

# CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

## 5.1. CORPORATE SOCIAL RESPONSIBILITY (CSR)

### 5.1.1. Meaning and Definition of CSR

Corporate Social Responsibility (CSR) or social responsibility is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its support to law, ethical standards, and international norms.

CSR is not new. Business has long recognised its role alongside others in contributing to the development of communities in which it operates. CSR is not just an issue for large multinational but its voluntariness, diversity and flexibility are vital to allowing all businesses, regardless of size or location, to consider how best they respond to the realities of their marketplace. Social responsibility of business is an ethical concept involving notions of human welfare and improving the quality of life in society.

According to Cannon, "Corporate social responsibility means devising corporate strategies and building business with the society's needs in mind".

According to Koontz and O'Donnel, "Social responsibility is the personal obligation of every one as he or she for his own interests to assure that the rights and legitimate interests of all others are not impinged".

According to Lord Holme and Richard Watts, "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".

### 5.1.2. Evolution of CSR

The evolution of Corporate Social Responsibility in India can be divided into four phases:

**Phase 1: CSR Motivated by Charity and Philanthropy:** This phase was characterised by the inclination of industrial families of the 19<sup>th</sup> century such as Tata, Godrej, Modi, Birla, Singhanian towards economic as well as social considerations. The fund allocation was not however solely for selfless or religious motives. It was driven by caste groups and political objectives.

**Phase 2: CSR for India's Social Development:** This phase started with the independence movement. Mahatma Gandhi's influence put pressure on various industrialists to act towards building the nation and urged them to emphasise upon socioeconomic development. The Indian companies were referred to as temples of modern India by Gandhi. Schools, colleges, training centres, etc., were set-up by various companies during the second phase.

**CSR under the Paradigm of the "Mixed Economy":** This phase of CSR revolved around labour and environment laws being introduced in an independent India. The companies at the helm of CSR initiatives were mostly Public Sector Undertakings (PSUs).

**CSR at the Interface between Philanthropic and Business Approaches:** In this phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. As Western markets became more and more concerned about labour and environmental standards in the developing countries, Indian companies which exported and produced goods for the developed world were required to pay close attention to compliance with international standards.

### 5.1.3. Nature of CSR

Nature of corporate social responsibility includes:

- 1) **CSR is a Positive Approach:** CSR is a positive business-driven response to the business environment of today. CSR is not an add-on for business; it is increasingly being integrated into business operations, governance, management systems and thinking. It must therefore be seen within the context of the totality of a business today.
- 2) **CSR is a Multi-Dimensional Concept:** CSR is a multi-dimensional concept covering social, economic and environmental concerns, and is continually evolving within the diversity of the market. This diversity of the marketplace makes innovation a critical aspect in the development and implementation of the varied CSR initiatives. Efforts to regulate or standardise such an inherently dynamic process of voluntary action would stifle this very fundamental characteristic.
- 3) **CSR is Kind of Positive Responsibility:** Generally speaking, the word "responsibility" contains two folds of meanings, responsibility of relations and method responsibility. The former refers to the fact that the principal of one party takes up certain responsibilities based on certain kinds of relations of the principal of other parties. This kind of responsibility is actually an obligation; the latter refers to the negative consequence, which should be borne by the principal who are liable to responsibility of relations (i.e., obligations) and fails to perform his responsibility of relations. CSR is, in fact, an obligation of a company. It can be said that the responsibility in "CSR" refers to an "obligation". In addition, the jurisprudential circle takes an obligation as a positive responsibility and the negative consequence resulted from default of obligations as negative responsibility. If to look at CSR with this kind of division, then, it is obviously a kind of positive responsibility.
- 4) **CSR takes those Concerned with Non-Shareholding Interests as the Concerned Party of Obligations:** According to general understanding, the so-called "concerned parties with non-shareholding interests" are deemed as the consisting part of the concerned parties of interests of the company, i.e., any non-shareholders, who are under actual, potential, direct and indirect influence of corporate decision-making and corporate behaviours. Specifically, they include company employees, consumers of company products, company creditors, beneficiaries of economic and social development planning, resources and environment, social securities and welfare facilities.

Since the concerned parties with non-shareholding interests have their respective interests in the company, the company has liabilities to maintain and secure their interests and this liability is what is called CSR. Accordingly, the concerned parties with non-shareholding interests are also considered as the concerned parties of obligation of the company.

- 5) **CSR is an Integration of Legal and Moral Obligations of a Company:** Legal obligation, a statutory liability taking state coercive forces as its performance guarantee, means legal security of minimum requirement of morality necessary to maintain basic social order. Moral obligation is a responsibility non-legalised and voluntarily performed by the obligors and which takes any other means than the state coercive forces as its performing guarantee.

It is a higher demand of morality on people above their legal obligations. CSR, as an obligation that a company is liable to the society, is not simply a legal obligation or a moral obligation. Rather, it is the integration of the two.

- 6) **CSR is an Amendment and Complement to the Conventional Principle of Maximised Profits for Shareholders:** The conventional companies and company laws take individual principals (shareholders) as the starting point for consideration, believing that the highest or the sole objective of a company is to achieve profits in order to maximise the profits for shareholders. Whereas, CSR takes social principals as its starting point, believing that the objective of a company should be of two dimensions. In addition to realising the maximum profits for shareholders, companies should also strive to maintain and upgrade social benefits. Of the two corporate objectives of achieving maximum corporate profits and social benefits, any single one of the objectives will have to be put under restriction by the other. Therefore, the objectives of making profits and of bringing social benefits are often found in strong tension.

### 5.1.4. Scope of CSR

Brummet suggested five possible areas in which corporate social responsibility objectives may be found. The term 'contribution' includes social costs as well as social benefits associated with an organisation's activities. They are as follows:

- 1) **Net Income Contribution:** The social objectives of a business by no means reduce the importance of the income objective. Without an adequate return on investment, a business organisation cannot exist. Furthermore, long-range planning for a business unit includes calculating the minimum return on shareholder's equity. A business must contribute to the overall economic development of the society. If a business fails to recognise the social problems, its performances may be affected either in the short-run or in the long-run. This improper working condition may lead to lower productivity or causes damage to the quality of the product. Ultimately, the sales and income of the business may be affected. Therefore, the failure to plan and attain social objectives of a business will cause a failure in attaining the income objective of business concern. For this reason, it has been argued that the income objective is the comprehensive test of business efficiency, both in respect of financial and social goals.
- 2) **Human Resource Contribution:** The impact of organisational activities reflects on the people who constitute the human resources of the organisation, i.e., social performance of a business directed towards the well-being of employees. These activities include the following:
  - i) Recruitment practices and training programmes,
  - ii) Employee skill, knowledge, attitudes, and self-actualisation,
  - iii) Wages and salary level, fringe benefits,
  - iv) Experience building – job rotation,
  - v) Job enrichment,
  - vi) Management-trade union relationship,
  - vii) On-the-job physical environment and safety,
  - viii) Congruence of employee and organisation goals,
  - ix) Occupational health,
  - x) Transfer and promotion policies,
  - xi) Freedom from undue stress, and
  - xii) Job security, stability of workforce, lay-off and recall practices.
- 3) **Public Contribution:** The impact of organisational activities on individuals or groups of individuals generally outside the business is the topic for discussion under this area. **For example:**
  - i) General philanthropy – contributions of the organisation towards educational, charitable or cultural organisations,
  - ii) Equal opportunity employment practices,
  - iii) Employment and training of physically handicapped persons,
  - iv) Taxes and duties paid, and
  - v) Financial or manpower support of the business for urban housing, health services, public transportation, etc.
- 4) **Environmental Contribution:** This area involves the environmental aspects of production. Activities directed towards alleviating or preventing environmental deterioration (pollution), e.g., air, water, noise pollution, conservation of scarce resources and the disposal of solid waste are included in this area.
 

The social objectives of a business concern is to make efforts for abatement of these negative external social effects of industrial production and adopt more efficient technologies to minimise the use of irreplaceable resources and the production of waste.
- 5) **Product or Service Contribution:** This area concerns the qualitative aspects of the organisations' product or service which includes consumerism, product quality, packaging, advertising, warranty provisions, product safety. There are differences in relative importance of product and service contribution to customers and product and service contribution to society in various industries. Utilities are most involved in product and service contribution to customers as well as to society followed by retail organisations and insurance companies. Banks and diversified financial corporations are least involved in product and service contributions to customers; and industries and transportation are least involved in product and service contribution to society.

### 5.1.5. Need for CSR

- Corporate social responsibility becomes a necessity for an organisation due to the following reasons:
- 1) **To Provide Sense of Responsibility:** The institution of company exists only because it performs valuable services for the society. Society gives to existing companies its charter and the charter can be amended or revoked at any time, if it fails to meet the expectations of society. Therefore, the companies must respond to society's needs constructively if it intends to retain its existing role and power in the society.
  - 2) **To Fulfil Long-Run Self-Interest:** A business organisation, which is sensitive towards the needs of the community, in its own interest, maintains a better community in which they conduct business. To achieve this, it would implement special programmes for social welfare. Social improvements reduce crime as less money will be needed to protect property. It is easier to conduct labour recruitments as the turnover and absenteeism decline considerably. The business will be able to maximise profits in the long-run as a better society builds a favourable environment.
  - 3) **To Improve Public Image:** Each organisation needs to improve its public image for more customers, better employees and higher profits. The concept of branding its public image can be extended to the realisation of different types of social objectives. So, if the company wants to capture a favourable image of the public, it will have to show that it also supports these social objectives.
  - 4) **To Avoid Government Regulation or Control:** Regulation and control are expensive for companies, both in terms of energy and money and limit its flexibility of decision-making. Failure of businessmen to assume social responsibility calls on the Government to intervene and regulate or control their activities. By behaving socially responsible, the business houses may prevent government intervention.
  - 5) **To Avoid Misuse of National Resources and Economic Power:** Businessmen control considerable power on the productive resources of a community. They are obliged to use these resources for the benefit of society. They should keep in mind that the national resources have been delegated to them by the society to generate more wealth for its improvement. They must meet social obligations while exercising of delegated economic power.
  - 6) **To Avoid Class Conflicts:** Industrial peace is a precondition for the success of the business. Trade unions are becoming increasingly militant and demanding measures of social welfare, better wages, better working conditions, etc. Their demands are supported by the rapid evolution of the social environment. Entrepreneurs must gain the trust of workers and prevent violent conflict class in their own interest.
  - 7) **To Convert Resistances into Resources:** If the businesses act innovatively to resolve their social problems, they will be able to convert several problems into useful resources, thus enhancing the functional capacity of resources multiple times. This may not be applicable to all the problems, but a majority of them can be solved which can be beneficial to the society.
  - 8) **To Minimise Environmental Damage:** The effluence of many companies positively damages the environment. They are required to repair the damage by understanding their ecological responsibility towards society.

### 5.1.6. Importance of CSR for Business

Importance of corporate social responsibility for business is as follows:

- 1) **Improves Public Image:** In today's economy social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets and other benefits. A firm which seeks better public image should support social goals. CSR activities of a business aim towards the welfare of society and this help to develop a positive image for the firm. Enhanced goodwill and reputation will, on the one hand, attract better employees to join such firms, and on the other hand attracts more customers – people do prefer to patronise a firm because of its positive image in society.
- 2) **Helps in Survival and Growth:** In recent times, the concept of CSR has turn out to be a vital strategy for companies to survive in a ruthless market environment. In today's environment where markets shift and consumers' preferences become even more unpredictable and complex, CSR can become a powerful tool for survival and growth.

- 3) **Facilitates Changed Consumer Expectations:** Today's consumer have become more conscious of their rights and are also more demanding. They protest against supplier of harmful/inferior goods services and other unethical practices of business.
- 4) **Attracts Better Human Resources:** CSR is seen to be a great way to attract "good" talent and to retain them. Social initiatives are a good way to satisfy the emotional and social needs of employees by helping them contribute towards the good of society.
- 5) **Fulfills Changed Public Expectations of Business:** In context to the present economy social responsibility is important because public expectations from business have changed. It is reasoned that the institution business exists only because it satisfies the valuable needs of society.  
Society gave business its charter to exist, and the charter can be amended or revoked at any time that business fails to live up to society's expectations. Therefore, if business wishes to remain viable in the long run, it must respond to society's needs and give the society what it wants.
- 6) **Provides Better Environment for Business:** In present social environment social responsibility creates a better environment for business. This concept rationalises that a better society produces environmental conditions more favourable for business operations. The firm which is most responsive to the improvement of community quality of life will as a result have a better community in which to conduct its business. Labour recruiting will be easier, and labour will be of a higher quality. Turnover and absenteeism will be reduced.
- 7) **Helps in Avoiding Government Regulation:** Government is a massive institution with long arms. It seeks to regulate business in the public interest. Government regulation is costly and denies the much needed freedom in decision making. Before the government stretches its long arms, business should discharge its obligation to society.
- 8) **Maintains Balance of Responsibility with Power:** Today's changing economy emphasises that business social responsibility should be more related to its power. It is reasoned that businessmen have vast amounts of social power. They do affect the economy, minorities, and other social problems. In turn, an equivalent amount of social responsibility is required to match their social power.

### 5.1.7. Types of CSR

There are following types of corporate social responsibility:

- 1) **Environmental Corporate Social Responsibility:** People expect businesses to exhibit environmentally responsible behaviour, as evidenced by a PricewaterhouseCoopers survey that found that the most important issue for companies in the future, according to U.S. respondents, is carbon emissions reduction. Specific environmental issues that affect businesses include global warming, sustainable resources, and pollution. Businesses are being urged by environmental groups and governments to reduce their carbon footprint, to obtain their materials from sustainable sources and to reduce their pollution.
- 2) **Human Rights Corporate Social Responsibility:** The 21<sup>st</sup> century marketplace is highly global. This means that when a product is purchased in the United States, e.g., it may have been produced in China or have components from South America. The ethical issue for corporations is ensuring that human rights are respected throughout all levels of the supply chain. Major companies have received criticism for their use of sweat shops and for sourcing resources that are harvested by unfairly treated workers. This has led to a push for the use of strict labour standards to be applied to suppliers, and a demand for fair trade products such as chocolate and coffee.
- 3) **Financial Corporate Social Responsibility:** Financial responsibility is an important issue in corporate social responsibility. In the wake of the accounting fraud perpetrated by Enron and Arthur Andersen about the accuracy of their financial reporting by increasingly skeptical shareholders and government officials, as evidenced by the Sarbanes-Oxley Act.

Employees are expected to act as whistle blowers in such situations, and white collar crime is seeing a profile prosecutions like that of Martha Stewart or former Worldcom CEO Bernie Ebbers.

the key concept of citizen is 'participation' rather than individual rights, as occurs in the current liberal state.

### 5.1.10. Strategies for CSR

Organisations can adopt a variety of strategies to social responsibility. For example, a firm that never considers the consequences of its decisions and tries to hide its transgressions is taking an obstructionist stance. At the other extreme, a firm that actively seeks to identify areas where it can help society is pursuing a practice stance toward social responsibility.

Some people advocate a larger social role for organisations and others argue that the role is already too large. Not surprisingly, organisations themselves adopt a wide range of positions on social responsibility. The four stances that an organisation can take concerning its obligations to society fall along a continuum ranging from the lowest to the highest degree of socially responsible practices are shown in figure 5.1:

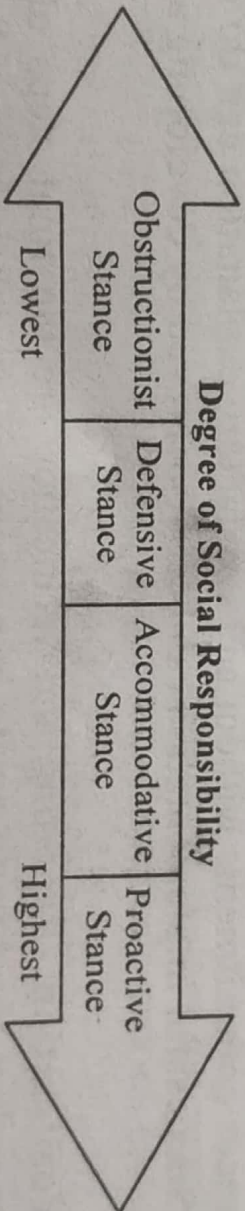


Figure 5.1: Strategies for CSR

- 1) **Obstructionist (Opponent) Stance:** The few organisations that take what might be called an obstructionist stance to social responsibility usually do as little as possible to solve social or environmental problems. When they cross the ethical or legal line that separates acceptable from unacceptable practices, their typical response is to deny or avoid accepting responsibility for their actions.
- 2) **Defensive Stance:** One step removed from the obstructionist stance is the defensive stance, whereby the organisation does everything that is required of it legally, but nothing more. This approach is more consistent with the arguments used against social responsibility. Managers in organisations that take a defensive stance insist that their job is to generate profits.  
*For example, such a firm would install pollution control equipment dictated by law but would not install higher-quality but slightly more expensive equipment even though it might limit pollution further.*
- 3) **Accommodative Stance:** A firm that adopts an accommodative stance meets its legal and ethical obligations but will also go beyond these obligations in selected cases. Such firms voluntarily agree to participate in social programmes but solicitors have to convince the organisation that the programmes are worthy of its support.
- 4) **Proactive Stance:** The highest degree of social responsibility that a firm can exhibit is the proactive stance. Firms that adopt this approach take to heart the arguments in favour of social responsibility. They view themselves as citizens in a society and proactively seek opportunities to contribute.

### 5.1.11. Implementation of CSR

Steps involved in implementation of CSR are as follows:

**Step 1: Approval of Top Management:** A firm's first step toward implementing CSR is to get approval of top management including the Board of Directors and Chief Executive Officer.

**Step 2: Gather and Examine Information:** Next step is to gather and examine pertinent information about the organisation's products, services, decision-making processes, and activities to determine where it stands with respect to implementation of CSR. Frequently, an organisation can complement its present system without much incremental investment by improving existing employee educational advancement programmes or by adopting other environmental or occupational health programmes.

**Step 3: Develop Strategy:** After doing the assessment, the next step is to develop a strategy. CSR assessment generates a base of information that can be used to develop a plan for moving ahead, allowing the firm to be successful and fulfilling stakeholders' expectations. Such a strategy helps to ensure that a firm builds, maintains, and continually strengthens its identity, market, and relationships.

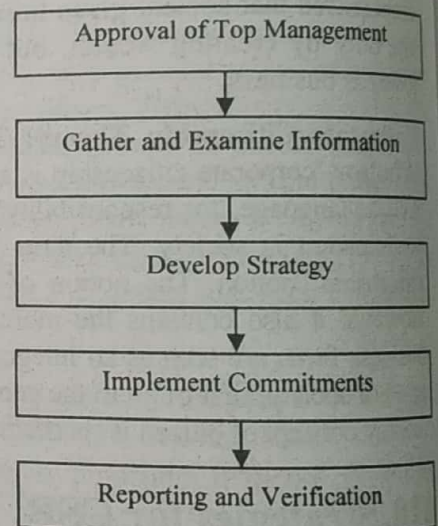


Figure 5.2: Implementation of CSR

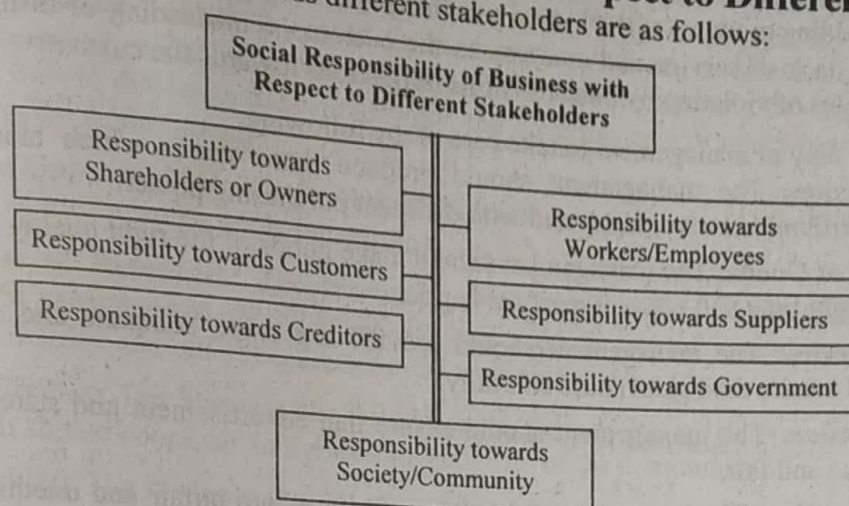
This is best developed with the support of not only the senior management, but of all employees. It is advisable to research current, state-of-the-art CSR instruments, as traditional approaches can hinder achieving optimum performance. Brainstorming sessions with senior managers, employees, key business partners, and others can clarify the firm's core business objectives, methods, and core competencies.

**Step 4: Implement Commitments:** The next logical step, after having set goals, is to implement those commitments. Failing to meet commitments without any satisfactory explanation can do irreparable damage to the organisation's image. Successful implementation can best be achieved by developing an integrated decision-making structure.

**Step 5: Reporting and Verification:** Reporting and verification are the final steps of implementing CSR. Verification, through independent third-party onsite inspections, gives stakeholders reliable evidence that the corporation is upholding its CSR commitments.

## 5.1.12. Social Responsibility of Business with Respect to Different Stakeholders

The social responsibilities of business towards different stakeholders are as follows:



- 1) **Responsibility towards Shareholders or Owners:** There is a separation of ownership and management in the case of joint stock companies. The shareholders are empowered to appoint directors on the Board of Directors and seek regularly accurate and full financial information about the company. The management or the directors of the company are responsible for safeguarding the interests of the shareholders. But in case of sole trader-ship and partnership concerns, the owners can look after their interest themselves. Responsibility towards shareholders includes:
  - i) **Reasonable Dividend:** Shareholders are source of funds for the company. They expect a high rate of dividend on the money invested by them and also the maximisation of the value of their investment in the company.
  - ii) **Soundness:** It is the duty of management to see that the financial position of the company is sound and the company always looks for growth.
  - iii) **Information:** It is the responsibility of the management to keep the share-holders well informed about the progress and financial position of the company.
  - iv) **Protection of Assets:** The assets of the company are purchased with the funds provided by the shareholders. The management is responsible to safeguard these assets.
- 2) **Responsibility towards Workers/Employees:** The employees should be treated as human beings and their cooperation must be achieved for the realisation of organisational goals.

The management of a business should fulfil the following obligations towards its employees:

- i) **Fair Wages:** Every business should pay reasonable wages and salaries to its employees so that they may satisfy their needs and lead a good life.
- ii) **Good Working Conditions:** Since workers spend about eight hours on every working day at their work place, they must be provided with good working conditions. Good working conditions are necessary to maintain the health of the workers.
- iii) **Adequate Service Benefits:** Workers should be provided service benefits such as housing and medical facilities, insurance cover and retirement benefits. They will make them feel secure.
- iv) **Cooperation:** It is the responsibility of the management to win the cooperation of the workers by creating the condition in which workers are willing to put forward their best efforts towards the common goals of the business.
- v) **Recognition of Worker's Rights:** The management should recognise the workers' right to fair wages, to participate in decisions affecting their working life, to form trade unions to collective bargaining and to go on strike of their demands are not accepted.
- vi) **Opportunity for Growth:** The workers should be helped by training and other means to improve their skills. Management should give the workers adequate opportunities to develop their capabilities through training, education and the enjoyment of freedom to the greatest possible extent.

3) **Responsibility towards Customers:** Customers' satisfaction is the ultimate aim of all economic activities. This involves providing products at the lowest possible price. Adulteration of goods, poor quality, failure to give fair measure, lack of service and courtesy to the customers, misleading of dishonest advertising, some of the examples of violation by business of its obligations towards the customers of its products.

Therefore, it is the duty of management to take care of the following:

- i) **Need Satisfaction:** The management should produce those goods which meet the needs of consumers of different classes, tastes and with different purchasing power.
- ii) **Regular Flow of Goods:** The management should make goods of the right quality available to the people at the right time and place at reasonable price.
- iii) **Courteous Service:** The management should provide a prompt, adequate and courteous service to customers, and handle their grievances carefully.
- iv) **Right Information:** The management should ensure that advertisement and statements issued by business are true and fair.
- v) **Fair Trade Practice:** The management should not indulge into unfair and unethical practice such as black marketing, hoarding, adulteration, etc. The goods and services should be distributed properly so that the customers do not face any difficulty in purchasing them.

4) **Responsibility towards Suppliers:** Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. Management should deal with the suppliers judiciously. Their dealings with the suppliers should be based on integrity and courtesy in the absence of which the suppliers will not supply them the goods on credit. The responsibilities of business towards these suppliers are:

- i) Giving regular orders for purchase of goods.
- ii) Dealing on fair terms and conditions.
- iii) Availing reasonable credit period.
- iv) Informing about the tastes of consumers.
- v) Timely payment of dues.
- vi) Informing them for future development plans.

5) **Responsibility towards Creditors:** Management is also socially responsible to its creditors in following ways:

- i) Provide accurate information regarding the financial health of the organisation.
- ii) Ensure a reasonable price for the articles supplied, and make prompt repayments (involving interest on borrowings); there should be fairness in transactions.
- iii) Promote a healthy atmosphere where creditors, suppliers and other interest groups are treated as partners in a cooperative endeavour.

6) **Responsibility towards Government:** Every business enterprise is governed by various laws. It is the duty of the management of every enterprise to manage its affairs according to the laws affecting it. Management's policies should be laid down taking into consideration the provisions of various legislations and guidelines issued by the government management should follow fair trade practices. It should pay taxes and other government dues honestly, fully and promptly. It should not encourage corruption, black marketing and other social evils.

The specific responsibilities of business towards government may be enumerated as follows:

- i) To abide by the laws of the nation.
- ii) To pay government taxes honestly.
- iii) To avoid corrupting government employees.
- iv) To discourage the tendencies of concentration of economic power and monopoly.
- v) To encourage fair trade practices.

7) **Responsibility towards Society/Community:** Every business owes an obligation to the society at large. The specific responsibilities of business towards the society are as follows:

- i) **Socio-Economic Objectives:** Management must be guided by the socio-economic objectives of the society. It should not indulge in any practice which is not fair from social point of view. Society expects that the business uses the factors of production effectively and efficiently for the satisfaction of the needs of the society. If the business fulfils these expectations, its goodwill and reputation will increase.

- ii) **Improvement of Local Environment:** Good management can contribute to the advancement of local amenities where the enterprise functions. It can develop the surrounding area for the well-being of the workers and the general public. Management has certainly great responsibility to keep the healthy environment conditions where the production is being carried on. It should take preventive measures against water and air pollution, and should contribute to the community development activities. If the management fails to discharge its responsibility, the government will interfere to prevent the enterprise from polluting the environment.
- iii) **Employment Opportunities:** It is the responsibility of management to help increase direct and indirect employment in the area where it is functioning.
- iv) **Efficient Use of Resources:** The resources at the command of business belong to the society. Therefore, the management should make the best possible use of capital, raw materials, machines, technical knowledge and other resources for the well-being of the society.
- v) **Welfare Activities:** The business should contribute towards the upliftment of the weaker sections of the society. It should cooperate in the welfare activities of the community.
- vi) **Business Ethics:** The business should not indulge into anti-social and unfair trade practices such as adulteration, hoarding and black marketing. It should not issue misleading advertisements.

### 5.1.13. Challenges in CSR

Challenges in social responsibility of business are as follows:

- 1) **Profit Maximisation:** The first and the most forceful argument disfavours social responsibility is that business has profit maximisation as its main objective. Indeed, the business is most socially responsible when it attends to its interests and leaves other activities to other institutions. Since business operates in a world of poverty and hunger, the economic efficiency of business is a matter of top priority and should be the sole mission of business. Business's function is economic, not social and economic values should be the only criteria used to measure success. In this kind of system, managers are the agents of the stockholders, and all their decisions are controlled by their desire to maximise profits for the stockholders while reasonably complying with law and social custom.
- 2) **Society has to Pay the Cost:** Another argument is that the costs of social responsibility will be passed on to the society and it is the society which must bear them.
- 3) **Lack of Social Skills:** Business managers are best at managing matters relating to business. They are not equally good at solving social problems. Their outlook is primarily economic and that their skills are the same. They really do not feel at home in social matters. Corporates like the Lalbais, Mafatlals and Shroffs have already attempted to bring in management professionals into the social responsibility area.
- 4) **Business has Enough Power:** Another argument is that business already has enough social power; therefore, society should not take any steps which give it more power. According to this line of reasoning, business is one of the two or three most powerful institutions in society at the present time. A business influence is felt throughout society. It is felt in education, in government, in the home and in the market place. It moulds many social values. The process of combining social activities with the established economic activities of business would give business an excessive concentration of power. Business is an institution, which is considered to be not so good, and giving more power to it is not advisable.
- 5) **Social Overhead Cost:** Cost on social responsibility is considered to be a social cost, which will not immediately benefit the business. It is the heavy social overhead cost which is one of the reasons for the miserable performance of some of our government undertakings.
- 6) **Lack of Accountability:** Another point of view is that the businessmen have no direct accountability to the people; therefore, it is unwise to give businessmen responsibility for areas where they are not accountable. Accountability should always go with responsibility, and it is poor social control to allow any other kind of arrangement. Until the society can develop mechanisms, which establish direct lines of social accountability from business to the public, business must stand clear of social activities and pursue only its goal of profit where it is directly accountable through the market system.

- 7) **Lack of Broad Support:** Business involvement in social goals business does become socially involved, it will create so much friction among business parties that business cannot perform its social assignment. Although many persons desire business to become more socially involved, others oppose the idea. There is lack of agreement among the general public, among intellectuals in the government and even among businessmen themselves.

#### 5.1.14. Best Practices of CSR

Given below are CSR's Seven Best Practices to learn how to put your organisation's best social and environmental practices in the spotlight:

- 1) **Set Measurable Goals:** Return on investment has always been a difficult thing to measure. In order to accomplish this in your CSR policy, **Goldschein** suggests implementing small changes close to home, such as improving employee policies that decrease turnover and improve recruitment. Simple steps, like minimising waste and resource use are changes that can be developed into a memorable story about how sustainability efforts support your company's overall corporate strategy.
- 2) **Stakeholder Engagement:** Leaving their stakeholders out of the loop is one of the top mistakes companies make when trying to jump on the green/socially responsible bandwagon. In order for your company to articulate its values, missions, strategy, and implementation in the creation of your CSR plan, it is important for everyone to be on the same page.  
  
Stakeholders can help by partaking in the regulatory approvals process, improving relationships proactively, or solving CSR roadblocks and potential crises. Include your stakeholders from the start of the consultation process and sidestep moving forward with developments in which they would otherwise have little influence over or information about.
- 3) **Sustainability Issues Mapping:** This approach uses interactive maps to help prioritise and narrow down key issues, saving your company time and money during the initial research stage. **For example**, Sir Geoffrey Chandler, founder and chair of Amnesty International U.K., praises sustainability issues mapping as "a most stimulating approach. It brings together things which ought to go together, but too frequently do not".
- 4) **Sustainability Management Systems (SMS):** Develop a framework to ensure that environmental, social, and economic concerns are considered in tandem throughout your organisation's decision-making processes. Start by identifying and prioritising sustainability aspects and impacts. Take it one step further by looking at legal requirements related to these impacts and evaluate your company's current compliance. Collaborating with an environmental consultant can help during this process. Next, outline your company's goals and objectives.  
  
Finally, educate and train your employees on using the SMS, and also periodically run audits to ensure that it is carried-out in the most effective manner possible.
- 5) **Lifecycle Assessment:** Product design is critical. Gone are the days where the immediate product the only thing that matters, without any given thought to its afterlife. A cradle-to-cradle approach exhibits your company's creativity and innovation and can, consequently, improve your bottomline. Whether it is re-using your product or designing it in a manner that will keep it out of the landfill, build customer rapport and brand loyalty by taking the pressure off the disposal process for your products.
- 6) **Sustainability/CSR Reporting:** CSR reporting has increased in popularity over the past few years, due to increasing government regulations as well as self-regulation by forward-thinking companies. It is important that your consumer base has easy access to your latest and greatest efforts, in a way that does not minimise what you are doing. A simple and environmentally-friendly way to do this is to post your CSR reports on your website, in an easy to download PDF file or other accessible format. This is another area to ask for feedback from your number one fans – your stakeholders.
- 7) **Sustainability Branding:** Transparency is a key in sustainability branding. **For example**, Clorox Green Works, when endorsed by the Sierra Club, was able to capture 42% of the market share in their first year. The market for natural cleaning products has since increased, paving the way for smaller brands like Seventh Generation and Method to reach to a broader customer base.

### 5.1.15. Examples of CSR in India

An estimated 100 corporate foundations and 25 foreign firms are involved in CSR activities in India, but statistics on input and output are elusive. Companies, continue to rely on different models to earmark its social expenditure, making it difficult to measure the overall impact. Here are a few illustrations of the different social responsibility functions that Indian companies typically perform:

1) **Tata Group:** Tata Group in India has a range of CSR projects, most of which are community improvement programmes. **For example,** it is a leading provider of maternal and child health services, family planning, and has provided 98 per cent immunisation 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 programmes like rural health development. Tata Group also has an organised relief programme in case of 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.

2) **Aptech:** Aptech a leading education player with a global presence that has played a broad and continued role in encouraging and nurturing education throughout the country since its inception. 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 training and awareness camps.

3) **Infosys:** Infosys is aggressively involved in a variety of community growth programmes. In 1996, the company created the Infosys Foundation as a not-for-profit trust to which it contributes upto 1 per cent of profits after tax every year. Moreover, the Education and Research 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 programmes, employment, healthcare for the poor, education, arts and culture, and welfare activities undertaken by the Infosys Foundation.

4) **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 7.5 crore in the form of grants, scholarships and loans. It promotes education mostly by the 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.