end of 2005, the Radio Canada programme Zone Libre made public the news that Walmart was using child labour at two factories in Bangladesh. Children aged 10-14 years old were found to be working in the factories for less than $50 a month making products of the Walmart brand for export to Canada.

Referring to Walmart’s policy at that time consisting of cutting ties with suppliers when violations occurred, the NGO *Maquila Solidarity Network* said that ‘cutting and running is the worst possible response to reports of child labour or other sweatshop abuses’. Critiques said that it only discourages workers from telling the truth to factory auditors for fear of losing their jobs and encourages suppliers to hide abuses or to subcontract work to other factories that will escape inspection.

Nevertheless, Walmart ceased business with the two factories immediately. Walmart alleges that despite its effort to inspect all factories, it is difficult to enforce its own corporate code of conduct with thousands of subcontractors around the world.

**Walmart’s CSR Policies Post-conflicts**

Walmart developed its first Code of Conduct (COC) ‘Standard for Suppliers’ in 1992, which mainly focuses on quality standards for suppliers only. However, Walmart’s first general report (‘Report on Ethical Sourcing’), which includes suppliers, customers and associates, was generated in 2006. This report was elaborated after the filing of the lawsuit by the female employees in 2001 and the damaging campaigns and press publications accusing Walmart’s suppliers in Bangladesh of using child labour. Walmart’s reporting culture was imitated by the rest of the companies in the market. Nowadays, Walmart has been qualified as a ‘global legislator’ in CSR policies.

The 2005 Report on Ethical Sourcing reported that Walmart had ceased to do business with 141 factories, primarily because of underage labour violations. The Report also contains a chart with the main violations found during the audits. Gender discrimination was not mentioned at any stage throughout the whole document. Walmart’s 2005 and 2012 COC ‘Standard for Suppliers’ explicitly establish that Walmart would not tolerate the use of child labour. The 2005 COC sets the age of 14 as the minimum age for suppliers and subcontractors to hire workers. It also specifies non-discrimination on the basis of gender and other personal characteristics or beliefs.

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It is important to highlight that gender discrimination was not given any special treatment in the 2005 COC or in the general report.

Walmart’s zero tolerance policy for underage workers was changed in 2005. If a single underage worker was found in a factory, Walmart ceased business *ipso facto*. At the beginning of 2005, if two underage workers were found, the factory would receive a warning and had to change and correct in the follow-up audit. If more than two underage workers were found or the company did not make corrections, the factory was permanently banned from Walmart’s production. This decision was based on NGO advice from the Bangladesh case mentioned in the above section. If Walmart cuts business with these factories, many workers could be laid off for lack of production, suppliers will hide abuses and workers will not tell the truth to auditors in order not to lose their jobs. Walmart has a strict corporate code of conduct in the industry but according to investigations Walmart is not able to enforce its code in developing countries.

Currently, Walmart publishes a full and complete report on CSR issues called ‘Global Responsibility Report’ which covers the three dimensions of ‘People, Planet, Profit’. This report emphasizes gender equality and a diverse workforce. Walmart has a Gender Equality and Diversity gender policy that can be found in its ‘Global Responsibility Annual Report’. In 2009, Walmart took the commitment one step further with the incorporation of the Advisory Board on Gender Equality and Diversity. The board is aimed at providing equal and enhanced opportunities for all in top leadership roles. These policies have generated an increase in female officials and managers from 23,873 employees in 2005 to 25,246 employees in 2010.

Walmart has also committed itself to achieving three goals in its Sustainability Report: using 100% renewable energy, creating zero waste, and selling products that sustain people and the environment. These criteria are established and measured by Walmart at the end of the 2012 report. Walmart indicates every year its completed goals and the progress in the ones that have not yet been achieved. An example of quantifiable measures is creating a zero waste Walmart by eliminating landfill waste from US stores by 2025.

Although Walmart does not follow the GRI Guidelines, it has measurable targets on audits. For instance, Walmart requires its suppliers who produce toys in China to sign up to the ICTI CARE Process. The ICTI CARE Process was created by the international toy industry to achieve a safe and human working environment for toy factory workers worldwide. In addition, Walmart conducts internal validation audits by Walmart’s Ethical Sourcing team. These validation audits ensure that the ICTI CARE process is...
properly implemented and that it meets Walmart’s Standards for Suppliers.

<table>
<thead>
<tr>
<th><strong>QUESTIONS</strong></th>
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<tbody>
<tr>
<td>1. Analyse the reasons for the issuance of CSR reports by the Walmart. [Hint: Refer heading 2]</td>
</tr>
<tr>
<td>2. Why Walmart has been qualified as a ‘global legislator’ in CSR policies nowadays? [Hint: Refer heading 6]</td>
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Source: http://www.utrechtlawreview.org/index.php/ulr/article/viewFile/URN%3ANBN%3ANL%3AUI%3A10-1-112903/203
SA8000 VERIFICATION IN CHINA

In recent years, various Chinese media have produced many reports about CSR. The CSR debate in China is mainly focused on foreign companies, particularly European and U.S. companies and their supply chains, concerning about corporate codes of conduct and certification processes.

In the various codes and monitoring systems, the SA8000 verification system was widely referred in China. SA8000 enables companies to guarantee to their customers that their commitment to good working conditions meets a certain (minimum) standard, which largely conform to China's labour law. The main “performance requirements” of SA8000 address eight labour issues: (1) child labour; (2) force labour; (3) health and safety; (4) freedom of association and the right to collective bargaining; (5) discrimination; (6) disciplinary practices; (7) working hours and (8) compensation.

Failure to comply with SA8000 verification has a potential market sanction, so some Chinese companies and government agencies worried that the European and US governments were planning to limit Chinese imports that did not adopt these CSR standards’ factories. Such a measure would effectively force Chinese exporting manufacturers to adopt these social standards, which would involve various costs and thus limit China’s competitiveness as a manufacturing and exporting economy. To date, in fact, no western government is intending to close its country to products that are not certified. However, although no immediate cause exists for Chinese manufacturers to adopt one of CSR standards, in some sectors pressure from foreign buyers to raise labour standards and to do so in a verifiable way is already being felt. This applies particularly to Chinese suppliers to international brand companies in the footwear, clothing and toy sectors.

As of December 31, 2004, the number of SA8000 certified factories in China was 79. The certified industries mainly include: toys, apparel, textiles, accessories, electronics, etc.

Compared with other supplier’s codes of conduct, SA8000 verification is carried out by independent organizations or private companies (e.g. consulting company). All the cost is undertaken by supplier. A survey conducted by the ILS (Institute for Labour Studies, China) showed that the cost associated with SA8000 audits or achieving certification ranged from $1500 to $15,000 depending on the size of the business. This does not take into account the cost of infrastructure upgrades, staff training, consulting on changes in management systems, or other expenses associated with bringing the company to the point of compliance. Companies that are faced with capital limitations have great difficulty in undertaking the certification process.

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The most occurring motivations for factories to adopt SA8000 are:
(1) meeting the demand of Northern buyers: some Northern buyers require their suppliers in China to be certified, as result, some export-oriented companies adopt SA8000 with a hope to get more orders and partners and to extend the market; (2) self-awareness of enterprises: some provident companies inherent desire to maintain high labour standards and working conditions, and with a consider taken for SA8000 standards’ implementation as a strategic plan in business and production development, especially for high-quality labour force, high-yield productivity, better product quality and image, and effective business and production and (3) pressed by other stakeholders: including local NGOs, labour organization, and activists, consultant firms, etc.

In essence, consumer pressure regarding labour rights and working conditions originated in U.S. and Europe. Labour rights and working conditions in these export-oriented enterprises are thought to be below local labour law and ILO standards. Actually, China labour law is at least as strict as ILO standards. Likely SA8000 standards are inspired primarily by ILO conventions and other international principles and local laws. The main practical problems on the workplace are high number of working hours, low salaries, and inadequate health and safety measures. Under the current conditions in China, the main impact of SA8000 seems to be not so much in the direct improvement of working conditions in individual factories, although in individual cases it may play an important role in raising awareness among workers regarding labour rights. The main impact seems to be in a longer term development where SA8000 helps putting labour issues on the agenda of government authorities, companies, industry organizations, trade unions, auditing firms and other stakeholders’ organization.

QUESTIONS

1. What was the impact of failure to comply with SA8000 verification on China? [Hint: Refer para 3]
2. What were the motivations for factories to adopt SA8000? [Hint: Refer para 5]

POLLY PECK’S

Polly Peck’s Early Years

In 1980 Restro Investments, a private company controlled by Nadir and based in the tax haven of Jersey, made a cash offer for Polly Peck, a small company which had been quoted on the London Stock Exchange for a number of years. Polly Peck was also in the clothing industry, but its profitability had not been remarkable. Restro Investments acquired 58 per cent of the share capital of Polly Peck at a cost of £270,000. Over the next ten years, Polly Peck was to experience unprecedented growth under Nadir’s management, so that ten years later that 58 per cent share of Polly Peck was worth just over £1bn (Hindle, 1993). Small wonder if those shareholders who remained loyal to Polly Peck during the first half of the 1980s were so positive about the company’s financial performance.

The stock market began to notice the positive effect that Asil Nadir had on company share prices, and market sentiment seemed to work in his favour. In July 1980, Polly Peck raised £1.5m in a rights issue, the new capital being required to purchase Uni-Pac, a company already owned by Nadir, which began packaging fruit in northern Cyprus. The Turkish Cypriot government, under its President Rauf Denktash, was keen to encourage inward investment into the economy, although there were no doubt concerns by investors about the status of the Turkish Cypriot economy and about potential difficulties in remitting cash from northern Cyprus.

Moving away from clothing, an industry, which Nadir was experienced and familiar with, and diversifying into fruit packaging represented a risk. Polly Peck then acquired another small listed company, Cornell Dresses. Shortly after acquiring control, the share price of Cornell Dresses increased by approximately 400 per cent, which seems to have been related once again to positive market sentiment connected with Asil Nadir’s business reputation.

Nadir then turned his attention to the Turkish mainland. He decided to set up a water-bottling plant at Niksar in 1982 and was expecting to sell bottled mineral water to Middle Eastern countries, a potentially lucrative market. In 1983 Nadir picked-up another company in Turkey, involved in fruit packing and processing. That same year, he entered into a joint venture (Vestel) with the UK firm Thorn-EMI. Vestel would manufacture televisions and video-cassette recorders and was to prove a particularly profitable part of the Polly Peck group. Although many of Polly Peck’s business ventures were ultimately profitable, some of them took time to come on stream, yet the stock market always seemed to have particularly optimistic expectations about the future profitability of these deals—perhaps unrealistically high expectations.

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In the early 1980s, some financial journalists began to question the quality of information in Polly Peck’s financial statements about current operations. Hindle refers to articles in The Observer in 1983 on the slow progress of the water-bottling plant at Niksar, and about the profit projections for the Thorn-EMI electronics venture. Michael Gillard, an Observer journalist, had questioned whether Polly Peck’s UK auditors, Stoy Hayward, were carrying out proper checks on the Cypriot accounts, which were being audited by a local Cypriot firm. And why was there no geographical breakdown of profit and turnover in the accounts? The London Stock Exchange’s rules demanded that quoted companies give such a breakdown, but Polly Peck had obtained a special exemption from the Stock Exchange on the grounds that giving such information would be ‘commercially damaging’. This vacuum, said the Observer, ‘only serves to encourage speculation, if not suspicion’. Mr Nadir did not help his case by refusing to meet Mr Gillard and put across his point of view (Hindle, 1993).

However, such negative comments seemed to have little impact on the share performance of Asil Nadir’s companies. One explanation that has been offered is that the 1980s witnessed an era of increasing entrepreneurship engendered by the values of the Conservative government under Prime Minister Margaret Thatcher, who came to power in 1979. Also, Asil Nadir seemed to find little difficulty in raising the necessary finance for his projects from UK banks. It is quite likely that the Conservative privatisations of the early 1980s influenced market sentiment. The privatisations of state-owned enterprises such as British Telecommunications had created a wider spread of share ownership, which gave an almost assured capital gain to those who subscribed for the shares. In this environment, Polly Peck was perhaps seen by many investors as a stock that could be relied on to produce above-normal profits well into the future. During the 1980s it was also perceived by some observers that Polly Peck’s operations in Cyprus might be at risk from political uncertainties. Asil Nadir had been able to negotiate some privileges for his companies’ operations in northern Cyprus with the Turkish Cypriot President Rauf Denktash but there was always a danger that reunification of the island could end these favourable conditions. But in the first half of the 1980s it appeared that some of Polly Peck’s projects – the water-bottling plant in Turkey and the Vestel electronics plant – were taking longer to deliver revenues than had been anticipated. Nevertheless, Polly Peck had a tendency to continually announce new and exciting ventures and this seemed to support investors’ confidence in the shares and hence the share price.

**Polly Peck Expands Abroad**

By 1985, Cornell Dresses and Wearwell had been incorporated in the Polly Peck Group, whose name was changed to Polly Peck...
International. Headquarters were established in Berkeley Square, an exclusive part of Mayfair in London. By 1986 Polly Peck shares could be traded in the USA and positive market sentiment there appears to have been partly responsible for a substantial rise in the Polly Peck share price in 1987.

Towards the end of 1987, Polly Peck was raising loan finance in Swiss francs for investment in countries such as Turkey. This did not appear to be a sound policy, raising finance in a stable currency to invest in a weak currency area. One of the problems with trying to interpret Polly Peck’s financial position was the fact that a large part of its revenue was received in Turkey and northern Cyprus, where the local currency was the Turkish lira.

During 1988, Polly Peck began to buy companies or establish joint ventures in various countries, including the Netherlands, Spain, Hong Kong and the United States. In addition, Polly Peck was buying stakes in UK companies such as Borthwicks, involved in food processing. Polly Peck had also invested in shipping and by 1988 operated 10 ships with cargo and refrigeration facilities. As a result of organic growth combined with company takeovers, the group virtually doubled in size between 1987 and 1988. There was a danger that Polly Peck was overreaching itself and would not be able to properly control so many diverse operations.

Even though he was both chairman and chief executive of Polly Peck International, Asil Nadir could not always persuade his board to agree to his corporate purchases and, instead, bought some operations (such as newspaper publishers in Turkey) from his own private resources.

In 1989, Del Monte, which processed tinned fruit and sold fresh fruit came on to the market. The previous year, RJR Nabisco had been the subject of a leveraged buy-out, which had left the company with a substantial amount of debt to service. RJR Nabisco decided to sell Del Monte to reduce its debt. Polly Peck decided to bid for the fresh fruit business and paid $875m. As a result of this deal, Polly Peck’s share price increased by over 20 per cent. This increase in market capitalisation helped to push Polly Peck into the FTSE 100 index. The purchase of Del Monte was paid for partly through a rights issue and partly through debt, the major part being debt. In addition, the Del Monte brand was included on the Polly Peck balance sheet.

In 1989, Polly Peck acquired a 51 per cent stake in Sansui, a Japanese electronics company quoted on the Tokyo Stock Exchange. This purchase also increased Polly Peck’s debt. In order to reduce debt, Polly Peck began to sell some operations that had formed the core of its business, and attempted to get Del Monte a quote on the New York Stock Exchange (NYSE), but was not successful. This would have raised additional equity for the Polly Peck group of companies and helped to reduce its overall level of debt.

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Nadir tries to take Polly Peck Private

In August 1990, an indication of Asil Nadir’s management style came in an announcement that he would bid for Polly Peck International with the aim of converting it into a private group. On Friday 10th August, 1990, Asil Nadir summoned the board of directors of Polly Peck to an extraordinary meeting two days later. After five hours of boardroom discussion, Polly Peck’s finance director, David Fawcus, announced the possibility of a bid by Asil Nadir to take the group private. It appeared that Nadir was becoming frustrated by his conviction that the group's shares were ‘undervalued’ in the stock market.

For a long time Asil Nadir had felt that the group's price-earnings ratio was too low. The price-earnings ratio expresses the relationship between a company’s share price and its earnings (essentially, reported profits before payment of dividends). Companies which operate in a relatively ‘safe’ economic environment tend to have higher price-earnings ratios compared to companies whose earnings are more volatile and perhaps seen as ‘risky’. In August 1990, the price-earnings ratio of Polly Peck was about 8. Because a large part of Polly Peck’s revenues were generated in northern Cyprus, whose international status was unclear, it was likely that the stock market would mark down the shares to some extent. But in 1990 there was an additional element of risk. On 2nd August, 1990, Iraqi armed forces invaded Kuwait, bringing instability to the Middle East and much of Polly Peck’s revenue was generated in Turkey, which shared a border with Iraq.

A report, shortly after Asil Nadir announced that he wanted to take Polly Peck private, stated:

The precise fashion in which the group achieved its extraordinary profitability has never been fully apparent then or now. In the City doubts began to circulate, fanned, most Turks believe, by Mr Nadir’s enemies among the Greek Cypriots who were not unnaturally resentful of his success in making profits out of their former orange groves. Rumours that the Turkish Cypriot authorities were about to withdraw tax concessions helped fuel a market panic and a plunge in the share price. Distrust of Mr Nadir was exacerbated by a campaign against him by some British papers (Financial Times, 14th August, 1990: 15).

At first, commentators appeared to be generally sympathetic to Asil Nadir’s move to take Polly Peck private. While Turkey and northern Cyprus were important to Polly Peck’s operations, together revenues generated in the Eastern Mediterranean comprised only about 30 per cent of the group total. Nadir’s frustration with what he viewed as a low stock market valuation seemed to be a reasonable justification for him to want to take the group private. However, five days after announcing his intention to take the group private,
Asil Nadir abruptly changed his mind, and announced that he was dropping the plan. This abrupt change on Nadir’s part did not go down well in the market. The share price fell substantially over the course of one week. Before the announcement, the share price stood at 393p, equivalent to a market capitalisation of £1.9 bn. After Asil Nadir announced that he would not take the group private, the share price fell to 307p, equivalent to a market capitalisation of £1.3bn. In the course of a week, approximately £ 600m had been wiped off the equity value of the group. This event seemed to be a turning point in Polly Peck’s fortunes.

**The Stock Exchange Investigates**

Nadir alleged that he had dropped his plans to take the company private after receiving approaches from ‘significant institutional and private shareholders’ who wanted Polly Peck to remain public. The London Stock Exchange was keen to investigate quickly the circumstances surrounding the two announcements by Asil Nadir, particularly in view of the fluctuations in the share price. He had claimed that there was no doubt as to the availability of finance to make an offer for the company. His private shareholdings in Polly Peck amounted to 26 per cent and he would need acceptances from other shareholders of 64 per cent to arrive at the critical level of 90 per cent of the group’s shares. A statement issued by the Stock Exchange, following the investigation, noted a lack of preparation to normal standards by Mr Nadir before he notified the board of his intention to make an offer for Polly Peck. It also referred to the fact that Mr Nadir convened an emergency board meeting for Sunday 12th August, 1990 at very short notice and this contributed to the fact that only seven of the thirteen directors were able to attend. Also, given the short notice, the board did not have access to adequate professional advice on a suitable response to Mr Nadir’s approach. Somewhat ominously, the Stock Exchange reported that it had conveyed its findings and the supporting papers to the relevant authorities. There is little doubt that a main concern of the Stock Exchange was that anyone with privileged information on the announcements could have exploited the opportunity to benefit financially from the share price fluctuations.

But, by early September 1990, Polly Peck appeared to have put the August controversy behind it and announced on 3rd September, 1990 financial results for the first half of the financial year: they were better than market forecasts had suggested. Polly Peck also announced a 21 per cent increase in its interim dividend, but at a meeting with analysts, in answer to a question, Asil Nadir was forced to issue a categorical denial that he was under investigation. Then on 20th September, 1990, Asil Nadir was interviewed by the Serious Fraud Office (SFO) and questioned for several hours. On 19th September the Metropolitan Police had searched the offices of South Audley Management, a property company indirectly linked...
It appeared that South Audley Management and a former director had been investigated by the Stock Exchange insider dealing group.

It was also reported that the Turkish Government had made representations to the UK Prime Minister concerning what it believed to be a campaign against Nadir, manipulated by Greek Cypriots. On Thursday 20th September, 1990, the share price of Polly Peck had collapsed and trading was suspended at a price of 108p. The falling share price coincided with Asil Nadir’s questioning by the Serious Fraud Office. The fall in share price left Polly Peck with a market capitalisation of £468m, about a quarter of what it had been two months earlier.

On 23rd September, 1990 the Sunday Times published a lengthy article which alleged that there had been irregularities in share dealings in Polly Peck shares. The article cited Jason Davies, a broker based in Switzerland who worked for Asil Nadir’s private companies. The article went on to explain:

For some weeks, well before the SFO entered the scene, the Sunday Times Insight team had been investigating Nadir, Davies and their associates. It has uncovered how: for months Davies and others ran a share-buying operation to bolster the fortune and reputation of both Nadir and Polly Peck; a complex network of letter-box companies and foreign bank accounts was used to disguise the scheme and hide it from the prying eyes of City regulators (Sunday Times, 23rd September, 1990, Business Section).

The Sunday Times article also referred to an incident in May 1989. David Fawcus, finance director of Polly Peck, and Tony Reading, managing director, were surprised to learn that a number of key staff had suddenly been dismissed by Asil Nadir. The dismissed staff included Martin Helme, finance director of Sunzest (a Polly Peck subsidiary); Vi Jensen, financial controller; Martin Brown, another Sunzest executive; and even David Fawcus’s own secretary. When the news reached the stock market, Polly Peck’s shares dropped by 10 per cent amid fears that Tony Reading might resign. In the event Tony Reading did resign a month later, although David Fawcus stayed on and did not resign until early 1991, by which time administrators had been appointed to manage Polly Peck.

The Sunday Times article of 23rd September, 1990 raised the possibility that Polly Peck money might have been used to buy Polly Peck shares. ‘If they did so, it would send misleading signals to the market. Pension funds and trusts, which look after the savings of millions of ordinary people, as well as private investors and speculators, rely on share prices to guide their investment decisions. They assume that price reflects thousands of independent decisions to buy, hold or sell. Financial assistance by a company for the acquisition of its own shares is therefore outlawed’.

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By Monday 24th September, 1990, it was being reported that some financial institutions were calling for the appointment of an independent chairman. There were also requests that independent reporting accountants be brought in alongside Polly Peck's established auditors, Stoy Hayward. On Wednesday 26th September, 1990, it was revealed that the Takeover Panel had uncovered trades in shares of Polly Peck International worth nearly £2m, which were undisclosed for six weeks in breach of the Takeover Code. It was reported that sales of Polly Peck shares at 417p and 410p were made near the top of the market following Asil Nadir's announcement to buyout the company. It was also stated that rule 8.3 of the Takeover Code requires all deals by any shareholder controlling more than 1 per cent of any company to be disclosed by noon the day after they were carried out, once a formal bid period has begun. The shares in question had been sold two days after the Polly Peck board announced the approach by Asil Nadir to buyout the remaining Polly Peck shares.

**Polly Peck's Liquidity Problems**

On Monday 1st October, 1990, Polly Peck International delivered a statement on the crisis which had overtaken the company since Asil Nadir had proposed to buyout the remaining Polly Peck shareholders on 12th August, 1990. It stated that the share price collapse and associated negative publicity had precipitated liquidity problems for the parent company. The board emphasised that these liquidity problems related to the parent company rather than to operating subsidiaries which they claimed had a very successful trading record. The board went on to say that one of its most urgent tasks was to see a restoration of confidence in the company. In addition Mr Nadir had informed the board that he denied all allegations of impropriety and he had commenced proceedings for libel against the Sunday Times and Observer newspapers.

In early October 1990, The Guardian reported that Asil Nadir was jetting around the world struggling to save his corporate empire and that the financial chaos surrounding Polly Peck threatened to spread to other companies built up and dominated by charismatic individuals. In an interesting article, Roger Cowe referred also to Rupert Murdoch and Robert Maxwell as striving to avoid joining the list of debt-bound businesses whose extraordinary growth during the 1980s was in danger of being followed by dramatic collapse in the 1990s. This was a particularly insightful comment given that the Maxwell empire collapsed just over a year later under a mountain of debt. Cowe was particularly concerned about independent scrutiny of chairmen who dominated their boards of directors in quoted companies. ‘Look in vain for strong directors, executive or non-executive, who can stand up to the charismatic boss, not merely to verify transactions with private interests, but also to challenge their whims.’
The reason for the collapse in the share price became clearer some two weeks later. It was reported that banks that were holding Polly Peck 1 shares, as collateral against loans advanced to Asil Nadir, dumped 10m shares on the market on 20th September, 1990 and this precipitated a collapse in the company’s share price. Once the share price fell, the shares Nadir had it pledged as collateral would be insufficient and he would need to increase the collateral. On 21st September, 1990 the Zurich office of Warburg’s sold a further 2.6m shares. In total over 16m shares were sold by financial institutions before the share price suspension, the largest single sale being 7.9m shares sold by Citicorp investment bank on 20th September, 1990.

On 3rd October, 1990, Polly Peck announced that it had halted payments to creditors. An adviser to Asil Nadir claimed that Polly Peck’s liquidity problems had arisen because the Sheraton Voyager Hotel, which had been built in the Turkish coastal resort of Antalya at a cost of £ 70m, had been financed not by an increase in debt but out of the group’s cash flow. A meeting with its banks was scheduled for 5th October and there was some expectation that Turkish financial institutions would be willing to provide financial assistance to Polly Peck during its liquidity crisis. It was learned that Polly Peck was facing difficulties remitting cash from northern Cyprus.

On 4th October, 1990 Asil Nadir appeared to be confident about his financial position and claimed that his personal wealth was eight to ten times the value of his 24 per cent holding in Polly Peck. However, it was not known to what extent this holding was pledged against bank loans. At the suspension price, this made his personal wealth worth about £1 bn. He claimed that he had substantial assets in Turkey and northern Cyprus. By 8th October it seemed unlikely that the Turkish President, Turgut Ozal, would be willing to mount a rescue operation for Polly Peck, but Nadir hoped to gain a standstill on interest payments and a rollover of short-term debt. He stated that he was negotiating to dispose off assets and reduce the company’s gearing.

On 10th October, 1990, Asil Nadir flew to Turkey to begin negotiations with government officials, banks and businesses in order to try to resolve Polly Peck’s financial crisis. Speaking from Turkey on 11th October, Nadir claimed that he would be able to offer serious evidence of good amounts of remittances from Turkey and Cyprus. He needed to provide solid evidence to the creditors of Polly Peck that he could produce cash to persuade the banks to roll over the existing loans. Asil Nadir was desperate to dispose of assets in Turkey and northern Cyprus, but appeared to be facing difficulties in getting potential purchasers interested in bidding for Polly Peck’s businesses in the eastern Mediterranean.

By 23rd October, one banker in Istanbul was quoted as saying ‘Mr Nadir is not succeeding in selling anything here, including his..."
personal assets, and he has no way out now’. Already, Polly Peck had made more than 100 employees redundant in Cyprus and it was feared that there would be further job losses, given that Polly Peck was the largest employer in northern Cyprus with 8,000 employees.

**The Court Appoints Administrators**

Polly Peck was placed into administration on 25th October, 1990 after the company was unable to satisfy its bankers that it would be able to reduce its debts. In addition, Asil Nadir himself faced personal bankruptcy when Barclays de Zoete Wedd attempted to serve a personal bankruptcy petition against him for £ 3.6m unpaid debt relating to Polly Peck shares purchased the previous month.

The descent from being one of the UK’s thirty-six wealthiest individuals to defendant in a bankruptcy action had occurred over just a few weeks, and could have easily been avoided. It was the result of his repeated purchases of Polly Peck shares during the autumn as the share price tumbled. Taken all together, his last-ditch purchases totaled between £ 40 million and £ 50 million, and on top of this were liabilities to the Inland Revenue believed to be about £ 20 million. If it seems remarkable that Asil Nadir would have made purchases on this scale while his empire was tottering around him, it may seem even more astonishing that the securities houses with whom he traded allowed themselves to become involved in risky transactions on this scale when a moment’s reflection would have warned them of what might lie ahead (Barchard, 1992).

On 30th October, the Serious Fraud Office (SFO) arranged for police and accountants to search the London headquarters of Polly Peck and it was reported that debts owing to creditors exceeded £ 1.3bn. Matters went from bad to worse when, on 17th December, 1990, Asil Nadir was charged with 18 offences of theft and false accounting. He had been arrested on 15th December at Heathrow Airport, London, when he had returned from a month’s visit to Turkey and northern Cyprus in an attempt to dispose off assets and raise cash.

There appeared to be differences between administrators and the SFO. The administrators had reportedly warned that Nadir’s arrest might hinder their work. They had previously complained of disruption when the SFO searched Polly Peck’s London headquarters at Berkeley Square on 30th October and removed papers from the building.

After Nadir’s arrest on 15th December, 1990, bail was set at £ 3.5m and Nadir was forced to spend several days in Brixton jail while the bail conditions were met. In addition, Nadir had to surrender his passports. The bail conditions appeared to some observers to be quite severe. In November 1991, Asil Nadir had been made personally bankrupt which meant that he had to give up his UK
company directorships, including chairman and chief executive of Polly Peck. In February 1992, Nadir was committed for trial at the Old Bailey.

At first, the administrators had decided to co-operate with Asil Nadir, since they believed that the shareholders and creditors would ultimately receive more through co-operation than through legal action, but in October 1991 the administrators sued him for damages. In May 1991, the administrators had predicted that the shareholders and creditors would receive 52 pence for every £1 they had lost. By 1993, it seemed that the creditors would receive only 4 pence in the pound. By June 1991, the administrators’ costs amounted to £8 Am.

At the end of the day, administrators are judged by what they can retrieve for creditors and shareholders. If in Polly Peck’s case this turns out to be less than they earn in fees for themselves it will not be the first time in British corporate history that the process of administration has been a complete fiasco (Hindle, 1993).

Asil Nadir Flees to Cyprus

In May 1993, Asil Nadir decided to break his bail conditions and escape to northern Cyprus. Shortly after his escape to Cyprus, The Independent speculated that Asil Nadir had decided to ‘jump bail’ because four applications for a relaxation of his bail conditions had already been rejected by the UK courts. In addition, he may have suspected that he would be charged with conspiring to pervert the course of justice (by withholding information), which could mean that his bail would be revoked. IS Apart from the criminal prosecution, Nadir was being sued for £378m in the civil courts by the Polly Peck administrators, and creditors were claiming a further £80m from him.

Nadir has effectively been in exile in northern Cyprus since May 1993 and, given the particular international legal status of northern Cyprus, has managed to avoid extradition to face the courts in the UK. Although in 2003 Nadir suggested that he wanted to return to the UK to face the courts and clear his name, the SFO stated that he still faced 66 counts of theft. From Nadir’s point of view he would probably face arrest as soon as he set foot in the UK. At the time of writing, unless Nadir does decide to return voluntarily to the UK, his trial is likely to resume only if northern Cyprus becomes part of the European Union. Until that time and the resumption of the court proceedings, many questions related to this case are unlikely to be resolved.

Could, or should, the events which overtook Polly Peck in 1990 have been foreseen? With hindsight it is possible to argue that the stock market was fixated on the remarkable share price performance of Polly Peck during the 1980s. Stock market sentiment may have Contd...
were placing unreasonable expectations on the future profits that Polly Peck would be able to deliver.

Although some were critical of the basis for Polly Peck’s share price movements, critics – especially during Polly Peck’s heyday – seemed to be in a small minority. Barchard (1992) refers to one Swiss shareholder in Polly Peck who recalled being laughed down by other investors when he questioned the treatment of foreign exchange losses at an annual general meeting.

Gwilliam and Russell believe that financial analysts were insufficiently critical of Polly Peck’s financial statements and argue (1991) that ‘a significant proportion of analysts either did not dig sufficiently deep into the disclosed information or failed to understand its importance’. They comment on the fact that Polly Peck held monetary assets in Turkey and northern Cyprus in a depreciating currency, the Turkish lira. In this situation, holdings in the local currency would be subject to exchange losses over time as the Turkish lira depreciated against the pound sterling. However, a depreciating currency, by its very nature, will also be associated with high levels of interest on deposits (as compensation for the depreciating currency).

Gwilliam and Russell also refer to the fact that in 1989 Polly Peck’s interest received was greater than interest payable, a surprising result since at the beginning and end of the financial year monetary liabilities exceeded monetary assets.

The relevant UK accounting standard, SSAP 20, Foreign Currency Translation (ASB) allowed foreign exchange losses to be taken to reserves, rather than be deducted from profit in the profit-and-loss account. But a case could be made for charging foreign exchange losses directly to the profit-and-loss account. Nevertheless, full information was provided in Polly Peck’s accounts through the notes. As Gwilliam and Russell (1991) state, ‘Polly Peck’s accounts were full of danger signs. So why did the analysts still say “buy”? ’

The fact that Asil Nadir was both chairman and chief executive of Polly Peck was also a cause for concern. The concentration of too much power in the hands of one individual may have meant that important decisions were not fully discussed by the board of directors. Hindle (1993) states that in 1990:

The reality was that Mr Nadir was juggling with so many balls at the time that he did not have the capacity to watch them all with his usual intensity. Superior information and a hands-on will to succeed had always been at the heart of his commercial successes. Now he was some times not getting the information, or not absorbing what he was getting.

In February 1991, an auction of furnishings at the London headquarters of Polly Peck, in Berkeley Square, raised about
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£ 3m. It was reported that Nadir had invested heavily in 18th
century English furniture and had spent about £ 7m on the Polly
Peck corporate collection. It has to be wondered whether such
expenditures were of benefit to Polly Peck. Could they have been
used more profitably elsewhere in the group?

Finally, concerns have been expressed in the medial about the
legal process following Asil Nadir’s arrest in December 1990 and
the length of time it took for the UK authorities to bring the case
to trial. Initially, Nadir was charged with 59 counts of theft and
false accounting, but in 1992 a judge threw out 46 charges, leaving
charges relating to £ 31m. When Nadir fled in May 1993, two
and a half years after Polly Peck collapsed, the trial had not yet
started and Nadir was under quite restrictive bail conditions. It is
perhaps not surprising that he became impatient with the delays
in the legal process. What is clear is that until the legal process can
resume, there will be no definitive answer to many of the issues
surrounding this complex affair.

QUESTIONS

1. Trace the expansion path of Polly Peck. [Hint: Refer heading
1 and 2]

2. Why did the Stock Exchange intervene in the matters of
Polly Peck? [Hint: Refer heading 4]

3. Nadir was the only one responsible for company’s downfall.
Do you agree? Give reasons for your answer. [Hint: Refer
heading 3]

Source: D Geeta Rani and R K Mishra, Corporate Governance: Theory and Practice, First Edition,