Mandatory Corporate Social Responsibility:
Is the Government Shifting its Failure to Corporate India?

Summary

Indian government’s proposal of mandating 2 percent of corporate earning towards corporate social responsibility (CSR) spending has stirred a debate both in the business and social sectors. Corporate India sees it as “unnecessary, unfair and impractical,” and wants it voluntary. It fears it would quite possibly allow meddling by implementing officers and become a tool in the hands of politicians to develop their constituencies or for funding their parties. CSR is a contentious issue for another reason: diversity of views about what the role of corporates should be towards society and stakeholders.

For the popular “shareholder” capitalism adherents corporates’ sole responsibility is to maximize profits for their shareholders. They see any attempt to divert funds for CSR as stealing the money of the owners, the shareholders. In their opinion, shareholders can indulge in societal related activities with their personal funds, if they want. They are opposed by others who say that interests of all “stakeholders” are important which necessarily includes not just the employees, customers and suppliers but also the society at large and the environment; because businesses don’t operate in vacuum. Thus, they must show responsibility towards the society and CSR should be an integral part of their operations. CSR is particularly important for multinational companies when they are operating in underdeveloped countries under lax laws and using cheap labor and natural resources to maximize their profits.

If the Clause 135 of the Companies Bill 2011 is passed as proposed, India will become the first country to have legislation for compulsory CSR spending; most nations in the West enforce CSR only through mandatory disclosure of CSR spending. However, regardless of the nature of CSR provisions in the Companies Bill passed by the parliament, it is clear that corporates will not be able to ignore their social responsibilities for long.
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Overview

Government under Pressure for Social Development

Indian government is under pressure to address growing inequalities and deficiencies in infrastructure; at the same time, it is facing perpetual international pressure to keep its economy highly liberalized and taxes low. Thus, it is proposing mandatory corporate spending on corporate social responsibility (CSR) for large corporates. It represents the government’s attempt to create a novel policy to serve both goals. However, commentators and companies, who generally derive inspiration from the West, have predictably criticized government’s move because no western nation has a similar mandatory CSR provision.

Government wants Mandatory CSR

The government is toying with the idea of making the CSR mandatory for companies to spend at least 2% of net profits on CSR through the Companies Bill, 2011 which is pending in the parliament since November 2011. Currently, businesses follow provisions of the Companies Act, 1956, which are no longer appropriate to the today’s business and economic environment. Thus, a revision process was started in 2003 and a Companies Bill 2008 was tabled in Parliament, but lapsed with the dissolution of the Lok Sabha in 2009.

While many of the provisions of the Companies Bill are of great importance to industry, it’s the CSR provision that has created the most debate. The Companies Bill, 2011 proposes that companies with net worth above Rs. 500 crore, an annual turnover of over Rs. 1,000 crore, or annual net profit of Rs 5 crore shall earmark 2 percent of average net profits of three years towards CSR. In the draft proposal, it was only declaratory which works through peer and public pressures as in many western nations.

Industry has been almost totally against a mandatory clause; it was suggesting tax breaks for those who meet the voluntary targets. Critics argue that companies may resort to camouflaging activities to meet such regulations, particularly during recessionary periods and economic downturns. Some NGOs and philanthropic community also have similar concerns. Some others have called it “outsourcing of governance.” They see it as government burdening its failure on the corporate.

In the Western nations, laws do not stipulate mandatory CSR quantum; they only make disclosure of CSR spending mandatory in the annual reports. Thus, once the Bill passes in the parliament India will become the first country to have CSR spending mandated by the law.

Government Argument for CSR

The government perspective on CSR has been that though India’s business sector has generated wealth for shareholders for decades, the country continues to grapple with problems of poverty, unemployment, illiteracy and malnutrition. Corporate growth is sometimes seen as widening the gap between India and Bharat (rural India) through its income-skewing capability. This gap needs to be bridged. While the government undertakes extensive developmental initiatives through a series of sectoral programs, the business sector also needs to take the responsibility of exhibiting socially responsible business
practices that ensure the distribution of wealth and the well-being of the communities in which the business operates.

Dr Manmohan Singh has advised the corporate to heed Mahatma Gandhi and look upon themselves as trustees of the people, and warned of social unrest:

“In a country with extreme poverty, industry needs to be moderate in the emolument levels its adopts... The electronic media carries the lifestyles of the rich and famous into every village and slum. Media often highlights the vulgar display of their wealth.... An area of great concern is the level of ostentatious expenditure on weddings and other family events. Such vulgarity insults the poverty of the less privileged, it is socially wasteful and it plants the seeds of resentment in the minds of the have-nots.”

Presently in India, there is a widespread feeling that the high GDP growth rate of past decade has remained confined to urban areas only and has not reached the rural India, particularly to the poor section of the society. Corporates have the know-how, strategic thinking, manpower, and financial strength to enable widespread social transformation. Operational partnerships between corporations, NGOs and the government will place India’s economic growth and social development more inclusive.

Besides the corporate India, many writers, academicians and NGOs who generally support CSR view the mandatory proposal as an anomaly. They contend that CSR should be voluntary. Business scholars as well as international agencies such as the UN, ILO or World Bank also favor treatment of CSR through soft laws, rather than non-negotiable statutory laws.

**Will mandatory CSR Corrupt the System?**

*Mandatory CSR is Like "Privatizing Taxation" – Montek Singh Ahluwalia*

The Planning Commission has been of the view that CSR should not be made mandatory; rather companies should take up CSR voluntarily. Making CSR mandatory will lead to corrupt practices and meddling by high-handed implementing authorities. Some members believe that making CSR mandatory would encourage companies to reduce wages, fudge accounts, or indulge in unfair practices. The best way would be to make them more accountable to the system and the society by rewarding good behavior, and the way do that is to empower SEBI to move towards global standards and enforce them strictly.

Earlier, Planning Commission Deputy Chairman Montek Singh Ahluwalia has said that making CSR mandatory would amount to "privatizing taxation.” He said if the Government wants it can increase the rate of corporate tax to 32 per cent from the current 30 per cent rather than making it mandatory for companies to spend 2 per cent on CSR and add complications.

Experts also agree with the Planning Commission and ask when companies are already paying taxes, why the Government is not able to use that money effectively for social welfare activities? They also feel politicians and political parties too will be able to pressure the corporates if CSR becomes compulsory.
CSR and the Companies Bill, 2011

Quality of Corporate Governance is a Serious Issue in India

If the Rs 7000 crore Satyam fraud shook the country in 2009, it was a shenanigan of individual nature. But then what started with the 2G spectrum and CWG game scams and the most recent exposures of shoddy manner of coal mine allotments suggest that what we have in India is crony capitalism. People at the top distribute country’s resources among them; ordinary people have been reduced to level of deaf and dumb spectators. It has badly eroded people’s confidence in the way economy and corporate affairs are managed in the country.

Lack of transparency coupled with series of scams without a strong response from the regulators to address the fundamental issues relating to corporate mismanagement in India, are hampering the pace of development apart from creating a negative impact on foreign investments into India. For example, Norwegian Telenor’s joint venture partner Unitech’s founding family member was sent to jail for his shoddy role in purchase of telecom license. The US’s Bain capital accused its investee company Lilliput, maker of kid’s garments, of fudging accounts.

India ranks 134, out of 183 countries on the World Bank’s index of ‘Ease of Doing Business’.

Unattended corporate governance issues could take India back to the 90s when most global investors avoided the country due to its poor governance standards.

Importance of Companies Bill 2011

Corporate India may not be excited about the mandatory nature of CSR provisions of the Clause 135, but they are waiting eagerly for several other important features contained in the Companies Bill 2011.

The major aim of the Bill is to decrease regulation and to shift the onus of oversight onto shareholders. The Bill makes some effort to address corporate governance in general through Western mechanisms such as formal, impartial audits and an increased number of independent directors on boards. It also provides a safety net to the whistleblowers. The Bill also allows shareholders to band together and file class action lawsuits; this kind of tort framework is currently not available in India. It establishes a National Company Law Tribunal to expeditiously handle these corporate lawsuits. However, it is worth noting that class action lawsuits will only be available to shareholders—not to the average Indian. Companies themselves have long advocated for a more expeditious corporate law system, as it would reduce the uncertainty inherent in international litigation.

The listed companies shall have at least one-third independent directors on the board. They shall be responsible for all acts of omission that occurred with his knowledge or with his consent or connivance or where the director had not acted diligently.

The Bill is certainly more pro-business than it seems at first glance.

The Companies Bill 2011 is Pending in the Lok Sabha

The talks of overhauling the Companies Act 1956 started over 20 years ago. The Companies Bill 2011 is a big step towards improving transparency and regulation of business houses in India. The Bill was introduced in the Lok Sabha on December 15, 2011. It seeks to replace
the Indian Companies Act 1956. An earlier version, the Companies Bill, 2008 was introduced during the previous tenure of the UPA government, but it lapsed with the dissolution of the Lok Sabha.

It was re-introduced in August 2009 and was vetted by the parliamentary standing committee on finance. In the original draft Companies Bill 2009 proposed by the Ministry of Corporate Affairs, the CSR clause was voluntary; companies were only expected to disclose the CSR spending to shareholders. But before submission to the parliament, when it went to the Finance Committee for review the proposal mandating two percent CSR spending was inserted.

The Bill incorporates most of the changes recommended by the parliamentary panel. It aims to modernize corporate regulations, usher in an era of e-governance, enhanced accountability, and corporate social responsibility (CSR) among companies registered in the country.

Several norms to streamline corporate governance and disclosure are included in the Bill to avoid recurrence of corporate scandals such as the alleged accounting fraud by the promoters of the erstwhile Satyam Computer in 2009. Additional disclosure norms for companies, mandatory rotation of auditors and audit firms, regulation of related-party transactions, protection of minority shareholders, provision for class action suits, enhancement of penalties and a mandatory slot for a woman director on company boards are other new proposals included in the Bill. It also proposes to tighten the laws for raising money from the public and prevent insider trading.

**Timeline of Evolution of the Bill**

Here is the chronology of events that led to the Companies Bill, 2011 which aims to comprehensively amend the old Companies Act of 1956:

- **2004** Ministry readies concept paper on revised company law
- **2005** J J Irani committee submits its report on concept paper, new law
- **2008** Cabinet approves new Bill, lapses due to dissolution of Lok Sabha
- **2009** Re-introduced as Bill 2009, goes to parliamentary panel for scrutiny
- **2010** Parliamentary panel submits report on Bill
- **2011** Cabinet approves Companies Bill 2011

**Other Features of the Proposed Bill**

Apart from reducing the number of sections as is the case in the current Act, some of the other changes are:

- A more extensive range of activities will now be possible online;
- The inclusion of the expression 'Corporation Sole' within the definition of Company;
- The changing role of Company Secretaries;
- The Mandatory Rotation of Auditors every five years;
- The changes in provisions relating to 'Independent directors';
- Bringing in the concept of a 'One Man Company' to India;
- Corporate social responsibility has been made mandatory;
- Substantial judicial powers will be given to the National Company Law Tribunal;
- Increase in the powers of the executive to legislate through notifications;
- Changes relating to managerial remuneration;
- The change in the legal position with regard to Oppression and Mismanagement
The CSR Provisions: Clause 135 and Schedule VII

Clause 135 read with Schedule VII of the Bill deal with the concept of CSR. According to Section 135, of this Bill: “Every company with a net worth of Rs. 500 crore or more, or turnover of Rs. 1,000 crore or more, or net profit of Rs. 5 crore or more in a financial year will have to form a corporate social responsibility (CSR) committee, consisting of three or more directors, of which at least one would be an independent director.” This committee will have to ensure that the company spends, in every financial year, at least two per cent of the average net profits made during the three immediately preceding years, towards CSR activities. The bill also makes it compulsory for the company to specify reasons if it fails to spend the amount.

The proposed CSR spending in the new Companies Act would be in addition to what is being prescribed for companies in the mining or the coal sector. For instance, in case of Posco, the environment ministry has asked the Korean company to spend 2% of its annual profit on CSR. The coal ministry is also toying with the idea of mandating a CSR levy on miners who dig for the mineral in the so-called No-Go areas that are environmentally sensitive.

Some other observations on this clause are:

1. The Bill requires large companies (determined with reference to net worth, turnover or profit) to constitute a Corporate Social Responsibility Committee (CSRC) consisting of at least one independent director. The role of the committee will be to formulate and recommend to the board a CSR policy for the company. Once the board approves the policy, it must be announced by placing it on the company’s website. The CSR activities are listed in Schedule VII.

The fairly general nature of this list does not provide assurance that the CSR spending may indeed always be directed to the achievement of the intended purposes. The standing committee, however, had said that companies would decide the policy as well as the spending. It will surely make reputed and socially-oriented companies more focused in their approach in order to satisfy their social obligations. But then, they would do so irrespective of any legal obligation.

2. Companies must “make every endeavor” to ensure that they spend a minimum amount (2% of the average net profits for preceding 3 years) on activities pursuant to their CSR policy. Since a move to impose a mandatory CSR requirement has come under severe criticism, the Ministry seems to have adopted a half-way approach, short of making CSR mandatory. Ultimately, the nature of the obligation, if any, will boil down to semantics and interpretation of the expression “every endeavor”, and it is unlikely that such an obligation can be enforced in a straightforward manner.

3. In case companies do not spend the requisite amounts on CSR activities, they must specify reasons in the board’s report annually sent to shareholders. This incorporates the “comply-or-explain” approach typically adopted for corporate governance (e.g. under the Corporate Governance Code in the UK and the Voluntary Guidelines in India).

While the importance of CSR cannot be underestimated, but such matters are more appropriately dealt with through soft norms such as codes of conduct, rather than statutory provisions. The current half-hearted approach may result in reducing the CSR to the status of “Tick the Box” nature of the paper work.
Anyway the corporate sector is eagerly waiting for the passage of the Bill and to see the final shape of the CSR provisions.

### SCHEDULE VII

In their CSR policies companies may include the following activities related to:

1. eradicating extreme hunger and poverty;
2. promotion of education;
3. promoting gender equality and empowering women;
4. reducing child mortality and improving maternal health;
5. combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
6. ensuring environmental sustainability;
7. employment enhancing vocational skills;
8. social business projects;
9. contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government or the State Governments for socioeconomic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
10. such other matters as may be prescribed.

### Corporate Reaction: CSR or “Corporate Social Compulsion”?

Section 135 of the Companies Bill 2011 is seen with suspicion by the corporate houses, although the government position was clarified by Veerappa Moily, the then Union Corporate Affairs Minister, “We are not interested in micro-management of a company. Section 135 is just an oversight clause.”

But corporate India feels that it would mean unwarranted intrusion into its affairs and lead to harassment through vexatious inquiries by government inspectors to verify the mode and extent of compliance with the law. It has been vociferously claiming the right to decide its CSR for itself and according to its own enlightened self-interest and conscience.

**Unnecessary, Unfair and Impractical**

The overall corporate sentiment on the issue is neatly summed up by a prominent corporate figure who called this provision “corporate social compulsion.”

An important concern of the business community is about practicality of CSR proposals when the economy goes in recession; though it won’t pinch much during the good times. The Companies Bill 2011 makes no exception, though an ‘errant’ company can explain the reason for not spending the amount in its annual report.

Wipro Chairman Azim Premji protested on behalf of the India Inc “the people on the board are sufficiently conscious regarding the matter and corporate social responsibility cannot be created with statutory requirements.”
According to J. J. Irani, former director of Tata Sons, who led a panel to draft the Bill in 2005: “People will find ways to skirt anything that is mandated. My objection is that the percentage is wrong, because profits fluctuate. So, should a company spend more on CSR when it is making good profits, and spend nothing when down in the dumps?”

Although the government claims that the clause is not mandatory in nature, but many say the disclosure requirement makes the CSR spend binding. A long drawn out legal battle on this issue is highly likely.

Managing Partner Shardul Shroff of law firm Amarchand Mangaldas describes this mandatory provision as coercive extraction, akin to tax. He further asks: "When a company must borrow and has to fund CSR, why should the shareholders not have a say, especially when the 2% available surplus is to be employed in paying interest. Should such a fund be diverted to CSR instead of development finance?"

Some fear political extortion. Politicians can force companies contribute to their "trusts". They can even demand companies to develop their constituencies.

**An Important Side Note:** Many business houses have been amplifying their focus on CSR activities. The lure to be seen as a caring organization is big and so the consensus is that there is no need to make CSR mandatory.

### Mysterious Delay in Bill Passage

According to Business Standard (9-1-2012) "The government is going mysteriously slow on pressing for the passage of the Companies Bill, 2011. Business and political observers are flummoxed over what transpired in the past day or two that has led to the stalling of what looked like a done deal just a couple of days ago."

Even members of the Parliament's Standing Committee on Finance which deliberated on the Bill, are confused: "We had made 172 recommendations, of which 165 have been accepted by the government. We don't know why there is a delay. The only reason could be that some corporate houses want the bill delayed."

### What is Corporate Social Responsibility (CSR)?

#### Should Corporates have any Social Responsibility?

Before considering the meaning of corporate social responsibility, let’s first consider if companies really should have responsibility towards society. The moot point is: Do businesses exist solely for the purpose of maximizing profits?

The reality is that businesses operate in societies using people as well as natural resources. The manner of their operation affects people’s lives and impact the environment. Thus, it is natural that they be accountable towards them.

Further, under the modern organic theory, a company or corporation is considered a living organism, so it is entitled to rights and liable for duties. The term social responsibility emphasizes the intimacy of the relationship between the corporation and society. It is accepted by a business in response to demands of the society for an improved standard of living.
Now, coming to today’s corporate world. The history of business world tells us that it has slowly reduced itself to pure money making activity – divorced of ethics, sense of discipline and responsibilities towards society and nature. At present it is only driven by greed for money. The proof lies in the all round destruction of ecology and nature at the global scale which resulted in the problems of global warming and climate change. Therefore, some form of mechanism is needed where businesses start doing something for the society beyond their pure money-centric business activities.

The Concept of CSR

Essentially, CSR is the deliberate inclusion of public concern into corporate decisions. The principles of social responsibility revolve around sustainability, accountability and transparency. The concept of CSR has been developing since the early 1970s. The scope of CSR is quite unlimited and can cover any number of activities related to environment protection, labor security, human rights, community development, enterprise and economic development, promoting healthcare, education, leadership development, disaster relief, and so on. It is most effective when applied to solve community problems using company’s expertise.

CSR as a Risk Management Tool

CSR is often referred to as business responsibility and an organization’s response on environmental, ethical, social and economic issues. Actions to reduce an organization’s negative impact of on these issues can be seen as a way of managing risk also.

Definition of CSR

At the heart of it CSR implies a corporate taking volunteer responsibility for its actions and their impacts on its customers, suppliers, shareholders, communities, future generation, and the environment. CSR is concerned with treating the internal and external stakeholders ethically and in a socially responsibility manner while preserving the profitability of the company. Different organizations have different approaches. However, companies need to focus on these two aspects of their operations.

1. The quality of their management - both in terms of people and processes (the inner circle), and
2. The nature and quantum of their impact on the society in various areas.

Outside stakeholders look to the outer circle - what the company has actually done, good or bad, in terms of its products and services; in terms of its impact on the environment and on local communities; or in how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused - as well as past financial performance - on quality of management as an indicator of likely future performance.

The World Business Council for Sustainable Development (WBCSD) in its publication *Making Good Business Sense* by Lord Holme and Richard Watts, used the following definition:
“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to 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.”

In the **United States**, CSR has been traditionally defined much more in terms of a philanthropic model. Companies make unhindered profits; the only thing they pay back is the taxes. Then they donate a certain share of the profits to charitable causes. Although there are others who differ; for instance, the CSR definition used by Business for Social Responsibility is:

“Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations of the society.”

On the other hand, the **European Commission** hedges its bets with two definitions wrapped into one:

“CSR is a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. It is a concept whereby companies integrate social and environmental concerns in their business operations and in interaction with their stakeholders on a voluntary basis.”

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business related reasons. Many believe this model to be more sustainable because:

1. Social responsibility becomes an integral part of the wealth creation process - which if managed properly should create a better business atmosphere and maximize the value of wealth creation to society.
2. In hard times there is the incentive to practice CSR more and better manage the social realities – when it is only a philanthropic exercise peripheral to the main business, it will always be the first thing to go when things get tough.

Different societies across the world naturally have different perceptions of what this should mean for them. For instance, in Ghana CSR implies capacity building for sustainable livelihoods; this respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government. In Philippines, it is about business giving back to society.

Broadly speaking, all above definitions focus on the impact of how the core business is managed. However, societies in different countries will have different priorities and values that will affect business operations differently.

**More Definitions**

Here are some other definitions of concept of CSR for more flavors:

- "CSR means that a business does more for the wellbeing of others than required in an economical (make a profit) and legal (obey the law) sense."
- “CSR is a concept that an Enterprise is accountable for its impact on all relevant Stakeholders. It is a continuing commitment by Business to behave fairly and responsibly and contribute to 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 European Union**
- “CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation.” – **Michael Hopkins**
“CSR is a concept whereby companies voluntarily decide to respect and protect the interest of a broad range of stakeholders and to contribute to a cleaner environment and a better society through active interaction.” – Professor A. Quartz of Luxembourg University

Different Types of CSR

- **Philanthropy**: donating money for good cause, usually through a charity partner. This is perhaps the best known form of CSR in the traditional sense.
- **Environmental CSR**: taking steps to be more environment and eco friendly, beyond satisfying legal requirements.
- **Community based CSR**: engaging in activities, may be with other organizations, to improve the quality of life of the people in the local community.
- **HR based CSR**: policies and steps to improve the wellbeing of the staff.

Where did it All Come From?

In the 1970s and 80s environmental concerns such as loss of the rainforest and the effects of pollution led to a recognition that something had to be done to change the way we were using the planet resources. As a result, heads of state came together at Rio, Brazil in 1992 for what was called the Earth Summit. At Rio, governments pledged action to stop the unsustainable use of resources and to promote sustainable development. Put simply, sustainable development is about societies growing in such a way that future generations are not compromised and have access to the same resources that we have.

For this to happen social, environmental and economic considerations should be addressed as a whole, not in pieces. The Earth Summit produced various United Nation conventions including conventions on biological diversity and climate change. CSR is now sometimes considered as the business response to the challenge of sustainable development.

The 1990s saw social concerns come to the fore. Poverty and disease became global concerns, as did examples of poor business practice in dealing with social issues such as child labor, bribery and corruption that were exposed by the media. Society began to recognize that governments alone could not solve these problems.

Indeed the outcomes from the Earth Summit’s successor – the World Summit for Sustainable Development in 2002 – focused on partnerships. There appeared to be a role for everyone – governments to provide fair and socially just laws, business to behave responsibly and consumers to think about their actions by reducing waste or asking questions about how and where their goods came from.

Benefits of CSR

**CSR leads to Good Business Governance**

Some typical benefits of properly implementing the CSR strategy are listed here:

1. **Higher Customer Satisfaction**
Research shows that a strong record of CSR improves customers’ attitude towards the company. If a customer likes the company, he or she will buy more products or services and will be less willing to change to another brand. Studies tell that CSR activities give firms competitive advantage, primarily due to favorable responses from consumers.

2. Satisfied Employees

Employees want to feel proud of the organization they work for. An employee with a positive attitude towards the company is less likely to look for a job elsewhere. It is also likely that you will receive more job applications because people want to work for you; it means a better workforce. Because of the high positive impact of CSR on employee wellbeing and motivation, the role of HR in managing CSR projects becomes significant.

3. Positive PR

When integrated with business strategy CSR provides regular opportunity to highlight positive stories through online and traditional media. Companies no longer have to waste money on expensive advertising campaigns. Instead they generate free publicity and benefit from word of mouth marketing.

4. More Business Opportunities

A CSR program is by design an open and outward oriented approach. The business must be in a constant dialogue with customers, suppliers and other parties that affect the organization. This presents new business opportunities at their very nascent stages.

5. Improving Operational Efficiency

Perhaps the strongest — and best documented — argument for engaging employees in environmental practices is the connection between CSR involvement and increased operational efficiency. Front-line employees are often in the best position to identify inefficiencies and propose improvements. Educating employees on CSR can improve profitability by supporting greater efficiency through less waste, water and energy usage.

CSR is not expenditure; if conducted properly it can save costs in several ways:

- Better quality and efficient staff hire, and retention
- Savings due to implementing energy saving programs
- More effective management of potential risks and liabilities
- Reduced need to invest in traditional advertising

6. Better Supply Chain Management

Educating employees on sustainability practices throughout the supply chain can lead to greater efficiencies and help build collaboration to meet sustainability, quality and other goals. It can also strengthen relationships between a company and its suppliers by aligning values and objectives.

7. Long Term Business Sustainability

All business ventures start with more or less long term perspective. But soon get drawn into the lure of short term profit seeking. Having a CSR program counters the short-termism and injects long term sustainability through constant interaction with various stakeholders.

Other Benefits
Some other benefits include differentiation of the company from competitors, boost to innovation and learning, improve your business reputation and standing, improved access to investment and funding opportunities, and favorable media publicity due to media’s interest in ethical business activities.

**Business-as-Usual is not Sustainable without CSR**

**Modern Concept of Business is not Sustainable**

The notion that a private company exists solely for profit originated from Milton Friedman in 1970. The corporate world adopted it enthusiastically as it provided an ideological cover for greed and freed the executives from compunctions of ethics. Coupled with “shareholder capitalism” it almost divorced companies from the well-being of an important stakeholder, society. It became almost as if companies can do business without the society.

It also focused economics and management towards analysis of finance alone, at the neglect of the welfare of the organization and the community in which businesses operate. This led to understatement of the positive contributions of workforce moral and ethics as well as customer perception and confidence in the company towards profits. It resulted in robotized company operations with rigid hierarchical setups where every gets measured in terms of financial input and outputs; everything else vanished into insignificance. This came to be known as *business-as-usual*. It cannot sustain itself for long because it assumes that business success comes only with human or environmental victims. This cynical and damaging belief does not leave much room for further progress.

**Business Leaders need to Build Trust**

The housing meltdown in the US which led to recessionary climate in the Western economies has badly ruined the public trust in businesses. What was “*business-as-usual*” before 2008 is now seen as “*business-as-unusual*.” The skeptical public now places more weight on accountability and transparency of business operations. In the post-recession era businesses reputation (and hence, success) depends on their ability to win public trust. The hefty pay packages of top executives no longer indicates a company’s pink health; now public expects reduction in the pay gap between senior executives and rank and file workers and a thoughtful behavior from those at the top of company hierarchy.

**CSR Leads to Better Bottom Line**

A recent study by Kenexa High Performance Institute, surveyed some 30,000 employees in 21 countries for their views on corporate responsibility and its impact on their organizations. It found that “Organizations that are committed to corporate social responsibility (CSR) have far higher levels of employee engagement, provide better customer service and substantially outperform those that are not.” The study showed a significant relationship between corporate responsibility and organizational success.

According to one recent survey, 70 percent of global CEOs indicated that CSR was vital to their companies’ profitability. In another survey, seventy-six percent of CEOs espoused a belief that socially responsible and sustainable spending creates long-term shareholder value.
Why is CSR Important Today?

**Today’s Society and Consumers are Changed**

"88% of consumers said they were more likely to buy from a company that supports and engages in activities to improve society." – Better Business Journey, UK Small Business Consortium

In last few years, the issue of CSR has become increasingly important as businesses are responding to two major changes: an increasing public concern over the environment issues and the free flow of information over the internet across the globe.

Consumers today are more informed and they go beyond product quality and explore issues like child labor, human rights violation, and cruelty towards animals involved in making the product. In recent years, climate change and protection of earth’s environment are increasingly occupying people’s attention all over the world. They prefer companies whose business practices are not just legal but also ethically and environmentally right; implying CSR conscious companies. Thus, companies’ reputations are increasingly being linked to their ethical, social and environmental conducts. Any organization seen going against these public sentiments is now seen as socially irresponsible, and therefore risks earning ill reputation.

Another significant new trend is the increasing online connectivity of people across the world, providing easy access to trade information. Gone are the days when details of companies' activities were restricted to a limited set of informed elites and newspaper clippings, today even minutest details and lapses can suddenly become topics of hot discussions involving tens or even hundreds of thousands of people in a day. Today, more than ever, companies are under the watchful eyes of their stakeholders and public.

Governments, activists, and the media have become increasingly adept at holding companies to account for the social and environmental consequences of their activities. Varieties of organizations have come up to rank companies on the performance of their corporate social responsibility (CSR). Despite their sometimes questionable methodologies, these rankings attract considerable publicity in s short time when publicized on the Internet. As a result, companies are increasingly coming under pressure for their conduct. Therefore, business no longer means the narrow business-for-profit-as-usual; it has to widen its horizon of thinking.

**Public Pressure and CSR**

In 2004, the San Francisco-based clothing company, GAP found itself facing widespread consumer backlash after public revelations that its supplier factories in the developing world—primarily India—were using child labor. Children as young as 10 were making Gap garments in Delhi’s back-streets. It angered the consumer and they started boycotting GAP.

To manage the situation the GAP began issuing annual reports on the safety standards and working conditions of its suppliers. With today's social media, consumer sentiments spread very fast and the damage can run deep. No company which wants to be in business for long term can afford to ignore adverse public perceptions.

**The Emergence of Corporate Social Responsibility**

Corporate awakening to CSR has not been entirely voluntary. Many companies woke up only after being surprised by public responses to issues they had not previously thought were part of their business responsibilities. Nike, for example, faced an extensive consumer boycott after the media reported abusive labor practices at some of its Indonesian suppliers in the early 1990s. Shell Oil’s decision to sink an obsolete oil rig, the Brent Spar, in the North Sea led to Greenpeace protests in 1995 and to international headlines.
Pharmaceutical companies discovered that they were expected to respond to the AIDS pandemic in Africa even though it was far removed from their primary product lines and markets. Fast-food and packaged food companies are now being held responsible for health issues and poor nutrition. Governments regularly come up with regulations demanding more and better social responsibility reporting.

These pressures clearly demonstrate the extent to which external stakeholders are seeking to hold companies accountable for social issues and highlight the potentially large financial risks for any firm whose conduct is deemed unacceptable.

**Why Corporate CSR Efforts remain Ineffective?**

It is a fact that corporates’ social and environmental efforts have not been nearly as productive as they could be, for a simple reason. The prevailing approaches to CSR are fragmented and disconnected from the core business and strategy; as a result, they fail to discover that CSR can be much more than a cost, a constraint, or a donation for a good cause. In fact, when synergized with the core operations it can be a source of opportunity, innovation, or competitive advantage.

Unfortunately, most corporates treat business success and social welfare as a zero-sum game. This probably is the reason behind their fragmented and directionless approach towards CSR. Contrarily, when CSR is applied strategically using the corporate resources and expertise, it becomes an additional driving force for the so-called “mainstream” activities. Here is how CSR strategies can be evolved.

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**Where should big corporations be spending their CSR resources?**

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<th>Purpose</th>
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<th>Benefits</th>
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<td>Innovative and promotes sustainable business model</td>
<td>Fundamental strategic and operational impact</td>
<td>Shared value (business−Institutions and communities)</td>
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<td>Promote competitiveness and innovation</td>
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<td>Promotes a sustainable business model</td>
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<td>Integrates business into the community</td>
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<td>Develops Human Capital (key in developing countries)</td>
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<td>Incorporated into the Business Strategy</td>
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<td>Compliance</td>
<td>Medium to high strategic and operational impact</td>
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<td>Mitigates operational risks</td>
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<td>Supports external relationships</td>
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<td>Providing funding and skills</td>
<td>Little strategic and operational impact</td>
<td>Corporate Philanthropy and sponsorships</td>
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<td>Short-term benefits / not always sustainable</td>
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<td>Impact diluted because limited budget is allocated to many charities</td>
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<td>Corporate competencies and other business assets not fully utilized</td>
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<td>Mismatches between business and social responsibility strategies and functions</td>
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<td>Result in minimal social and business impact of social programmes</td>
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CSR Strategic Steps

Integral strategies in ensuring substantive long-term results include:

- Defining the path of progress in CSR and strategically managing expected organizational outcomes
- Ensuring basic CSR values are culturally integrated across the organization
- Adopting an effective engagement strategy to create customer awareness and loyalty
- Properly mapping organizational objectives and critical success indicators with CSR performance parameters

Innovative organizations that understand the value of CSR work to create a corporate culture in which each employee is committed to doing his or her part to improve the work culture and environment. Research with large companies indicates that effective CSR and sustainability practices have been shown to increase profit up to 35 percent.

The Corporate Social Responsibility in India

"The wealth that one creates has to be ploughed back for the benefit of society." – Mahatma Gandhi

"Corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions. This is part of our cultural heritage. Mahatma Gandhi called it trusteeship...I invite corporate India to be a partner in making ours a more humane and just society... We need a new Partnership for Inclusive Growth based on what I describe as a Ten Point Social Charter...first, we need to have healthy respect for your workers and invest in their welfare...". – Manmohan Singh, Prime Minister, 2007

In India, private business houses like Tata and Birla have often taken philanthropic initiatives. Public sector conglomerates are also seen in the non-profit societal roles, although that could always be sidetracked as being done under pressure from state or politicians. So, CSR is not new to India. But as an institutional response from the business community it is still in a very nascent stage. It is still one of the least understood initiatives in the Indian development sector.

In the recent years, other private businesses are also showing inclinations to undertake activities promoting various social causes. Looking at the businesses around the world, one can clearly see that all those who have survived over the decades have social action components embedded in their working culture.

Need for Regulations to Enforce the CSR

By virtue of its nature, the business world focuses on only one thing: making money. The ultrahigh competition also forces them to fiercely concentrate on this objective solely. Technologies have advanced so much that business operations leave significant footprints on society as well as environment. Just look at the status of ethics and environment around the world; everywhere the development of businesses is causing severe degradation of morality in societies and damage to ecology and natural resources. Global warming and climate change problems are glaring examples of potential harm of unbridled corporate
activities. Therefore, some mechanism is needed to make businesses accountable. Although voluntary action is the best solution but that often doesn’t work. Hence, some form of legal enforcement is being planned or tried in different countries.

**Is CSR Same as Philanthropy?**

Indian companies’ CSR contribution pattern mostly includes setting up schools, hospitals, community centers, planting trees, nurturing art and culture. These are of course noble gestures, more in the nature of philanthropy. Such initiatives are possible only till the company is profitable; therefore, unsustainable. They are mostly unconnected with their core business. Hence, these giveaways don’t drive the business towards “continued profitability.”

However, corporate philanthropy and CSR are really two different things, but get blurred, particularly in India. CSR should actually relate to the way businesses are conducted, but it gets confused with giveaways to the local communities. CSR is a journey and not a destination. However, as things stand in India, CSR is limited to the passions of the promoter family.

*Today’s typical company is not seeing the full potential of CSR but is instead looking through “a very narrow lens that concentrates only on its ability to extend financial support to socially relevant projects.” – Y. C. Deveshwar, Chairman ITC*

Mr Deveshwar clearly stressed that the more traditional approach “ignores the immense transformational capacity of business in innovating business models that can synergistically deliver economic and social value simultaneously.” Business, after all, is about identifying a problem and finding an economically viable way to solve it. Trying to actually solve social issues may seem too daunting to even make an effort. But there are many exciting examples of the ways in which Indian businesses are doing exactly that – finding viable ways to solve social problems, and creating economic value and competitive advantage in the process.

Fulfilling obligations to the community through charitable acts is a critical component of most corporations’ CSR portfolios in India. Thus traditional forms of CSR will continue to have a place in the toolkit of most companies (in India and elsewhere). Yet there is another form of CSR that we believe has the power to generate deeper and more long-lasting social change.

**CSR Initiatives in India**

**Emergence of CSR Guidelines**

In recent years CSR has gained growing recognition as a new and emerging form of governance in business. It is already established in a global context, with international reference standards set by the United Nations, guidelines of the Organization for Economic Co-operation and Development (OECD) and International Labor Organization (ILO) conventions. CSR has become increasingly prominent in the Indian corporate scenario because organizations have realized that besides growing their businesses it is also vital to build trustworthy and sustainable relationships with the community at large. This is one of the key drivers of CSR programs.

In April 1998, the Confederation of Indian Industry (CII) came up with, perhaps the first, voluntary guideline for corporate governance in the form of “Desirable Corporate Governance: A Code.”

The Ministry of Corporate Affairs also established a National Foundation for Corporate Governance (NFCG). It was a result of partnership with the Confederation of Indian Industry
(CII), the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI). The purpose of the NFCG) is to promote better corporate governance practices and raise the standard of corporate governance in India towards achieving stability and sustained growth.

In 2003, the Indian government started an initiative “The Corporate Responsibility for Environmental Protection (CREP)” in the form of a set of non-mandatory guidelines for 17 polluting industrial sectors for their voluntary compliance.

Voluntary Guidelines by the Ministry of Corporate Affairs

There are voluntary guidelines issued by the Ministry of Corporate Affairs; the Fundamental Principle of guidelines says, “Each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and should be approved by the Board.”

The Guidelines provide certain core elements of CSR Policy, namely:

- Care for all Stakeholders,
- Ethical functioning,
- Respect for Workers' Rights and Welfare,
- Respect for Human Rights,
- Respect for Environment and
- Activities for Social and Inclusive Development

Likewise, detailed guideline for CSR for Central Public Sector Enterprises (CPSEs) was issued by the Ministry of Public Enterprises in April 2010.

Foreign Initiatives in India

The Norwegian Embassy and Innovation Norway have established a CSR Forum for Norwegian businesses in India, called the NPR Advisory Group. This Forum comprises major Norwegian businesses established in India.

The Dutch companies in India have developed a policy on corporate social responsibility to identify good practices and potential bottlenecks in the implementation of such policy and to support companies in finding practical solutions. The CSR principles are divided into four CSR aspects: operational principles (on how companies can give account for their actions), social, environmental and economic sustainability.

Examples of CSR Initiatives in India

Vinod Khosla To Donate Half His Fortune to Charity, New America Media May 18, 2011

India has 52 billionaires and more than 125,000 millionaires. According to a study by the global consulting firm Bain & Company, India’s CSR giving in 2006 totaled close to $5 billion, which translates into an estimated $7.5 billion in 2009. This is only 0.6 percent of India’s GDP. By contrast, Americans gave more than $307.75 billion or around 2 percent of GDP to charity in 2009, in spite of the recession.


Public Sector Units

The Indian public sector has had a long tradition of corporate social responsibility and the initiatives of corporations like the Oil and Natural Gas Corporation Ltd. (ONGC), Steel
Authority of India Ltd (SAIL) and Gas Authority of India Ltd. (GAIL) have played an important role in the development of several backward regions of the country. Indian Airlines and Bharat Heavy Electronics Ltd (BHEL) have been widely acclaimed for their disaster management efforts. The National Mineral Development Corporation Ltd. (NMDC) has contributed a lot in building infrastructure like school buildings, roads, Anganwadi buildings and also providing ambulance and medical facilities in and around its operational area.

**FMCG Sector most CSR-Friendly!**

Recently, the Associated Chambers of Commerce and Industry of India (ASSOCHAM) evaluated the CSR performance of 175 companies. It found that companies of the FMCG sector were taking the maximum CSR initiatives, followed by the chemical and the IT sectors. In terms of CSR activities, “community welfare” is the most preferred initiative. The second most popular CSR initiative is educating the rural youth. Although there appear to be a shift from charity to other activities, the concept is still believed to be strongly linked to philanthropy. ASSOCHAM president Swati Piramal stressed that “It has to be understood that CSR is about how companies balance their business ethics and behavior with business growth and commercial success along with a positive change in the stakeholder community.”

**Tata Group**

Tata Group in India has a range of CSR projects, most of which are community improvement programs. For example, it is a leading provider of maternal and child health services, family planning, and has provided 98 percent immunization in Jamshedpur. The company also endorses sports as a way of life. It has established a football academy, archery academy, and promotes sports among employees. It offers healthcare services all over the country with programs like rural health development.

Tata Group also has an organized relief program for natural disasters, including long-term treatment and rebuilding efforts. It did laudable work during the Gujarat earthquakes and Orissa floods. It also supports education, with over 500 schools, and also is a benefactor of the arts and culture. It has done abundant work in improving the environment and local populations around its industries.

**Aptech**

Aptech is a leading education player with a global presence that has played a broad and continued role in encouraging and nurturing education throughout the country. As a global player with complete solutions-providing capabilities, Aptech has a long history of participating in community activities. It has, in association with leading NGOs, provided computers at schools, education to the deprived, and held training and awareness-camps.

**Infosys**

Infosys is aggressively involved in a variety of community growth programs. In 1996, the company created the Infosys Foundation as a not-for-profit trust to which it contributes up to 1 percent of profits after tax every year. Moreover, the Education and Research (E&R) Department at Infosys also works with employee volunteers on community development projects.

The management team at Infosys continues to set examples in the area of corporate citizenship and has involved itself vigorously in key national bodies. They have taken initiatives to work in the areas of research and education, community service, rural outreach programs, employment, healthcare for the poor, education, arts and culture, and welfare activities undertaken by the Infosys Foundation.
Mahindra & Mahindra

At Mahindra & Mahindra, The K. C. Mahindra Education Trust was established in 1953 with the purpose of promoting education. Its vision is to renovate the lives of people in India through education and financial assistance across age groups and across income strata. The K. C. Mahindra Education Trust undertakes a number of education plans, which make a difference to the lives of worthy students. The Trust has provided more than Rs. 7.5 crore in the form of grants, scholarships and loans. It promotes education mostly by way of scholarships. The Nanhi Kali (children) project has over 3,300 children under it and the company aims to increase the number to 10,000 in the next two years by reaching out to the underprivileged children, especially in rural areas.

Reliance Industries Ltd.

Reliance Industries Ltd. launched a countrywide initiative known as “Project Drishti”, to restore the eye-sights of visually challenged Indians from the economically weaker sections of the society.

Hero MotoCorp

Hero MotoCorp takes considerable pride in its stakeholder relationships, especially ones developed at the grassroots. The Company believes it has managed to bring an economically and socially backward region in Dharuhera, Haryana, into the national economic mainstream.

Agro-Tech foods Limited (ATFL)

The maker of Sun Drop edible oil came out with an initiative in which for every liter of ‘Sun Drop’ sold, AFTL will contribute Re. 1 to ‘Narayan Hrudanlay Heart Hospital’ for the treatment of children with cardiac disorders.

‘LABS’ of Dr. Reddy’s Labs

Dr. Reddy’s lab started ‘LABS’ (Livelihood Advancement Business School) in the year 1999. It trains the underprivileged youngsters, even street children for livelihood earnings in the job areas i.e. technology, healthcare, hospitality, finance and marketing issues. It involves four types of volunteers viz Student volunteer mentors, Faculty volunteer mentors, Network mentors and Resource mentors.

ITC Limited

ITC has traditionally partnered Indian farmer for almost a century. It is now engaged in elevating this partnership to a new paradigm by leveraging information technology through its trailblazing ‘e-Choupal’ initiative. ITC is significantly widening its farmer partnerships to embrace a host of value-adding activities viz. creating livelihoods by helping poor tribes make their wastelands productive, investing in rainwater harvesting to bring irrigation to parched dry lands, empowering rural women by helping them evolve into entrepreneurs, and providing infrastructural support to make schools an exciting platform for village children.

In a newly emerged global market as the competition is very intense and the customers are very sophisticated, companies must ensure social responsibility in order to secure fundamental relationships that fuel business growth.

The Changing Face of CSR
Popular business mindset argues that companies should restrict their affairs to maximizing profits for their “shareholders” and not take liberty of diverting their profits to non-business activities; if the shareholders want they can use their money for social purposes.

This narrow focus on the welfare of “shareholders” alone is now increasingly criticized in favor of adopting CSR related policies. A company makes profits with the help of stakeholders like staff, suppliers, customers, communities and the environment; without them it cannot survive or sustain in the long run. “Shareholders” alone cannot run the company or make profits. Therefore, CSR initiatives are essential to ensure the well being of all stakeholders and for the business to be sustainable.

**CSR is more than just Philanthropy**

Philanthropy is generally done without expectations of any returns; it is ad-hoc giveaways, less related to the core operations of the company. On the contrary, corporate social responsibility is more a “focused” form of philanthropy directed towards specific stakeholders with clear expectations of a continued profitability in the long run.

Many large companies now give CSR a clear strategic dimension and make it part of their core business activities. Rather than giving simple cash donations, it proves more valuable to device ways to deliver leadership in society through corporate expertise, insight and experience. It manifests, for example, in an airlines investing in carbon reduction schemes, supermarkets targeting responsible sourcing and energy and mining companies targeting environmental issues.

In a similar vein, many companies align their CR activities along their professional expertise. Technology firms typically invest in technology-led projects, while pharmaceuticals companies focus on public health issues and drug access issues.

Thus, on their part, charities and community organizations need to think more strategically about the prospective corporate partners which can help them achieve their goals. They should consider a wide range of potential support from corporate partners and not focus solely on short-term cash contributions.

**Integrating strategy and sustainability**

Sustainability will eventually become strategic; competitiveness and profitability will be dependent on integrating sustainability into the operational framework, rather than leaving it out as an administrative or PR function! The future is expected to see the sustainability initiatives and core strategic initiatives closely intertwining to become in-differentiable.

The proposed mandatory 2 percent CSR spending is actually unnecessary; companies realize the need to focus on social and environmental aspects which are important for their sustainability. They are also becoming highly vocal in publishing their achievements on these dimensions. Their sustainability reporting is bound to become more sophisticated to capture the changing face of corporate social responsibility. Irrespective of regulations, companies will have to tread this part, if they aspire to be successful!

**Examples of CSR Initiatives**

Successful companies allocate resources to ensure well being of stakeholders which also enables the company to acquire a key differentiator vis-à-vis its competition, thereby making the business sustainable.

Tata Chemicals and HUL pioneered iodization of salt to combat iodine deficiency. Their market campaign to change the mindset of BPL customers to pay a little extra for the pack of iodized salt was clearly laudable. These efforts not only increased their market share and
profitability but at the same time addressed an important nutritional issue of national importance.

Hindustan Unilever (HUL), for example, invests in research working with nutrition and health specialists to further improve its “ready to eat” food business, enhance hygiene through its “regular hand wash” campaign, etc. These initiatives not only position its products distinctively against the competitors and enhance brand equity, but also ensure well being of customers and the environment.

Linking sustainability to business strategy can also improve access to supply chains.

In order to combat the global shortage of pulp-wood for paper board production, ITC and Ballarpur Industries are helping small farmers with degraded land pieces by providing them saplings, financial and technical support and an assured buy back of timber. This ensures sustainable raw material supply for the company, and also improves farmer’s livelihood. Such initiatives go well beyond monetary financial donations, and more importantly, is sustainable!

Social initiatives can also help enhance ethical values in society and at the same time can offer a distinctive edge to companies. Fluor Corporation, one of the largest construction companies in the world, worked for three decades with Transparency International to fight corruption; today its “anti-corruption” movement has 150 large companies across industries having signed a “zero-tolerance” policy on bribery. In industries marred by corruption, Flour is today perceived as an ethical player, thereby positioning itself with a significant competitive advantage.

Socially responsible initiatives has potential to improve employability in the society and at the same time provide companies access to skilled labor, a key driver of profitability across many industry sectors. Maruti has recently adopted forty Industrial Training Institutes (ITI) which not only enhances skill level of youth making them employable, but also guarantees supply of skilled personnel to Maruti. Similar investments in skills development training are made by companies like Microsoft, Infosys, Tata Steel and L&T.

Rather than paying donations, using core strengths to address social issues is the best form of sustainable corporate social responsibility!

Construction companies are polluting urban landscape today, but with more stringent environmental enforcements, successful companies would be those that leave minimal environmental footprint. In order to be sustainable, these companies need to seamlessly integrate construction management with environmental management using modern construction methods, better construction scheduling and usage of better building materials. All of these will not only position the companies favorably with the customers, regulators and environmentalists, but also make them successful, providing better shareholder returns.

Thinking socially and ensuring the well being of the stakeholders has the potential to become a basic necessity in business! The basic point is, companies cannot ignore key stakeholders, and expect to be profitable.

**International CSR Scenario**

**Establishing the Voluntary Nature of CSR**

Numerous organizations have approached CSR as voluntary initiatives and have not been willing to consider CSR containing non-negotiable (by way of legal laws) responsibilities of corporations towards society. The EU has described CSR as “a concept whereby companies
integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis.”

The ILO has published and worked with voluntary CSR instruments. It, however, did not support the Draft UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (UN Norms), an initiative by the UN Sub Commission to introduce compulsory minimum standards of CSR.

Similarly, the International Chamber of Commerce (ICC) and the International Organization of Employers (IOE) have defined CSR to mean voluntary measures and have not supported any attempts to develop compulsory minimum standards to bind corporations.

They argue that international law is designed to bind governments and should not be used to enforce standards on corporations. However, assigning international obligations to corporations is not unprecedented and a number of international conventions that legally bind companies are already in force. Corporations also have rights under international conventions and it is only appropriate for these to be extended to reciprocal obligations under international law.

A good way to enlarge the scope of voluntary corporate accountability is to adopt the triple bottom line reporting.

The Triple Bottom Line Theory

The Complexity of Defining Corporate Social Responsibility

International corporate social responsibility aims to address the problem caused by multinational corporations operating in less-developed countries with insufficient regulation. Then the functions of state regulations must be performed by international laws or codes, voluntarily adopted by the companies themselves.

Since international law still struggles with issues of enforcement and legitimacy, many companies have simply crafted their own codes or signed voluntary agreements to indicate to consumers that they intend to be “socially responsible.” While the codes are essentially unenforceable, the idea is that they will be ethically binding on the companies and monitored closely by consumers and NGOs.

Thomas Donaldson characterizes CSR as a global social contract, obliging companies to behave in a morally and socially acceptable manner in exchange for access to the international market. The real issue is how to define what constitutes “morally and socially acceptable” behavior? For some, it might mean not damaging the ecosystem or increase pollution. For others, it might involve paying workers a living wage, keeping reasonable hours and labor conditions, and respecting the human rights of local stakeholders. Still others might expect re-investing some profits in the local economy. Most scholars envision CSR incorporating all these and more. This idea is included in the term “triple bottom line,” which exhorts companies to include social and environmental impacts into their financial outcome.

Cash “bottom line” is not Sufficient

The fact that the monetary profit alone is not a sufficient indicator of the performance of a company’s operations, was recognized by John Elkington, the founder of a British consultancy called SustainAbility. In 1994, he articulated a more inclusive way of reporting companies’ “bottom line” and proposed the idea of “triple bottom line” approach.
He argued that companies should report three distinct performances: related to finance, people, and environment. The triple bottom line (TBL) consists of three Ps: profit, people and planet.

**The Triple Bottom Line Theory and International Conventions**

The triple bottom line theory provides a wonderful way to explain the scope of CSR and what is meant by “social.” The whole philosophy of the theory could be summed up in the three Ps: **People, Planet** and **Profit**. A business, no matter where it – directly or indirectly – carries out its activity, must be judged according to three criteria: how it treats its employees (people), how its activity affects the environment (planet), and how much it earns (profit). It can no longer be conceivable or acceptable for a business to resort to social dumping, sacrificing workers’ rights and ruin the world around us in a sort of, no-holds barred race for maximum profit. However, the root of all the controversies is whether CSR should be based on voluntary measures or non-negotiable rules of law.

Companies are expected to agree to standards under the three bottom lines, and be held accountable for adherence to them. This helps them understand and subsequently better manage their impacts. The “three Ps” should be extrapolated for corporations with reference to international conventions.

Accordingly, minimum standards under the **Profit** limb would reflect the principles in the UN Anti-Corruption and Bribery Convention, and supplemented with emerging universal standards such as International Accounting Standards, anti-trust and money-laundering conventions.

The “**Planet**” part would refer to instruments such as the Kyoto Protocol, the Johannesburg Action Plan, the Rio Declaration and the UN Biodiversity Convention.

Finally, the “**People**” bottom line would be defined by the International Bill of Human Rights, which also addresses labor rights.

This provides a healthy framework for companies and their conduct in relation to the economy, including the economy of the community; their relation to the external environment, including biodiversity; and their relation towards human beings, including relationships with employees, suppliers, customers, local communities and other stakeholders.

This idea gained prominence after the western nations framed the WTO agreements to implement their idea of globalization in order to access the cheap labor, markets and raw materials of the technologically underdeveloped nations. It soon became apparent that Western companies were setting operations in these nations, where labor and environmental laws are weak, only to carry out activities which are banned or questioned in their home countries.

**INTERNATIONAL CSR NORMS**

Two most influential international laws: the UN Global Compact and the ILO norms. The third most-cited international sources are the OECD guidelines for multinational companies. The 1998 ILO Declaration on Fundamental Principles and Rights at Work has become the global “social standard.”

**UN Global Compact**

The UN global impact was put in place in 2000 by UN secretary general Kofi Anan with the objective of strengthening cooperation between the United Nations, business and other groupings in society and thus making a worldwide contribution to more sustainable growth. It is the most widely used international CSR initiative. The World Bank, OECD, and the International Labor Organization all run similar initiatives with thousands of members.

The Global Compact acted as a trigger-factor, raising corporate awareness of human rights issues, and is expressed in very “soft” language, without any threat of sanctions or
disapproval, simply requiring companies to state that they have joined it. The companies involved in the UN global Compact set out to give closer consideration to core values in the fields of human rights, labor rights and environmental standards by implementing its ten fundamental principles in their worldwide activities.

**The Ten Principles of the UN Global Compact:**

**Human rights**

1. Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence, and
2. Make sure that they are not complicit in human rights abuses.

**Labor relations**

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining, and encourage
4. Elimination of all forms of forced and compulsory labor,
5. Effective elimination of child labor, and

**Environment**

7. Businesses should support a precautionary approach to environmental challenges,
8. Undertake initiatives to promote greater environmental responsibility, and

**Combating corruption**

10. Businesses should work against all forms of corruption, including extortion and bribery.

Since the launch of the initiative, over 5300 companies and 130 countries have joined it. Any company regardless of its size can take part in the Global Compact. There is no monitoring to ensure that the principles are being met, but participating companies are expected to send the Global compact secretariat an annual report detailing their progress towards implementing the principles. On this point the, small and medium size companies can ask for exemption.

There is no single CSR business case—no single rationalization for how CSR improves the bottom line. Over the years, researchers have developed many arguments. In general, these arguments can be grouped based on approach, topics addressed, and underlying assumptions about how value is created and defined. According to this categorization, CSR is a viable business choice as it is a tool to:

- Implement cost and risk reductions;
- Gain competitive advantage;
- Develop corporate reputation and legitimacy; and
- Seek win-win outcomes through synergistic value creation.

Companies may also justify their CSR initiatives on the basis of creating, defending, and sustaining their legitimacy and strong reputations. A business is perceived as legitimate when its activities are congruent with the goals and values of the society in which the business operates. In other words, a business is perceived as legitimate when it fulfills its social responsibilities.

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**ILO’s Tripartite Declaration on Multinational Enterprises and Social Policy**

It is considered to be the most appropriate ILO norm for CSR. The tripartite declaration, revised in 2002, includes:

**Employment:**
The Corporate Social Responsibility in India

- Increasing employment possibilities and standards
- Promoting equality of opportunity and equal treatment in employment
- Avoiding arbitrary dismissal procedures

Training:
- Appropriate training for employees in the host country / opportunities for local workers to extend their experience in suitable areas, e.g. labor relations, within the group as a whole

Working and living conditions:
- No pay, benefits or working conditions which are less favorable than those enjoyed by comparable workers in the host country
- Adequate wages for workers and their families to meet their basic needs
- Effective abolition of child labor
- The highest health and safety standards
- Information about health and safety standards observed in other countries
- Instruction about particular dangers and the corresponding safety measures when new products and/or processes are introduced

Labor relations:
- Freedom for workers to organize and associate
- Support for representative worker organizations
- Right for workers to make complaints without suffering disadvantage

The political significance of the declaration lies in the fact that, unlike other CSR instruments, it does not lay down any minimum requirements or require specific actions. Rather, it gives the companies the necessary freedom to act along the lines of the declaration, taking an individual lead based on its own needs.

UN's Guiding Principles on Business and Human Rights

The UN's "Guiding Principles on Business and Human Rights: Implementing its 'Protect, Respect and Remedy' Framework" was endorsed by the Human Rights Council in its resolution 17/4 of 16 June 2011.

These Guiding Principles apply to all States and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure. These Guiding Principles should be implemented in a non-discriminatory manner, with particular attention to the rights and needs of, as well as the challenges faced by, individuals from groups or populations that may be at heightened risk of becoming vulnerable or marginalized, and with due regard to the different risks that may be faced by women and men.

Besides, the UN has also developed the Principles for Responsible Investment as guidelines for investing entities.

ISO 26000

In response to the growing interest from businesses in corporate social responsibility (CSR), the organization, the ISO 26000 guidelines were developed based on an international consensus on the meaning and implementation of best practice of social responsibility. The guidance "ISO 26000 on social responsibility” was launched in November 2010 aiming to
Corporate Social Responsibility in India

ISO 26000 provides practical guidelines to implement social responsibility, identify and engage stakeholders, and enhance credibility of reports and claims made about social responsibility. ISO 26000 is a voluntary guidance standard; not a regular ISO standard. Thus, it does not contain requirements; it cannot be used as a basis for audits, conformity tests or compliance statements. Therefore, it is not certifiable like other more specialized standards.

However, new certifiable management standards based on ISO 26000 have been developed or are under development. For example, in the Netherlands the so-called CSR Performance Ladder has been developed which is an assessment tool that uses 33 key indicators based on ISO 26000.

<table>
<thead>
<tr>
<th>Organizations using ISO 26000 should respect the following seven principles:</th>
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<tbody>
<tr>
<td>1. Accountability for the organization’s impacts on society and the environment;</td>
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<tr>
<td>2. Transparency in the organization’s decisions and activities that have impact on society and the environment;</td>
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<tr>
<td>3. Ethical behavior at all times;</td>
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<tr>
<td>4. Respect, consider and respond to the interests of the organization’s stakeholders (e.g. employees);</td>
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<tr>
<td>5. Accept that respect for the rule of law is mandatory;</td>
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<tr>
<td>6. Respect international norms of behavior, while adhering to the principle of respect for the rule of law; and</td>
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<tr>
<td>7. Respect human rights and recognize both their importance and their universality.</td>
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</table>

After recognizing the seven principles, an organization should address the following seven core subjects in order to identify the issues and priorities that are relevant for the organization: 1. Organizational governance; 2. Human rights; 3. Labor practices; 4. Environment; 5. Fair operating practices; 6. Consumer issues; and 7. Community involvement and development.

Socially Responsible Investment (SRI)

The Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index Series are independently defined and researched index series which aim to set an objective global standard for SRI covering:

- Environmental sustainability
- Positive relationships with stakeholders
- Human rights

To qualify for inclusion, a company must meet selection criteria which focus on positive efforts of companies with clear and achievable targets for developing socially responsible policies and practices.

**FTSE4Good Index Series**

Market capitalization weighted indexes maintained by the FTSE group to measure the performance of companies that meet globally recognized corporate responsibility standards. The FTSE4Good Index Series is designed to provide exposure to companies that are managing their social and environmental risks. At the same time, they also help ethical investors avoid companies that aren't.

According to the online Investopedia:
To be included in the FTSE4Good Indexes companies must: support human rights, have good relationships with the various stakeholders, be making progress to become environmentally sustainable, ensure good labor standards not only for their own company but for companies that supply them as well, and fight bribery and corruption.

It automatically excludes companies in the certain sectors: tobacco companies, manufacturers of nuclear weapon systems, manufacturers of whole weapons systems, companies involved in producing electricity from nuclear power, and businesses involved in the mining or processing of uranium.

**The Way Forward**

The proposed mandatory 2 percent CSR spending is actually unnecessary for two reasons: One, its proper implementation is impractical and two, social pressures and adoption of voluntary operational norms are more effective. International bodies also prophesize “soft norm” rather than legal binding “hard” rules.

There is another reason against mandatory CSR spending. It is the changed nature of today’s world. The widespread penetration of Internet around the world has turned it as a powerful platform for information dissemination and expressing concerns. This has increased pressure on companies to mind their conduct and heed public opinion.

Finally, more and more companies are discovering that integrating CSR strategies make their operations more profitable and sustainable. This presents an opportunity for NGOs and social organization. They can expect greater partnership with the corporate world in the coming future. It is in their interest to gear up for such collaborations and utilize core competencies of the business houses.
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