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## **MANAGEMENT PROGRAMME**

**MP-12**

**Ethics, Governance & Social Responsibility**

**Block**

**3**

**Corporate Social Responsibility**

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**Unit-I**

**Corporate Social Responsibility: An Overview**

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**Unit-II**

**CSR Act: Companies Act of 2013  
(Including Case Studies on CSR)**

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## MANAGEMENT PROGRAMME

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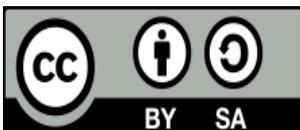
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## Unit – I

# Corporate Social Responsibility : An Overview

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### Learning Objectives

After completion of the unit, you should be able to :

- Explain the concept and definition of Corporate Social Responsibility.
- Know the Evolution of Corporate Social Responsibility.
- Understand the importance of Corporate Social Responsibility.
- Explain the Arguments For and Against CSR.
- Describe the benefits of Social Responsibility Models.

### Structure

- 1.1 Introduction
- 1.2 Concept and Definition of CSR
- 1.3 History and Evolution of CSR
- 1.4 Importance of CSR
- 1.5 Arguments for Social Responsibility
- 1.6 Arguments against Social Responsibility
- 1.7 Social Responsibility Approaches and Models
- 1.8 Let's Sum-up
- 1.9 Key Terms
- 1.10 Self-Assessment Questions
- 1.11 Further Readings
- 1.12 Model Questions

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## 1.1 Introduction

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The concepts of modern Corporate Social Responsibility evolved only recently. However, the idea has a long history. In both the East and West, it was called social philanthropy. Depending on its nature and context, it was divided into three broad areas. Traditionally, corporate philanthropy aimed at the welfare of the immediate members of the enterprise like staff and employees and their families. This was usually in the form of contributions by visionary business leaders to the establishment of trusts that promoted education, women's welfare, health & medical care and so on.

Corporate Social Responsibility is a qualitatively different from the concept of the traditional concepts of corporate philanthropy. It acknowledges the corporation's debt that the corporation owes to the community within which it operates. It regards the community as an equal stakeholder. It also defines the business corporation's



partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities.

In this age of globalization, Corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years, multinational corporations (MNCs) have played an influential role in defining markets and consumer behaviour. The rules of corporate governance have also changed. Reactions to this change have been varied. On the one hand, globalization and liberalization have provided a great opportunity for corporations to become globally competitive by expanding the production base and market share. On the other hand, the conditions that favoured their growth also placed these companies in an unfavourable light.

Labourers, marginalized consumers, environmental and social activists protested against the unprecedented (and undesirable) predominance of multinational corporations. The revolution in communication technology and the effectiveness of knowledge-based economics threw up a new model of business and corporate governance. Growing awareness of the need for ecological sustainability paved the way for a new generation of business leaders concerned about the community response and environmental sustainability. Corporate Social Responsibility (CSR) is, essentially a new business strategy to reduce investment risks and maximize profits by taking all the key stakeholders into confidence.

The new generation of corporations and the new-economy entrepreneurs recognize the fact that social and environmental stability are two important prerequisites for the long-term sustainability of their markets. From the eco-social perspective, corporate social responsibility is both a value and a strategy to ensure the sustainability of business. For the new generation of corporate leaders, optimization of profit is the key, is more important than its maximization. Hence there is a noticeable shift from accountability to shareholders to accountability to all stakeholders for the long-term success and sustainability of the business. Stakeholders include consumers, employees, affected communities and shareholders, all of whom have the right to know about the corporations and their business. This raises the important issue of transparency in the organization.

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## 1.2 Concept and Definition of CSR

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Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their



activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision making, and the honouring of People and Profit.

The role of corporates by and large has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. As corporates have been regarded as institutions that cater to the market demand by providing products and services, and have the onus for creating wealth and jobs, their market position has traditionally been a function of financial performance and profitability.

However, over the past few years, as a consequence of rising globalisation and pressing ecological issues, the perception of the role of corporates in the broader societal context within which it operates, has been altered. Stakeholders (employees, community, suppliers and shareholders) today are redefining the role of corporates taking into account the corporates' broader responsibility towards society and environment, beyond economic performance, and are evaluating whether they are conducting their role in an ethical and socially responsible manner.

As a result of this shift (from purely economic to 'economic with an added social dimension'), many forums, institutions and corporates are endorsing the term Corporate Social Responsibility (CSR). They use the term to define organisation's commitment to the society and the environment within which it operates.

The World Business Council on Sustainable Development's (WBCSD) report was titled Corporate Social Responsibility:

Making Good Business Sense and the OECD Guidelines for Multi-National Enterprises which includes a discussion on how CSR is emerging as a global business standard. Further, there is a global effort towards reinforcing CSR programmes and initiatives through local and international schemes that try to identify best-in-class performers.

Today Businesses are an integral part of the communities. It is evident that business build civilizations. Corporate Sectors have a key role in the socio-economic development of any country. There are many instances where corporate have played a dominant role in addressing issues of education, health, environment and livelihoods through their corporate social responsibility interventions across the globe. It is important for the corporate sector to identify, promote and implement successful policies and practices. As per United Nations and the European Commission, Corporate Social Responsibility (CSR) leads to triple bottom-line: profits, protection of environment and fight for social justice.



## CSR: Definition

The totality of CSR can be best understood by three words: ‘corporate,’ ‘social,’ and ‘responsibility.’ In broad terms, CSR relates to responsibilities corporations have towards society within which they are based and operate, not denying the fact that the purview of CSR goes much beyond this. CSR is comprehended differently by different people.

Some perceive it to be a commitment of a company to manage its various roles in society, as producer, employer, customer and citizen in a responsible manner while for others it is synonymous to Corporate Responsibility (CR) or Corporate Citizenship or Social Action Programme (SAP). Of late, the term has also been started to link up with Triple Bottom Line Reporting (TBL) which essentially measures an enterprise’s performance against economic, social and environmental indicators.

Discourses on CSR suggest that many definitions of CSR exist within the business community, and CSR continues to be an evolving concept, with no single definition that is universally accepted.

Given below are three key definitions that have garnered wide acceptance and favour amongst business circles:

Definition # 1: **Philip Kotler** and **Nancy Lee (2005)** define CSR as “*a commitment to improve community well being through discretionary business practices and contributions of corporate resources*” whereas **Mallen Baker** refers to CSR as “*a way companies manage the business processes to produce an overall positive impact on society.*”

Definition # 2: According to **World Business Council for Sustainable Development** “*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*”.

Definition # 3: **Archie Carroll** in 1991 describes CSR as a multi layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities.





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## 1.3 History and Evolution of CSR

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India has the world's richest tradition of corporate social responsibility. Though the term CSR is comparatively new, the concept itself dates back to over a hundred years. CSR in India has evolved through different phases, like community engagement, socially responsible production and socially responsible employee relations. Its history and evolution can be divided into four major phases.

### **PHASE 1 (1850 TO 1914)**

The first phase of CSR is known for its charity and philanthropic nature. CSR was influenced by family values, traditions, culture and religion, as also industrialisation. The wealth of businessmen was spent on the welfare of society, by setting up temples and religious institutions. In times of drought and famine these businessmen opened up their granaries for the poor and hungry. With the start of the colonial era, this approach to CSR underwent a significant change. In pre-Independence times, the pioneers of industrialisation, names like Tata, Birla, Godrej, Bajaj, promoted the concept of CSR by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. During this period social benefits were driven by political motives.

### **PHASE 2 (1910 TO 1960)**

The second phase was during the Independence movement. Mahatma Gandhi urged rich industrialists to share their wealth and benefit the poor and marginalised in society. His concept of trusteeship helped socio-economic growth. According to Gandhi, companies and industries were the 'temples of modern India'. He influenced industrialists to set up trusts for colleges, and research and training institutions. These trusts were also involved in social reform, like rural development, education and empowerment of women.

One significant aspect during this phase is the promotion of "trusteeship" that was revived and reinterpreted by Gandhiji. Under this notion the businesses were motivated to manage their business entity as a trust held in the interest of the community. The idea prompted many family run businesses to contribute towards socioeconomic development. The efforts of Tata group directed towards the well being of the society are also worth mentioning in this context.

### **PHASE 3 (1950-60 TO 1990)**

This phase was characterised by the emergence of PSUs (Public Sector Undertakings) to ensure better distribution of wealth in society. The policy on industrial licensing and taxes, and restrictions on the private sector resulted in corporate malpractices which finally triggered suitable legislation on corporate governance, labour and environmental issues. Since the success rate of PSUs was not significant there was a natural shift in expectations from public to private sector, with the latter getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen





All the Business houses and corporate have been taking up social welfare activities from time to time. While CSR is relevant in business for all societies, it is particularly significant for developing countries like India, where limited resources for meeting the ever growing aspirations and diversity of a pluralistic society, make the process of sustainable development more challenging. CSR interventions-based on commitment, mobilization of employees-voluntarism, innovative approaches, appropriate technology and continuing partnership-have been making lasting differences in the life of the disadvantaged. Further, synergy of corporate action with the government and the civil society are making the CSR interventions more effective and facilitating the corporate carrying on business in the society.

### Why CSR is aggressively needed today?

CSR as a strategy is becoming increasingly important for India today because of three identifiable trends:

1. **Changing social expectations:** Consumers and society in general expect more from the companies whose products they buy.
2. **Increasing affluence:** This is true within developed nations, but also in comparison to developing nations. Affluent consumers can afford to pick and choose the products they buy.
3. **Globalization:** Growing influence of the media sees any mistakes by companies brought immediately to the attention of the public.

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## 1.5 Arguments for Social Responsibility

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Every individual living in the society has obligations towards society. Business men therefore have an obligation to run the business on those lines which make the business desirable from the point of view of society. Therefore, their decisions must be influenced by their obligations towards society. Traditionally, however the term business commonly referred to commercial activities aimed at making a profit for the owners. Therefore, the fundamental assumption was that profit maximization was the basic objective of every firm. Therefore some people argue that a business is an economic unit and therefore it does not have any responsibility towards society. However, this is not a rights approach because it would be difficult to segregate the economic aspect from other aspects.

Today, businessmen have reaffirmed their belief in the concept of "Social Responsibilities of Business". David and Blomstorm have observed that business is "a social institution, performing a social mission and having a broad influence on the way people live and work together".

**1. Public Requirements:**

Business can exist only with public support and only if business fulfills needs of society. One of main arguments for social responsibility is that public expectations from business have changed. Therefore if business wishes to remain in existence for a long term it must respond to society's needs and give society what society wants.

The business must come up to expectations of public for its survival since the demand for products or services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.

**2. Protect the interests of Stakeholders:**

Labour force is united into unions which demand protection of their rights from business enterprises. To get the support of workers, it has become necessary for organisations to discharge responsibility towards their employees.

Caveat emptor ('let the buyer beware'), no more holds true. Consumer today is the kingpin around whom all marketing activities revolve. Consumer does not buy what is offered to him. He buys what he wants. Firms that fail to satisfy consumer needs will close down sooner or later. Besides, there are consumer redressal cells to protect consumers against anti-consumer activities. Consumer sovereignty has, thus, forced firms to assume social responsiveness towards them.

Firms that assume social responsibilities may suffer losses in the short-run but fulfilling social obligations is beneficial for long-run survival of the firms. The short-term costs are, therefore, investments for long-run profitability.

**3. Favourable For Business:**

Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result has better community in which it conducts its business.

People with healthy environment, good health and education will make them good customers and employees. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. Crime rate will also decrease as a result of social improvements.

**4. Moral Justification:**

Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore these large corporations have a moral responsibility to solve these problems. Also business which is using so many resources of our economy has responsibility to devote some of these resources in overall development of society.



### **5. Socio-Cultural Norms:**

In a country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations and consumer service will enjoy better social position. A business working against traditional values will face criticism from society.<sup>65</sup> **Business Can Shoulder Responsibility:**

Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a situation, it becomes the duty of business to come upto expectation of public and fulfill its responsibilities towards society.

### **6. Responsibility Must Correspond With Power:**

Business enjoys social power to a great extent. So they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If they don't then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

### **7. Public Image:**

Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly which will result in raising the value of shares and debentures held by the owners.

### **8. Long-run survival:**

Business organisations are powerful institutions of the society. Their acceptance by the society will be denied if they ignore social problems. To avoid self-destruction in the long-run, business enterprises assume social responsibility.

### **9. Self-enlightenment:**

With increase in the level of education and understanding of businesses that they are the creations of society, they are motivated to work for the cause of social good. Managers create public expectations by voluntarily setting and following standards of moral and social responsibility.

They ensure paying taxes to the Government, dividends to shareholders, fair wages to workers, quality goods to consumers and so on. Rather than legislative interference being the cause of social responsibility, firms assume social responsibility on their own.

### **10. Avoids government regulation:**

Non-conformance to social norms may attract legislative restrictions. Government directly influences the organisations through regulations that dictate what they should do and what not. Various agencies monitor business activities.





look after interests of the society. The prime responsibility of assuming social responsibility should, therefore, be of the Government and not of the business enterprises.

### **2. Quantification of social benefits:**

What measures social responsibility and to what extent should a business enterprise be engaged in it, what amount of resources should be committed to the social values, whose interest should hold priority over others (shareholders should be preferred over suppliers or vice versa) and numerous other questions are open to subjective considerations, which make social responsibility a difficult task to be assumed.

### **3. Cost-benefit analysis:**

Any social-benefit programme where initial costs exceed the benefits may not be taken up by enterprises even in the short-run.

### **4. Lack of skill and competence:**

Professionally qualified managers may not have the aptitude to solve the social problems.

### **5. Transfer of social costs:**

**Costs related to social programmes are adjusted by the business concerns in the following ways:**

#### **(a) High prices:**

The costs are passed to consumers by increasing prices of goods and services.

#### **(b) Low wages:**

If managers maintain the level of prices, the social costs may be reflected in reduction of wages.

#### **(c) Low profits:**

If wages are stabilized, profits would be reduced, which will lower dividends to the shareholders. Low profits will reduce managers' desire to further engage in corporate social responsibility

### **6. Sub-optimal utilisation of resources:**

If scarce resources are utilised for social goals, this would violate the very purpose of existence of an organisation.

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## **1.7 Social Responsibility Approaches and Models**

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### **1.7.1 CSR Approaches**

The CSR mandate of 2% given by the Companies Bill, 2013 is an epochal moment in the evolution of corporate practices in India. With Section 135, the law has recognized the man on the street and asked him about the expectations he has from Large Corporations. Till now the corporations have been concentrating mainly on the



structurally influential stakeholders like the Shareholders, Financial Institutions, Government and Employees of the company. With these provisions in place the people have been empowered to communicate with the Companies on important aspects of social life.

A lot of buzz has been created on CSR and the potential spending the provisions are going to initiate from the companies falling under the category. However, the wisdom for the projects to be adopted has been left to the companies. The questions doing the rounds today are:

- What will be the guiding principles for formulation of the CSR philosophy of the company?
- How many thrust areas will the companies have in the CSR Strategy?
- How will the companies choose projects and align the same with the CSR philosophy?
- What will be the basis of assessment for these projects?
- Who shall drive the CSR initiative?
- What could be the possible methodologies for implementing these strategies? In the sense whether employees of the company drive the initiative or hire domain experts?
- What could be the ways of branding the CSR initiative and leverage it create a positive image of the organization?

A lot of these questions will be answered by the companies in their own unique manner and will become the backbone of the practice of CSR in the world. Some of these practices will evolve from the attitude adopted by the companies towards CSR.

Some of the opinions voiced by some commentators have painted the new law as the government's way of diluting its roles and responsibilities and asking Companies to take over the deliverance on socio-economic-environmental front. According to the rough estimates made by some of the leading accounting firms, the FY2013-14 will see a total outlay of around 18000 Crs for CSR projects. All these monies will be subsidizing the government work on these subjects. However, it appears to be a very narrow view and on the edge of a middle class cliché which sees a larger design of a scam in every action of the government.

The larger corporate houses have however welcomed the CSR initiative taken by the government. This comes in the wake of a growing realization that the true benefits of economic growth will be consolidated only when this growth is inclusive and takes all section of the society along. The Corporate entities are also aware of the long term advantages of CSR. A strong CSR orientation can cause the corporate to connect to the society on important issues and create a positive image of them based on their contribution to the society.



The Corporate entities have a repository of skills which may prove to be useful for people to become gainfully employed. ICICI Bank has recently started skill workshops at Jaipur and is planning to open similar schools across india.

With Section 135 in place, the directors have to provide the framework for the CSR initiative. The following are the approaches towards CSR policy formulation:

### **Restorative Approach**

Unrestricted usage of resources by the enterprises may cause a lot of stress among other enterprises and other users of the resources. These concerns if not addressed may cause difficulty for the enterprise to function in the long run. The aggrieved parties may petition the government for restricting the usage through regulation. Disputes might arise on ownership of natural resources and can lead to grave problems which might threaten the very existence of the enterprise. Courts may take cognizance of the issues and impose restrictions, fines and penalties. All these conditions will have adverse effect on the image and operations of the enterprise.

One of the approaches that than be adopted by the companies is by mapping stress levels generated by them as a direct result of their operations. Indicatively the stress may occur on the ecology of its areas of manufacturing and operations. Some of the companies may have strained the social fabric of the society as well. Three areas of concern may be cited for this analysis:

- Environmental - by way of sourcing raw material like mining, use of water resources for manufacturing, use of biological resources like animal extracts, trees, etc. Disposal of waste material in the air, water bodies, use of land for disposal like slag from smelting operations.
- Change in Demographic: Due to the operations of the companies large number of people may have to relocate and new settlements may arise. This may cause a strain on their existing livelihood and social lives of the people.
- Cultural Habits: As a result of the operations of the company the consumption habits might change. Due to some products substantial changes have been seen in the behavioural patterns of the people exposed to them.

For manufacturing companies, one of the biggest challenges is to manage and maintain the supply of raw material and disposal of waste. Companies can start by first mapping the material and operations that cause stress to the Socio-Economic-Environmental aspects of their business. An effective CSR initiative will be to start identifying these areas of concern. After the identification of these aspects focused projects may be undertaken to neutralize their effects.

Similarly analysis can be undertaken for service industries which essentially consume human resources. Companies operating on global Delivery modals cause a lot of



changes in the employment patterns and lifestyles of the effective population. Companies can adopt programs for Vocational and Skill enhancement Training of prospective workforce which can build a strong talent pool for future recruitment. Industry Leaders can disseminate industry relevant skills and best practices that could enhance the quality of deliverance on all aspects of their business.

By adopting a restorative approach, a company can participate in balancing the regenerative process of the resources to the usage patterns. One of the major challenges to this approach is the ability to map the socio-economic-environmental factors. Companies have to adopt a logical framework matrix to identify the parameters. Exhaustive baseline studies have to be done to gain an understanding of the “*ceteris paribus*”. Once the “*ceteris paribus*” is established the factors on which the company plans to invest through the CSR initiative has to be crystallized and specific measurable values have to be assigned.

The scope of the project should be decided based on the total outlay of the company and the projected benefits the project is stated to achieve. The project goals have to be clearly spelt out at the time of starting of the project. Progress on chosen parameters has to be measured from time to time.

All investment decisions have to be evaluated and monitored by the CSR committee formed for the purpose. An effective CSR policy should be able to sensitize and integrate all stakeholders of the company through effective communication. The annual report of the company should carry a detailed extract of the CSR policy adopted and the execution of the project.

With the growing strength of the regulatory environment and considerable stress on natural resources companies have to address a larger number of stakeholders. By adopting the restorative approach, the CSR initiative can help in neutralizing some of these concern areas.

### **Augmentative Approach**

There are a lot of issues of importance that require attention and may not be directly related to the enterprise’s operations. If an enterprise chooses to invest on social issues unrelated to the circle of influence of the enterprise it may be termed as an augmentative approach to CSR.

The CSR committee formed for this purpose will have to deliberate the issue in an exhaustive manner and formulate the CSR policy. The CSR policy adopted must clearly bring out the following:

- The CSR Vision and Mission of the Company
- The Goals that every project being adopted is stated to achieve



- Cost Benefit analysis should be done for choice of projects
- The measures of success for each of the project be defined
- The integration roadmap of the CSR initiative with the Company Operations.
- The CSR Communication Strategy

The Enterprise adopting the Augmentative approach will have to formulate the CSR policy in such a manner that it is relatable with the stakeholders. The enterprise has to adopt a CSR policy which inspires enthusiasm among the stakeholders. We have to understand that CSR initiative can be used a motivating tool for the employees. The Shareholders will also view the CSR policy as a document of long term vision of the company. The Customers and Suppliers will see the intrinsic value of their relationship with the enterprise. The Society will view the enterprise as a guardian of its value system.

If the enterprise fails to integrate the CSR Initiative with the expectations of the stakeholders it might result in CSR spending without desirable results. One of the long term impacts of this might be that the activity will become a compliance issue and fail on all aspects of the benefits it had set out to achieve.

The selection of projects for CSR should qualify on the cost benefit matrix. The Enterprise should choose projects on which it is able to display visible change through investments and efforts. The “Ceteris Paribus” for the projects have to be defined. The scope of activities to be undertaken will follow a similar process as discussed in the restorative approach for project selection, evaluation & monitoring of execution and reporting of the CSR Activities.

One of the most important tools for integrating the stakeholders is effective communication. The enterprise has to from time to time issue communications on the projects undertaken for CSR. They have to effectively communicate the progress and achievement on these projects. This will rejuvenate the interest of the stakeholders and reiterate the sense of purpose of the of the CSR initiative.

### **Pooling Approach**

The Pooling approach towards CSR can be adopted where individual firms are of small size and their CSR outlay is not enough to drive the chosen initiative. The firm may in that case either adopt a scale of the project which it can fund and sustain or may create a single pool of CSR funds of companies in the same cluster or industry. The Companies can then collectively decide to either create an SPV for funding the projects undertaken through professional management or build a cooperative/association and organize the CSR initiative.

Creating an SPV for CSR initiative would require hiring of experts and trained professionals to execute the elected objectives. The Companies can get benefits like mentioned below:



- Focused approach can be adopted for CSR initiative;
- Skilled manpower to undertake CSR initiative;
- As Economies of scale set in, more funds will be available and therefore large scale projects could be undertaken;
- Sustained efforts can be channelized as the SPV would be independent of the stakeholders;
- Companies would be exonerated of the day to day functioning of the SPV;
- Structured evaluation and monitoring techniques like periodic utilization audits and impact assessments can be conducted;
- The credit for the good work done by the SPV will be shared by all the investing companies

This system will also have its share of limitations. Some of them are listed below:

- The CSR agenda may get hijacked by few of the bigger players of the group and marginal contributors will lose their liberties;
- The skilled manpower will come at cost and would eat into the budget of program expenses
- With time the management of the SPV will start asserting their own opinion on the programs to be undertaken for the CSR and this might dilute the original vision of the formation of the SPV;
- The contributing companies will find it hard to identify the specific activity undertaken by their contribution and may lead to a clash of interest. The Management of the SPV will however stake a claim on all the achievements of the SPV.

The companies will have to weigh the benefits of going solo on CSR or form an SPV keeping in mind their unique situation and the options available to them. The other option could be the formation of Cooperative/Association for the purpose of CSR initiative. The association will have the following advantages:

- The companies will have a higher level of involvement in the CSR initiative;
- The pooling of resources will not be limited to funds but will extend to manpower and know-how for the projects undertaken
- Higher levels of dedication can be expected as people involved in the funding will be involved in the execution of the projects as well;
- Economies of scale will enable taking up of larger projects and programs for execution;
- Credits for activities could be shared based on the time, money and efforts made by the member;

The associations have in the past displayed some grave limitation that causes them to fall apart. Some of the common limitations are:



- The Agenda is set and driven by set by the dominant group and others are left to follow;
- Since skilled labour and experts are not hired the management is undertaken through trial and error and decisions are taken based on thumb rules;
- Due to lack of specialization of the activities being undertaken cost overruns and default in deadlines is common;
- Most of these organizations become defunct because of ego clashes and politicization of the members;

Despite all their short coming both the systems co-exist today and there are some great institutions that have been built on these principles.

### **Philanthropic Approach**

The oldest and the most pervasive method of CSR are done by providing generous donations of money and materials to organizations working for a cause of Socio-economic-environmental causes and be termed as the Philanthropic Approach. The Income Tax Act, 1961 provides deduction of up to 100% U/s 80G to such donations. Under the current income tax act, all donations to the Prime Minister's Relief Fund shall qualify as a valid CSR activity. One of the major advantages of this approach will be that the total amount contributed will be eligible for deduction from the total Income, for tax purposes in the year of contribution.

We have to wait for the crystallized tax rules to understand the impact of donating monies to exempt organizations U/s 80G of the income tax Act, for CSR purposes by Companies.

The philanthropic approach has certain advantages. A brief discussion is appended below:

- The enterprise will find this easy to implement, as the CSR committee has to just shop for programs from NGOs and government organizations for funding.
- The organization does not need to develop in-house skills for execution of chosen projects and the same will be done by subject matter experts.
- The organization can get a tax advantage from the CSR activity. However under other approaches the tax advantage is still disputable.
- The organization can change the programs it supports easily as it does not have ownership over the programs and empanel new programs from the available from the market.

All decisions have to be taken keeping in mind the limitations of the approach. Some of the limitations of the approach are discussed below:



- The enterprise has to operate through borrowed visions of the NGOs and Government Organizations it chooses to fund.
- The long term quality brand recall that can be achieved through Social cause adoption will not be available.
- The Enterprise will fail to connect with a larger group of stakeholders getting affected by its existence and operations. This may prove costly in the long run as we have discussed in the Restorative approach earlier.
- The enterprise will also lose out on the opportunity to develop new skill to address new problems which may prove to be valuable in the long run.

Essentially we would like to reiterate that the philanthropic approach to CSR is feasible when the activity happens sporadically. With the advent of the new law, the emphasis is clearly on CSR as an integrated business process. The law wants the companies to get involved with the society and act as change agents. There are numerous examples where companies have delivered on subjects of importance and created social capital.

The choice is clearly that of the companies on the approach that they would chose for discharging their CSR obligation. As we know in the real world there are no right and wrong answers. It only depends on the circumstances that are created and the responses adopted by the enterprise. We may choose any of the aforementioned choices to discharge the obligation. We only hope that the companies appreciate the opportunity that has presented itself and are conscious of the course they choose.

### **Trident Approach**

This is essentially an approach where an enterprise chooses a very Broad theme of CSR and then chooses projects which are Restorative, Augmentative and Philanthropic in nature depending on the local requirements.

Companies can through the Trident approach provide very broad guidelines on CSR activities to be conducted. The managers at all levels will choice and formulate programs with their teams and implement it.

There are many approaches that can be possible, but what is relevant for a manager to find what is feasible and relevant.

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## **1.7.2 CSR Models**

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### **The four-part Model of CSR**

#### **(Archie B. Carroll)**

In general, CSR has typically been understood as policies and practices that business people employ to be sure that society, or stakeholders, other than business owners, are



considered and protected in their strategies and operations. Some definitions of CSR have argued that an action must be purely voluntary to be considered socially responsible; others have argued that it embraces legal compliance as well; still others have argued that ethics is a part of CSR; virtually all definitions incorporate business giving or corporate philanthropy as a part of CSR and many observers equate CSR with philanthropy only and do not factor in these other categories of responsibility.

The below discussion explains briefly each of the four categories that comprise Carroll's four-part definitional framework upon which the pyramidal model is constructed.

### **Economic responsibilities**

As a fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained. At first, it may seem unusual to think about an economic expectation as a social responsibility, but this is what it is because society expects, indeed requires, business organizations to be able to sustain themselves and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation. In its origins, society views business organizations as institutions that will produce and sell the goods and services it needs and desires. As an inducement, society allows businesses to take profits. Businesses create profits when they add value, and in doing this they benefit all the stakeholders of the business.

Profits are necessary both to reward investor/owners and also for business growth when profits are reinvested back into the business. CEOs, managers, and entrepreneurs will attest to the vital foundational importance of profitability and return on investment as motivators for business success. Virtually all economic systems of the world recognize the vital importance to the societies of businesses making profits. While thinking about its' economic responsibilities, businesses employ many business concepts that are directed towards financial effectiveness – attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, and a host of professional concepts focused on augmenting the long-term financial success of the organization. In today's hypercompetitive global business environment, economic performance and sustainability have become urgent topics. Those firms that are not successful in their economic or financial sphere go out of business and any other responsibilities that may be incumbent upon them become moot considerations. Therefore, the economic responsibility is a baseline requirement that must be met in a competitive business world.

### **Legal responsibilities**

Society has not only sanctioned businesses as economic entities, but it has also established the minimal ground rules under which businesses are expected to operate and function. These ground rules include laws and regulations and in effect reflect society's view of "codified ethics" in that they articulate fundamental notions of fair



business practices as established by lawmakers at federal, state and local levels. Businesses are expected and required to comply with these laws and regulations as a condition of operating. It is not an accident that compliance officers now occupy an important and high level position in company organization charts. While meeting these legal responsibilities, important expectations of business include their

- Performing in a manner consistent with expectations of government and law
- Complying with various federal, state, and local regulations
- Conducting themselves as law-abiding corporate citizens
- Fulfilling all their legal obligations to societal stakeholders
- Providing goods and services that at least meet minimal legal requirements

### **Ethical responsibilities**

The normative expectations of most societies hold that laws are essential but not sufficient. In addition to what is required by laws and regulations, society expects businesses to operate and conduct their affairs in an ethical fashion. Taking on ethical responsibilities implies that organizations will embrace those activities, norms, standards and practices that even though they are not codified into law, are expected nonetheless. Part of the ethical expectation is that businesses will be responsive to the “spirit” of the law, not just the letter of the law. Another aspect of the ethical expectation is that businesses will conduct their affairs in a fair and objective fashion even in those cases when laws do not provide guidance or dictate courses of action. Thus, ethical responsibilities embrace those activities, standards, policies, and practices that are expected or prohibited by society even though they are not codified into law. The goal of these expectations is that businesses will be responsible for and responsive to the full range of norms, standards, values, principles, and expectations that reflect and honour what consumers, employees, owners and the community regard as consistent with respect to the protection of stakeholders’ moral rights. The distinction between legal and ethical expectations can often be tricky. Legal expectations certainly are based on ethical premises. But, ethical expectations carry these further. In essence, then, both contain a strong ethical dimension or character and the difference hinges upon the mandate society has given business through legal codification.

While meeting these ethical responsibilities, important expectations of business include their

- Performing in a manner consistent with expectations of societal mores and ethical norms
- Recognizing and respecting new or evolving ethical/moral norms adopted by society
- Preventing ethical norms from being compromised in order to achieve business goals
- Being good corporate citizens by doing what is expected morally or ethically
- Recognizing that business integrity and ethical behaviour go beyond mere compliance with laws and regulations



As an overlay to all that has been said about ethical responsibilities, it also should be clearly stated that in addition to society's expectations regarding ethical performance, there are also the great, universal principles of moral philosophy such as rights, justice, and utilitarianism that also should inform and guide company decisions and practices.

### **Philanthropic responsibilities**

Corporate philanthropy includes all forms of business giving. Corporate philanthropy embraces business's voluntary or discretionary activities. Philanthropy or business giving may not be a responsibility in a literal sense, but it is normally expected by businesses today and is a part of the everyday expectations of the public. Certainly, the quantity and nature of these activities are voluntary or discretionary. They are guided by business's desire to participate in social activities that are not mandated, not required by law, and not generally expected of business in an ethical sense. Having said that, some businesses do give partially out of an ethical motivation. That is, they want to do what is right for society. The public does have a sense that businesses will "give back," and this constitutes the "expectation" aspect of the responsibility. When one examines the social contract between business and society today, it typically is found that the citizenry expects businesses to be good corporate citizens just as individuals are. To fulfill its perceived philanthropic responsibilities, companies engage in a variety of giving forms – gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community or stakeholder groups that make up the community.

Although there is sometimes an altruistic motivation for business giving, most companies engage in philanthropy as a practical way to demonstrate their good citizenship. This is done to enhance or augment the company's reputation and not necessarily for noble or self-sacrificing reasons. The primary difference between the ethical and philanthropic categories in the four part model is that business giving is not necessarily expected in a moral or ethical sense. Society expects such gifts, but it does not label companies as "unethical" based on their giving patterns or whether the companies are giving at the desired level. As a consequence, the philanthropic responsibility is more discretionary or voluntary on business's part. Hence, this category is often thought of as good "corporate citizenship." Having said all this, philanthropy historically has been one of the most important elements of CSR definitions and this continues today.

In summary, the four part CSR definition forms a conceptual framework that includes the economic, legal, ethical, and philanthropic or discretionary expectations that society places on businesses at a given point in time. And, in terms of understanding each type of responsibility, it could be said that the economic responsibility is "required" of business by society; the legal responsibility also is "required" of business by society; the ethical responsibility is "expected" of business by society; and the philanthropic responsibility is "expected/desired" of business by society. Also, as time passes what exactly each of these four categories means may change or evolve as well.

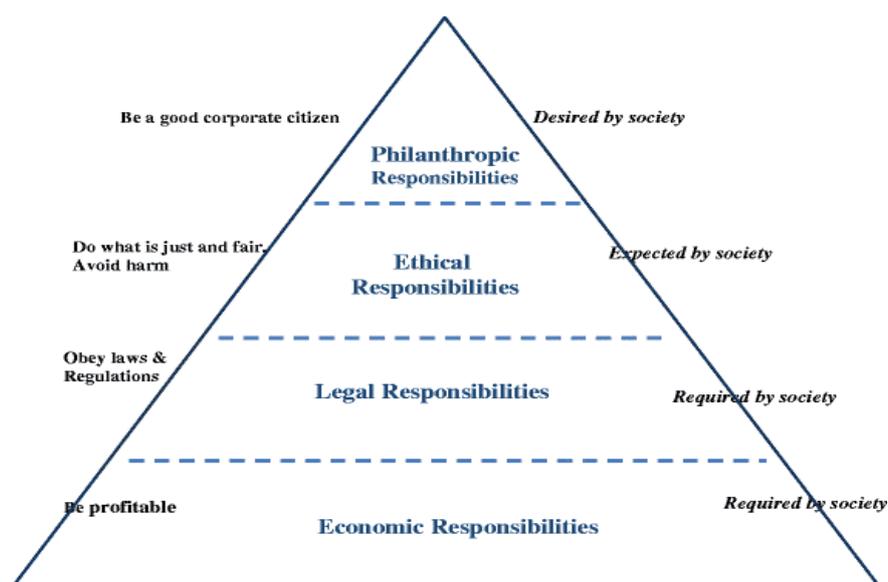


## The pyramid of CSR

The four-part definition of CSR was originally published in 1979. In 1991, Carroll extracted the four-part definition and recast it in the form of a CSR pyramid. The purpose of the pyramid was to single out the definitional aspect of CSR and to illustrate the building block nature of the four part framework. The pyramid was selected as a geometric design because it is simple, intuitive, and built to withstand the test of time. Consequently, the economic responsibility was placed as the base of the pyramid because it is a foundational requirement in business. Just as the footings of a building must be strong to support the entire edifice, sustained profitability must be strong to support society's other expectations of enterprises. The point here is that the infrastructure of CSR is built upon the premise of an economically sound and sustainable business.

At the same time, society is conveying the message to business that it is expected to obey the law and comply with regulations because law and regulations are society's codification of the basic ground rules upon which business is to operate in a civil society. If one looks at CSR in developing countries, for example, whether a legal and regulatory framework exists or not significantly affects whether multinationals invest there or not because such a legal infrastructure is imperative to provide a foundation for legitimate business growth.

In addition, business is expected to operate in an ethical fashion. This means that business has the expectation, and obligation, that it will do what is right, just, and fair and to avoid or minimize harm to all the stakeholders with whom it interacts. Finally, business is expected to be a good corporate citizen, that is, to give back and to contribute financial, physical, and human resources to the communities of which it is a part. In short, the pyramid is built in a fashion that reflects the fundamental roles played and expected by business in society.



**Figure 1** presents a graphical depiction of Carroll's Pyramid of CSR





- Considering public expectations and following generally accepted ethical values within business processes;
- Contributing to the emerging civil society through partnerships and local community development projects.

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## 1.9 Key Terms

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**Corporate Social Responsibility:** 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.

**Stakeholders' Approach:** In order to succeed and be sustainable over time, business must keep the interests of customers, suppliers, employees, communities and all others concerned to be rightly aligned.

**CSR Approaches:** It refers to a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

**CSR Pyramid:** The pyramid comprising different levels is built in a fashion that reflects the fundamental roles played and expected by business and society.

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## 1.10 Self-Assessment Questions

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1. Explain the concept of Corporate Social Responsibility in your own words.

Ans. \_\_\_\_\_

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2. Specify three major reasons in favour of social responsibility of business.

Ans. \_\_\_\_\_

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3. Give a few reasons, why business organisations are not expected to offer their social responsibilities.

Ans. \_\_\_\_\_

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### 1.11 Further Readings

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### 1.12 Model Questions

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1. Why CSR is aggressively needed today? Explain the arguments in favour of social responsibility of business.
2. Discuss the evolution and growth of social responsibility of business in India.
3. What is the relevance of CSR model to the present day business context?



## Answers to Self-Assessment Questions

### 1. Explain the concept of Corporate Social Responsibility in your own words.

#### Answer

Corporate Social Responsibility (CSR) is a concept that suggests that it is the responsibility of the corporations operating within society to contribute towards economic, social and environmental development that creates positive impact on society at large. Although there is no fixed definition, however the concept revolves around that fact the corporations needs to focus beyond earning just profits. The term became popular in the 1960s and now is formidable part of business operations.

#### **The Companies Act, 2013**

As per as Corporate Social Responsibility is concerned, the Companies Act, 2013 is a landmark legislation that made India the first country to mandate and quantify CSR expenditure. The inclusion of CSR is an attempt by the government to engage the businesses with the national development agenda. The details of on corporate social responsibility are mentioned in the Section 135 of the Companies Act, 2013. The Act came into force from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the act.

The corporations are required to setup a CSR committee which develops a CSR policy which is approved by the board and encompasses the CSR activities the corporations is willing to undertake. The act also has penal provisions for corporations and individuals for failure to abide by the norms. The details of the same are highlighted in the act.

#### **Section 135**

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;



(b) recommend the amount of expenditure to be incurred on the activities referred to in clause

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

(4) The Board of every company referred to in sub-section (1) shall,—

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

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

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

## 2. Specify three major reasons in favour of social responsibility of business.

### Answer

Traditionally, however the term business commonly referred to commercial activities aimed at making a profit for the owners. Therefore, the fundamental assumption was that profit maximization was the basic objective of every firm. Therefore some people argue that a business is an economic unit and therefore it does not have any responsibility towards society. However, this is not a rights approach because it would be difficult to segregate the economic aspect from other aspects.

### 1. Public Requirements:

Business can exist only with public support and only if business fulfills needs of society. One of main arguments for social responsibility is that public expectations from business have changed. Therefore if business wishes to remain in existence for a long term it must respond to society's needs and give society what society wants.

The business must come up to expectations of public for its survival since the demand for products or services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.



## **2. Protect the interests of Stakeholders:**

Labour force is united into unions which demand protection of their rights from business enterprises. To get the support of workers, it has become necessary for organisations to discharge responsibility towards their employees.

Caveat emptor ('let the buyer beware'), no more holds true. Consumer today is the kingpin around whom all marketing activities revolve. Consumer does not buy what is offered to him. He buys what he wants. Firms that fail to satisfy consumer needs will close down sooner or later. Besides, there are consumer redressal cells to protect consumers against anti-consumer activities. Consumer sovereignty has, thus, forced firms to assume social responsiveness towards them.

Firms that assume social responsibilities may suffer losses in the short-run but fulfilling social obligations is beneficial for long-run survival of the firms. The short-term costs are, therefore, investments for long-run profitability.

## **3. Favourable For Business:**

Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result has better community in which it conducts its business.

People with healthy environment, good health and education will make them good customers and employees. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. Crime rate will also decrease as a result of social improvements.

## **4. Moral Justification:**

Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore these large corporations have a moral responsibility to solve these problems. Also business which is using so many resources of our economy has responsibility to devote some of these resources in overall development of society.

## **5. Socio-Cultural Norms:**

In a country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations and consumer service will enjoy better social position. A business working against traditional values will face criticism from society.<sup>65</sup> Business Can Shoulder Responsibility:

Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a



situation, it becomes the duty of business to come upto expectation of public and fulfill its responsibilities towards society.

### **6. Responsibility Must Correspond With Power:**

Business enjoys social power to a great extent. So they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If they don't then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

### **7. Public Image:**

Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly which will result in raising the value of shares and debentures held by the owners.

### **8. Long-run survival:**

Business organisations are powerful institutions of the society. Their acceptance by the society will be denied if they ignore social problems. To avoid self-destruction in the long-run, business enterprises assume social responsibility.

### **9. Self-enlightenment:**

With increase in the level of education and understanding of businesses that they are the creations of society, they are motivated to work for the cause of social good. Managers create public expectations by voluntarily setting and following standards of moral and social responsibility.

They ensure paying taxes to the Government, dividends to shareholders, fair wages to workers, quality goods to consumers and so on. Rather than legislative interference being the cause of social responsibility, firms assume social responsibility on their own.

### **10. Avoids government regulation:**

Non-conformance to social norms may attract legislative restrictions. Government directly influences the organisations through regulations that dictate what they should do and what not. Various agencies monitor business activities.

For example, Central Pollution Control Board takes care of issues related to environmental pollution, Securities and Exchange Board of India considers issues related to investor protection, Employees State Insurance Corporation promotes issues related to employees' health etc. Organisations that violate these regulations are levied fines and penalties. To avoid such interventions, organisations have risen to the cause of social concerns.



### **11. Resources:**

Business organisations have enormous resources which can be partly used for solving social problems. Businesses are the creation of society and must work in the best interest of society, both economically and socially.

### **12. Professionalisation:**

Management is moving towards professionalism which is contributing to social orientation of business. Increasing professionalism is causing managers to have formal management education and qualifications. Managers specialise in planning, organising, leading and controlling through their knowledge and subscribe to the code of ethics established by a recognised body.

### **3. Give a few reasons, why business organisations are not expected to offer their social responsibilities.**

**Answer**

**Corporate social responsibility is limited on the following grounds:**

#### **1. Business is an economic activity:**

It is argued by the opponents of social responsibility that basic function of a business enterprise is to look into economic viability of its operations. It is for the Government to look after interests of the society. The prime responsibility of assuming social responsibility should, therefore, be of the Government and not of the business enterprises.

#### **2. Quantification of social benefits:**

What measures social responsibility and to what extent should a business enterprise be engaged in it, what amount of resources should be committed to the social values, whose interest should hold priority over others (shareholders should be preferred over suppliers or vice versa) and numerous other questions are open to subjective considerations, which make social responsibility a difficult task to be assumed.

#### **3. Cost-benefit analysis:**

Any social-benefit programme where initial costs exceed the benefits may not be taken up by enterprises even in the short-run.

#### **4. Lack of skill and competence:**

Professionally qualified managers may not have the aptitude to solve the social problems.

#### **5. Transfer of social costs:**

**Costs related to social programmes are adjusted by the business concerns in the following ways:**

##### **(a) High prices:**

The costs are passed to consumers by increasing prices of goods and services.



**(b) Low wages:**

If managers maintain the level of prices, the social costs may be reflected in reduction of wages.

**(c) Low profits:**

If wages are stabilized, profits would be reduced, which will lower dividends to the shareholders. Low profits will reduce managers' desire to further engage in corporate social responsibility

**6. Sub-optimal utilisation of resources:**

If scarce resources are utilised for social goals, this would violate the very purpose of existence of an organisation.



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## Unit-II

### CSR Act: Companies Act of 2013 (Including Case Studies on CSR)

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#### Learning Objectives

After completion of the unit, you should be able to know :

- Understand the importance of Corporate Social Responsibility Act.
- Know why CSR is mandatory.
- Explain the implications of the Act for Social Development.
- Understand what more do companies need to do.
- Explain the National Voluntary Guidelines.
- Know the features / provisions of the Act.

#### Structure

- 2.1 Introduction
- 2.2 The Act and its implications for social development
- 2.3 What more do companies need to do?
- 2.4 National Voluntary Guidelines
- 2.5 Features Companies Act – 2013
- 2.6 CSR Policy and Activities
- 2.7 CSR: A Case Study of TATA Group
- 2.8 CSR: A Case Study of HPCL
- 2.9 Let's Sum-up
- 2.10 Key Terms
- 2.11 Self-Assessment Questions
- 2.12 Further Readings
- 2.13 Model Questions

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### 2.1 Introduction

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India was the first country in the world to make CSR expenditure by companies mandatory – this was done via Section 135 of the Companies Act 2013. According to CII, 1,270 companies spent 8,185 crore on CSR in 2015 -16 (up by over 25% since 2014-15), with a focus on health and sanitation, education and skill development ,and rural development .Other counties are now looking to replicate elements of the Act based on the India experience.

The world has set for itself 17 global sustainable development goals (and 169 target) to be achieved by 2030. India's performance on these goals will be 2030. India's performance on these goals will be critical for them to be achieved, within which the Indian corporate sector's contribution to social development would be an important



component. The Act should be a key nabler for this. While three years is too short a time to assess its impact on India's social development performance, it is a good time to ask whether it can be significant, whether it can make a difference to the country's social development status, and what more the corporate sector needs to do to make CSR a factor in India's progress.

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## **2.2 The Act and its implications for social development**

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While the Indian state remains the principal actor to address its social development challenges, NGOs and companies have been willing contributors. Several companies have contributed significantly to helping communities around their work sites and beyond improve the quality of their lives, in some cases spending more than the 2% of profit expected of companies in the Act.

The Act, however, makes a few significant tasks for companies beyond this. One, it expects them to utilise their expertise – managerial talent, strong systems and processes, an ability to innovate and develop and use technology, and a focus on getting thing done – to make a difference. Two, it raises CSR to a board.

Level conversation by asking companies to establish a CSR committee of the Board to oversee this work. Board scrutiny brings with it concomitant demands of concomitant demands of professionalism and accountability in CSR. And three, it expects companies to make public its CSR policy as well as a report of its activities – thereby bringing it into the ambit of a company's communications to its wider stakeholders. All these would contribute to making CSR more of a factor in India's social development.

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## **2.3 What more do companies need to do?**

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Given the size of India's development challenges, an additional 8,000 to 10,000 crore will always be handy. But will it be a game changer? Arguably not, because it would still constitute fewer than 5% (and this is an optimistic estimate) of what the government spend and what is needed! So, what more can companies do to use their CSR funds more effectively?

The first is to recognise what companies do not bring to the table, and to acquire these through partnerships or by other means. For example, few companies understand the root causes of poverty and marginalisation in communities and, therefore, targeting the poorest and most vulnerable people is tricky. This is the space NGOs occupy; and hence partnership to mobilise communities, target beneficiaries, and build ownership- all ingredients of a successful CSR intervention are necessary with them.

The second is to be strategic – to move from the quarterly / annual planning cycle to setting 3-5 year objectives and resourcing the activities accordingly, because social



development is inherently a long – term process. This means, for example, while providing a particular government school with computers and computer literacy training, to not just track number of computers provided and the number of children trained, but to also measure the resulting changes – increased enrolment rates, reduction in dropout rates, improved learning, and greater access to disabled children. More broadly, it means shifting CSR focus from outlays and outputs to outcomes and impact.

The third is to bring to bear on CSR all that the company is good at, particularly its employees and its systems and processes. Two examples from the Tata group volunteering programme, Tata Engage, one component of which is to match real, technical problem worth solving that NGOs face with Tata employees who have the experience to solve them. The second is its group skilling programme, Tata STRIVE that leverages the technical skill that companies have – Taj and housekeeping or Voltas and air-conditioning servicing – to build curriculum to skill young people.

The fourth is to bring in lessons operations. Are the company's operations environment friendly, and is it being socially responsible in its usage of common resources such as land and water and treatment of effluents and waste? Is it acquiring land in a way that is fair to those affected negatively by the acquisition? Is it ensuring that its suppliers, including those further down the supply chain, are observing basic human rights compliances with their labour? Broadening the CSR ambit to the more ambitious one of sustainability, and including elements such as business and human rights and social and natural capital valuation within this, would be important for CSR to be significant.

While it is much too early to discern the impact of the Act on the social development situation of the country, the requirements of the Act arguably constitute a huge step forward in making CSR a significant factor in India's broader progress. Companies must do more than just comply. They would need to learn to work on the more intractable problems of the public domain, which tend to have complex inter-dependencies and to defy ration all solutions, and to work in partnerships. They would need to be strategic in their approach to CSR, and to move focus from outlays to outcomes. They should also use the opportunity to leverage their own core competencies and bring in a social development focus into their core business processes. The combination of these factors would enable corporate India to make its contributions to social and human development more significant.

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## 2.4 National Voluntary Guidelines

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India's **National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)** were released by the Ministry of Corporate Affairs (MCA) in July 2011. The national framework on Business Responsibility is essentially a set of nine principles that offer businesses an Indian understanding and approach to inculcating **responsible business** conduct.



“Responsible Business” conduct refers to the commitment of businesses to operating in an economically, socially and environmentally sustainable manner while balancing the demands of shareholders and other interest groups. It’s about managing risks and impacts, which affect business’ ability to meet its objectives. The NVGs are formulated with the objective of creating positive framework conditions to advance the role of business in economic growth which is socially and environmentally sustainable, while also ensuring enhanced competitiveness and integration into the global markets.

The NVGs serves as a guidance document for businesses of all size, ownership, sector, and geography to achieve the triple bottom line. In 2012, subsequent to the release of the NVGs the Securities and Exchange Board of India (SEBI), a market regulator, mandated the Annual Business Responsibility Reporting (ABRR), a reporting framework based on the NVGs.

The NVGs are unique, not just in what they represent, which is “an India specific comprehensive understanding of business responsibility”, but also in the way they have been formulated. The “process” was premised on widespread intensive stakeholder consultations to bring out the commonly agreed elements of business responsibility in keeping with India’s unique developmental challenges and priorities.

### **Business Responsibility**

Since the 1990s, liberalisation and deregulation have boosted the development of the private sector making it the forerunner of economic growth. Frenetic expansion and growth of the private sector has also therefore thrown up challenges necessitating proactive action towards making it sustainable and equitable. Encouraged by the Prime Minister’s ten Point Charter, the MCA, in the recent past, has sharpened its focus on encouraging businesses to play a proactive role in ensuring sustainable and inclusive growth.

While Indian business traditionally stuck to corporate philanthropy, today business leaders understand that practicing responsible business is of strategic importance to their growth, longevity and competitiveness. The NVGs are an embodiment of an integrated and comprehensive understanding of responsible business. The Guidelines encourage and enable businesses to go beyond compliance and embrace sustainability as part of their business ethos. The nine principles and the corresponding indicators encompass all the elements of what constitutes responsible business conduct. It also delineates the fundamentals of implementing the NVGs.

These are:

1. Leadership: the commitment and role of leadership,
2. Integration: the weaving in of the principles and core elements into the very DNA of the business,
3. Engagement: continuous engagement with relevant stakeholders,
4. Reporting: measuring the impact of business activities on all the nine principles and communicating these to their stakeholders.



## CSR in India

Traditionally, Corporate Social Responsibility (CSR) has been widely practiced by Indian corporate - taking the form of philanthropic activities. The new CSR legislation under section 135 of the Companies Act 2013 requires companies of a certain size to spend 2% of their net profit on activities as prescribed under schedule VII, which are primarily aimed at community development. The canvas of CSR remains narrow and de-linked from the core-business activities of a company. However, the more progressive businesses view the legislation as opportunity to address the developmental challenges of India through sustainable innovations and creation of shared value. Principle 8 of the NVGs expounds on this very concept, while also acknowledging the need for community development as articulated under the new CSR law. Principle 8 of the NVGs on “inclusive and equitable growth” focuses on encouraging business action on national development priorities, including community development initiatives and strategic CSR based on the shared value concept.

## Principles on Responsible Business

The NVGs are an aspirational and comprehensive guideline to encourage responsible business behaviour in India. The NVGs, a set of 9 principles, cover a broad array of social, economic, environmental and governance issues and developmental priorities. To actualise the principles a corresponding set of core elements have also been developed. The NVGs also offer guidance on implementation, through its four integral actions – leadership, integration, engagement and reporting. The annexes articulate the business case for adopting the NVGs, existing legislation relevant to the various principles and a set of resources. A special section has been dedicated on the applicability of the principles for Micro, Small and Medium Enterprises (MSMEs), to ensure inclusivity irrespective of scale.

## The nine principles

**Principle 1:** *Businesses should conduct and govern themselves with ethics, transparency and accountability*

**Principle 2:** *Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle*

**Principle 3:** *Businesses should promote the wellbeing of all employees*

**Principle 4:** *Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised*

**Principle 5:** *Businesses should respect and promote human rights*

**Principle 6:** *Businesses should respect, protect, and make efforts to restore the environment*

**Principle 7:** *Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner*

**Principle 8:** *Businesses should support inclusive growth and equitable development*



**Principle 9:** *Businesses should engage with and provide value to their customers and consumers in a responsible manner*

### **Adopting the Guidelines**

The NVGs help Indian businesses at multiple levels. They enable businesses to create value, encourage healthy labour practices, minimise operational risks, attract and retain customers, motivate investments and financial markets and stimulate growth. Overall, the NVGs enable companies to leave a positive footprint on the environment and society while remaining competitive. The private sector is the economic engine of India. Poverty alleviation, job-creation, innovation at grassroots, protection of scarce resources are not only impacts of sustainable businesses but cater to nation building. With globalisation and a varied range of stakeholders demanding answers, responsible business action is gaining traction.

While the business case was considered to be the biggest motivation for adoption of the guidelines, the guidelines also underscore the importance of ‘values/ethics’ in business conduct as a driver to pursue sustainable management practices as a means to reaching sustainable development goals.

### **Annual Business Responsibility reporting**

Following the release of the NVGs, the MCA reconstituted the GDC as the Disclosures Framework Committee with two additional members and tasked it with develop a disclosure framework based on the NVGs. The disclosure framework, 'Annual Business Responsibility Report' (ABRR), was formulated by the Disclosure Framework Committee to ensure wider evidence based uptake of the NVGs. The ABRR is a reporting format that requires principle-wise (NVGs) disclosure by businesses. This reporting framework helps Indian companies implement the NVGs and communicate the same to its stakeholders. It is designed on an ‘Apply or Explain’ methodology and aims at assisting companies to re-examine their processes and align them with the ethos of the NVGs.

The ‘Apply-or-Explain’ principle is an enabling measure that encourages companies to do three things:

1. Disclose the current status of sustainability driven performance at whatever stage that may be.
2. Disclose reasons for non-adoption of any of the principles, which may include non-applicability as per their understanding, or future plans of implementation.
3. Ideally undertake a process of review to identify and manage sustainability gaps and risks in line with the future outlook of the company.

The ABRR reports can be accessed on the website of the National Stock Exchange and the Bombay Stock Exchange. The 100 companies that report are currently the top listed companies based on market capitalization at BSE and NSE. 98 companies have filed their Business Responsibility Reports (BRRs) on the websites of the National and



Bombay Stock Exchanges. A linkage document was also developed and launched internationally at the GRI (Global Reporting Initiative) Conference on Sustainability in Amsterdam 2013. The document serves as a tool for businesses to map their performance against the NVGs guidelines.

### **Security and Exchange Board of India Directives**

The Guidelines were released by the Ministry of Corporate Affairs, Government of India on 8 July 2011. Soon after, on 24 November 2011, a Board resolution was passed by the Securities and Exchange Board of India (SEBI), wherein they mandated the top 100 listed companies to report on their Environmental, Social and Governance (ESG) performance through a Business Responsibility Report (BRR), which would then form a part of their annual report/filings. The BRR is envisioned as an annual document describing the measures taken by companies against the nine principles of the NVGs. The SEBI directive took effect at the start of the fiscal year 2013/2014 for the top 100 companies. Companies falling under the purview of the mandate have filed their BR reports along with the Annual Reports in the financial year 2013/14 which is available as public knowledge on National and Bombay Stock exchange websites.

### **Future Plans**

SEBI encourages all companies to adopt the ABRR. With NVGs now in place, development of sector-specific guidelines on BRR is underway. The IICA in 2014-2015 will offer training of trainer modules on the NVGs and the BRR for multiplier institutions such as academia, industrial associations and other intermediary organisations.

### ***Check your progress:***

*Briefly explain about the National Voluntary Guidelines on CSR.*

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## **2.5 Features of Companies Act - 2013**

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The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014.

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs



5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

- The provisions of the CSR Act apply to all companies that have any one of the following in any financial year
  - Net worth of INR 500 crores or more
  - Turnover of INR 1,000 crores or more
  - Net profit of INR 5 crores or more
  - An average of the previous three financial years' PAT will be considered for calculating the 2% for CSR.
- CSR policy of a company should ensure that surplus arising out of a CSR activity will not become part of business profits.
- CSR policy should specify that the CSR corpus will include the following: a) 2% of average net profit; b) any income arising thereof; c) Surplus arising out of CSR activities.
- Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts will qualify for computing CSR spending.
- All companies falling under the provision of Section 135 (1) of the Act should report, in the prescribed format, the details of their CSR initiatives in the director's report and on the company's website.
- In case a company has failed to spend 2% of the average net profit, the reason for doing so should be mentioned in the annual board report.

## 2.6 CSR Policy and Activities

The Policy recognizes that corporate social responsibility is not merely compliance; it is a commitment to support initiatives that measurably improve the lives of underprivileged by one or more of the following focus areas as notified under Section 135 of the Companies Act 2013 and Companies (Corporate Social Responsibility Policy) Rules 2014:

- i. Eradicating hunger, poverty & malnutrition, promoting preventive health care & sanitation & making available safe drinking water;
- ii. Promoting education, including special education & employment enhancing vocation skills especially among children, women, elderly & the differently unable & livelihood enhancement projects;
- iii. Promoting gender equality, empowering women, setting up homes & hostels for women & orphans, setting up old age homes, day care centers & such other facilities for senior citizens & measures for reducing inequalities faced by socially & economically backward groups;



- iv. Reducing child mortality and improving maternal health by providing good hospital facilities and low cost medicines;
- v. Providing with hospital and dispensary facilities with more focus on clean and good sanitation so as to combat human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- vi. Ensuring environmental sustainability, ecological balance, protection of flora & fauna, animal welfare, agro forestry, conservation of natural resources & maintaining quality of soil, air & water;
- vii. Employment enhancing vocational skills
- viii. Protection of national heritage, art & culture including restoration of buildings & sites of historical importance & works of art; setting up public libraries; promotion & development of traditional arts & handicrafts;
- ix. Measures for the benefit of armed forces veterans, war widows & their dependents;
- x. Training to promote rural sports, nationally recognized sports, sports & Olympic sports;
- xi. Contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government for socio-economic development & relief & welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities & women;
- xii. Contributions or funds provided to technology incubators located within academic institutions, which are approved by the Central Government;
- xiii. Rural development projects, etc
- xiv. Slum area development. Explanation. — For the purposes of this item, the term slum area shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

The Above list is illustrative not exhaustive. All activities under the CSR activities should be environment friendly and socially acceptable to the local people and Society. Contribution towards C.M relief fund shall be a part of CSR activities above 2% of Net profit other than the activities mentioned above. Further Ministry of Corporate Affairs vide Notification dated 24.10.2014 increased the scope of contribution made towards Corporate Social Responsibility Activities namely:

(i) In item (i), after the words "and sanitation", the words "including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation" shall be inserted; (ii) In item (iv), after the words "and water", the words "including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga" shall be inserted.

**Check your progress:**

*What are the broad spectrum of CSR activities undertaken by business and industries in India?*

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## 2.7 CSR: A Case Study of TATA Group

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Ranging from steel, automobiles and software to consumer goods and telecommunications the Tata Group operates more than 80 companies. It has around 200,000 employees across India and thus has the pride to be nation's largest private employer. Mr. Ratan N. Tata has led the eminent Tata Group successfully. He was trained as an architect at New York's Cornell University but he chose to enter the family business. He assumed the Chairmanship of the Group in 1991. Named Business Man of the Year for Asia by Forbes in 2004, Mr. Ratan Tata serves on the board of the Ford Foundation and the program board of the Bill & Melinda Gates Foundation's India AIDS initiative. Tata Group chairman Ratan Naval Tata has stepped down to pass on the entire responsibility to Cyrus Mistry to (Now Tata Son's Chief: Mr. N. Chandrasekaran). Under Tata, the group went through major organisational phases — rationalisation, globalisation, and now innovation, as it attempts to reach a reported \$500 billion in revenues by 2020-21, roughly the size of what Walmart is today.

Approximately two third of the equity of the parent firm, Tata Sons Ltd., is held by philanthropic trusts endowed by Sir Dorabji Tata and Sir Ratan Tata, sons of Jamsetji Tata, the founder of today's Tata empire in the 1860s. Through these trusts, Tata Sons Ltd. utilizes on average between 8 to 14 percent of its net profit every year for various social causes. Even when economic conditions were adverse, as in the late 1990s, the financial commitment of the group towards social activities kept on increasing, from Rs 670 million in 1997-98 to Rs 1.36 billion in 1999-2000. In the fiscal year 2004 Tata Steel alone spent Rs 45 crore on social services.

Tata is accredited to initiate various labor welfare laws. For example- the establishment of Welfare Department was introduced in 1917 and enforced by law in 1948; Maternity Benefit was introduced in 1928 and enforced by law in 1946. A pioneer in several areas, the Tata group has got the credit of pioneering India's steel industry, civil aviation and starting the country's first power plant. It had the world's largest integrated tea operation. It is world's sixth largest manufacturer of watches (Titan).

### Classifications of Social Responsibility by TATAs

- **Responsibility towards itself**

It is the responsibility of each corporate entity run business and to work towards growth, expansion and stability and thus earn profits. If the corporation is to achieve social and economic ends, organizational efficiency should be boosted up.

- **Responsibility towards Employees**

Employees are the most important part of an organization. Following are some of the responsibilities which a business entity has towards its employees-



- ✓ Timely payment
  - ✓ Hygienic environment
  - ✓ Good and impartial behaviour
  - ✓ Health care through yoga
  - ✓ Recreational activities
  - ✓ Encouraging them to take part in managerial decisions
- **Responsibility towards shareholders**  
It is the responsibility of corporate entity to safeguard the shareholders' investment and make efforts to provide a reasonable return on their investment.
  - **Responsibility towards state**  
Out of the profit available, the state is entitled to a certain share as per the income tax laws. Utmost transparency has to be exerted regarding the profit & loss account and the balance sheet.
  - **Responsibility towards consumers**  
The Company should maintain high quality standards at reasonable prices. It should not resort to malpractices such as hoarding and black-marketing.
  - **Responsibility towards environment**  
It is the responsibility of the organization to contribute to the protection of environment. It should produce eco -friendly products. Moreover, industrial waste management must be taken care of.

### **CSR Activities of Tata Companies & Societies**

Through the following companies and societies Tata group keeps on heading towards the fulfilment of corporate social responsibility –

#### **TATA Steel**

Tata Steel has adopted the Corporate Citizenship Index, Tata Business Excellence Model and the Tata Index for Sustainable Development. Tata Steel spends 5-7 per cent of its profit after tax on several CSR initiatives.

##### **(a) Self-Help Groups (SHG's)**

Over 500 self-help groups are currently operating under various poverty alleviation programs; out of which over 200 are engaged in activities of income generation thorough micro enterprises. Women empowerment programs through Self-Help Groups have been extended to 700 villages. From the year 2003 to 2006, the maternal and infant survival project had a coverage area of 42 villages in Gamharia block in Seraikela Kharsawa and a replication project was taken up in Rajnagar block. For providing portable water to rural communities 2,600 tube wells have been installed for the benefit of over four Lakh people.



#### (b) Supports Social Welfare Organizations

Tata Steel supports various social welfare organizations. They include; Tata Steel Rural Development Society- Tribal Cultural Society- Tata Steel Foundation for Family Initiatives- National Association for the Blind- Shishu Niketan School of Hope- Centre for Hearing Impaired Children- Indian Red Cross Society, East Singhbhum—

#### (c) Healthcare Projects

In its 100th year, the Tata Steel Centenary Project has just been announced. The healthcare projects of Tata Steel include facilitation of child education, immunization and childcare, plantation activities, creation of awareness of AIDS and other healthcare projects.

#### (d) Economic Empowerment

A program aiming at economic empowerment through improvised agriculture has been taken up in three backward tribal blocks in Jharkhand, Orissa and Chhattisgarh. An expenditure of Rs 100 crore has been estimated for the purpose and this program is expected to benefit 40,000 tribal living in over 400 villages in these three States.

#### (e) Assistance to the Government

Tata Steel has hosted 12 Lifeline Expresses in association with the Ministry of Railways, Impact India Foundation and the Government of Jharkhand. It has served over 50,000 people. Five thousand people have got surgical facilities and over 1,000 people received aids and appliances. Over seven lac rural and another seven Lac urban population have been benefited by the CSR activities of Tata Steel. The National Horticulture Mission program that has been taken up in collaboration with the Government of Jharkhand has benefited more than a thousand households. In collaboration with the Ministry of Non Conventional Energy and the Confederation of Indian Industry, focus is laid on renewable energy aiming at enhancing rural livelihood.

## **TATA Motors**

Tata Motors:

#### **(a) Pollution Control**

Tata Motors is the first Indian Company to introduce vehicles with Euro norms. Tata Motors' joint venture with Cummins Engine Company, USA, in 1992, was a major effort to introduce emission control technology in India. To make environment friendly engines it has taken the help of world-renowned engine consultants like Ricardo and AVL. It has manufactured CNG version of buses and also launched a CNG version of its passenger car, the Indica. Over the years, Tata Motors has also made investments in the establishment of an advanced emission-testing laboratory.



**(b) Restoring Ecological Balance**

Tata Motors has planted 80,000 trees in the works and the township and more than 2.4 million trees have been planted in Jamshedpur region. Over half a million trees have been planted in the Poona region. The company has directed all its suppliers to package their products in alternate material instead of wood. In Pune, the treated water is conserved in lakes attracting various species of birds from around the world.

**(c) Employment Generation**

Relatives the employees at Pune have been encouraged to make various industrial co-operatives engaged in productive activities like re-cycling of scrap wood into furniture, welding, steel scrap baling, battery cable assembly etc. The Tata Motors Grihini Social Welfare Society assists employees' women dependents; they make a variety of products, ranging from pickles to electrical cable harnesses etc ; thereby making them financially secure.

**(d) Economic Capital**

In Lucknow, two Societies - Samaj Vikas Kendra & Jan Parivar Kalyan Santhan have been formed for rural development & for providing healthcare to the rural areas. These societies have made great efforts for health, education and women empowerment in rural areas.

**(e) Human Capital**

Tata motors has introduced many scholarship programs for the higher education of the children. Through a scholarship program Vidyadhanam, the company supports 211 students. Out of these students 132 students are from the marginalized sections of the society. These students get books, copies and other study materials. They also undergo different kinds of workshops, creative & outdoor sessions and residential camps as well. The company has entered into Public-Private Partnership (PPP) for upgrading 10 Industrial Technical Institutes (ITI) across the country.

**(f) Natural Capital**

On the World Environment Day, Tata Motors has launched a tree plantation drive across India and countries in the SAARC region, Middle East Russia and Africa. As many as 25,000 trees were planted on the day. Apart from this more than 100,000 saplings were planted throughout the monsoon.

**Tata Tea**

Tata Tea has been working hard since the 1980s to fulfill the needs of specially-abled people. It has set up the Srishti Welfare Centre at Munnar, Kerala; its various programs provide education, training and rehabilitation of children and young adults with special needs.

Srishti has four projects:



- a. The DARE School
- b. The DARE strawberry preserve unit
- c. Athulya
- d. Aranya.

Tata Tea's welfare officers help identify and encourage relatives or children of employees who are handicapped to join the Welfare Centre for special education and rehabilitation.

#### **a. The DARE**

It provides the students with training in basic academics, self-help skills and skills like gardening, cooking, weaving etc. Children are taught to paint and some of the paintings are printed and sold as greeting cards. The sales proceeds of which are used back into the units.

#### **b. The DARE strawberry**

It preserves unit trains youngsters to make natural strawberry preserve. The trainees are paid for the work; they receive social cover, free medical aid and other benefits.

#### **c. Athulya**

It has two units - (i) A vocational training center that imparts training in stationery-making (ii) A handmade paper-making unit which trains physically challenged persons in the art of making recycled paper

#### **d. Aranya**

This project was started to nurture the lives of the disabled and also to revive the ancient art of natural dye. Individuals are given training in various natural dyeing techniques including block printing, tie and dye, batik work, etc. Their products are sold in and outside the country. Tata Tea's Jaago Re! Campaign exemplifies the Social-Cause Marketing Initiatives.

#### **Titan**

Corporate social responsibility is a basic element of TITAN Group's governing objective and one of its corporate values. In its corporate philosophy CSR is defined as doing less harm and more good by adopting the following practices:

- Respecting and supporting local communities
- Caring for the employees
- Being an active member of society
- Committed to sustainable development
- Putting safety(at work) first

Titan has employed 169 disabled people in blue collar workforce at Hosur.



## **TCSR**

Tata Chemicals Limited (TCL) set up the Tata Chemicals Society for Rural Development (TCSR) in 1980 to promote its social objectives for the communities in and around Mithapur, where its facility is located. This service was further extended to the communities in and around its Babrala and Haldia facilities.

Through Tata Chemicals Society for Rural Development (TCSR) Tata Chemicals works to improve the quality of life of the people and communities. It also aims at supporting sustainable development, which is the central theme of the company's corporate philosophy. It works to protect and nurture the rural populations in and around TCL's facilities, and assists people in attaining self-sufficiency in natural resource management, livelihood support. It also aims at the building of health and education infrastructure i.e. schools and hospitals, maternity centers etc.

The initiatives that TCSR is involved in include:

- a) Agricultural development
- b) Animal husbandry
- c) Watershed development
- d) Education
- e) Rural energy
- f) Women's programs
- g) Relief work

## **Tata Relief Committee**

Tata Relief Committee (TRC) works to provide relief at disaster affected areas. During natural calamities there are two phases of assistance –

- (a) Relief measures and
- (b) Rehabilitation program.

After the Gujarat earthquake the group built 200 schools in two years and they rendered help during the Orissa floods when people lost cattles. Even after the Tsunami disaster members of TRC immediately reached the places and supplied the things required.

## **Tata Council for Community Initiatives (TCCI)**

TCCI was established in 1994. TCCI's mission states: "We will work together to be, and to be seen as, a group which strives to serve our communities and the society at large". TCCI is also involved in assisting Tata companies maintain sustainability reporting the guidelines of Global Reporting Initiative (GRI). It is the focal point for the UN Global Compact in India, which has 42 Tata companies as signatories, the highest in the world from a single business group.

In collaboration with the United Nations Development Programme (India), TCCI has crafted the Tata Index for Sustainable Human Development, aiming at directing, measuring and enhancing the community work that Tata enterprise is undertaking for the upliftment and welfare of the people.



## Tata Corporate Sustainability Policy

**"No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people. - J R D Tata**

The corporate policy of the group encompasses the sustainable development of all the stakeholders. The major points included in the corporate policy are following:

- Demonstrate responsibility and sensitivity to biodiversity and the environment
- Comply with rules and regulations relating to environment
- Constantly upgrade technology and apply state-of-the-art processes and practices with institutional arrangements that will combat larger issues like climate change and global warming
- Create sustainable livelihoods and build community through social program pertaining to health, education, empowerment of women and youth, employee volunteering,
- Find ways to enhance economic human, social and natural capital for bringing and maintaining a balance among business, society and environment.

## Dedications to the Nation at a Glance

### Tata Health Infrastructure

- Tata main hospital at Jamshedpur
- ICU in Joda and Balangpur
- CHC in Bari and Kuhika
- Hospitals in Gobarghati, sukinda, joda, belpahar, belipada and bamnipal
- Lifeline Express||- the hospital on wheels
- Mobile health clinics
- Centre for hearing impaired children

### Tata Educational Infrastructure

- Institute of mathematics
- Sukinda college
- Joda college centenary Learning centre at XIMB
- J N Tata Technical Education centre
- School of hope
- Shishu Niketan
- Balwadi schools assisted by Tata Steel

### Tata Sports Infrastructure

- Tata athletics academy
- Tata archery academy
- Tata Football academy



- Tata steel adventure foundation
- Sports feeder centres
- Stadium at keonjhar

### Preservation of culture & Heritage

- Contribution to setting up national Center for performing arts Mumbai
- Tribal cultural centers showcases legacy of nine tribes Jharkhand and Orissa
- Gramshree mela activities

As far as the Tata group is concerned, it has gone a long way in fulfilling its duty and responsibility towards the society and the nation. It has reached the masses to elevate their lives, to nurture their dreams and to hone their skills justifying the statement of the founder —We do not claim to be more unselfish, more generous and more philanthropic than other people. But we think we started on sound and straightforward business principles, considering the interests of the shareholder, our own, and the health and welfare of the employees, the sure foundation of our prosperity.

#### *Check your progress:*

*How CSR activities are classified by TATAs?*

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## 2.8 CSR: A Case Study of HPCL

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs.1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act.

### CSR Objectives

1. HPCL will focus its CSR activities on local communities around which the Company lives and operates like Refineries, Terminals, Depots, LPG Plants, Pipelines, Aviation Stations, Lube Blending Plants, Project locations and other offices, etc. HPCL is committed to allocate at least 60% of the CSR Budget for these local communities.
2. HPCL will implement CSR activities to empower weaker, less privileged and marginalized sections of the society to create Social Capital.



## I.ORGANIZATIONAL STRUCTURE

### a.CSR Committee

Corporation will have a Board Level Sub-Committee herein after referred to as CSR Committee consisting of three or more Directors out of which at least one shall be an Independent Director.

The role / responsibilities of the CSR Committee include:

1. Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Companies Act 2013.
2. Recommend the amount of budgeted expenditure to be incurred on the activities referred to in clause (1) above.
3. Monitor the Corporate Social Responsibility Policy of the company from time to time.
4. Institute a transparent monitoring mechanism for implementation of the CSR projects/programs/activities.
5. Monitor implementation of CSR activities on quarterly basis.
6. Approve programs / projects / activities with monetary value of Rs.70 Lakhs and above in each case.
7. Approve projects/programs/activities of any value which are outside HPCL's focus areas.

### b. CSR Council:

#### (Members of the CSR Council)

Chairman: Director HR,

Members : ED–HRD, ED–Retail, ED–LPG, ED–O&D, ED–P&P, ED–HSE, ED-MR and Head CSR

The role / responsibilities of the CSR Council include:

1. Suggest CSR activities to CSR Department which align with Corporate Vision
2. Review quarterly the CSR activities and expenditure vs Budgets, for midcourse corrections, if any.

### c.CSR Management Committee:

#### (Members of CSR Management Committee)

Chairman: Director HR,

Members: ED – HRD, Functional SBU Head / ED RCD (for Mktg. /Ref proposals resp.), Head – CSR, GM – Corp. Finance, Chief Manager – CSR (Secretary)

The role / responsibilities of the CSR Management Committee include

1. Review the proposals for CSR projects/programs/activities received from various locations.



2. Approve proposals of value between Rs.40 lakhs and Rs.70 lakhs against approved allocated budget.

#### **d. CSR Working Committee**

##### **Members of CSR Working Committee:**

Chairman: Head - CSR

Members: Head – HR Mktg, DGM Sustainability, Chief/Senior Manager Corp Finance, Chief Manager - CSR (Secretary)

The role/responsibilities of the CSR Working Committee include:

1. Review the proposals for CSR projects / programs / activities received from various locations.
2. Approve proposals of value less than Rs.40 lakhs against approved allocated budget.

## **II. CSR Focus area Projects / Programs / Activities:**

a. The corporation's CSR focus areas are inspired from national developmental policies and international commitments of nation for development of children, women and weaker sections. HPCL CSR focus areas are based on inspiration from legislations on Child Rights, Child Development and Education, National Health Policy and National Health Missions, Health Care in India- Vision 2020, National Skill Development Mission, and policies on community / rural development.

All projects/programs/ activities will be in the areas of:

1. Child Care
  2. Education
  3. Health Care
  4. Skill Development
  5. Sports
  6. Environment & Community Development
- b. Detailed break up of projects/programs activities under each of these will be approved in line with the Limits of Authority Manual.
- c. Any projects/programs activities in areas other than the above will be taken with the approval of CSR Committee.
- d. These projects/programs/activities shall be undertaken at any of the following:
1. The Local development plan of HPCL which is in proximity to HPCL operation areas/locations
  2. In BRGF (Backward Region Grant Fund) districts as identified by Planning Commission.
  3. Where there is a strategic connect for HPCL.  
Not less than 60% of the budget will be spent for the community in and around HPCL locations.



e. CSR projects / programs / activities will be implemented through implementing partners/specialized agencies. The minimum eligibility criteria of an implementing partner are as follows:

1. It must be a registered society, trust, company or any specialized agency having minimum three years of experience post registration in handling activities of similar nature.
2. Experience of working with any Government Body or Public Sector Enterprise will be preferred.

However the selection authority can request any other qualification on a mandatory basis from the applicants while selecting the implementing partners.

### III. FINANCIAL RESOURCES

#### a. Annual CSR Budget

In alignment with The Companies Act, 2013 the corporation shall earmark as CSR Budget, at least 2% of the average of net profits of the company made during the three immediately preceding financial years.

#### b. Budgetary Allocations

1. Not less than 60% of the Budget will be allocated for activities in a Project mode.
2. Not more than 5% of the budget will be allocated for capacity building and communications.
3. Balance budget will be for one time and Other Social Activities.

On an overall basis, at least 25% of the budget should be with a special focus on SC/ST/Welfare Plan for Weaker Section.

Any surplus arising out of the CSR projects/programs / activities will not form part of the business profit of the Company.

### IV. Monitoring

#### a. Monitoring process will be a two tier mechanism:

1. CSR Committee on quarterly basis.
2. CSR Council on quarterly basis.

b. In addition to the above, at the end of the year, Third Party Impact Assessment of major projects will be carried out.

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## 2.9 Let's Sum-up

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The world has set for itself 17 global sustainable development goals (and 169 targets) to be achieved by 2030. India's performance on these goals will be critical for them to be achieved, within which the Indian corporate sector's contribution to social development would be an important component. While three years is too short a time to assess its impact on India's social



development performance, it is a good time to ask whether it can be significant, whether it can make a difference to the country's social development status, and what more the corporate sector needs to do to make CSR a factor in India's progress.

National voluntary guidelines are applicable to all businesses irrespective of size, sector or location. These guidelines were designed with the aim of assisting enterprises to become responsible entities much before the CSR Act (Companies Act-2013) came into force. In fact various propositions from NVG have been taken into consideration for structuring the Companies Act.

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014. With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

As far as the Tata group is concerned, it has gone a long way in fulfilling its duty and responsibility towards the society and the nation. It has reached the masses to elevate their lives, to nurture their dreams and to hone their skills justifying the statement of the founder —We do not claim to be more unselfish, more generous and more philanthropic than other people. But we think we started on sound and straightforward business principles, considering the interests of the shareholder, our own, and the health and welfare of the employees, the sure foundation of our prosperity.

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## 2.10 Key Terms

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**Companies Act:** The act requires that companies set up a CSR board committee, which must consist of at least three directors, one of whom must be independent. That committee must ensure that the company spends “at least 2 percent of the average net profits of the company made during the three immediately preceding financial years” on “CSR” activities.

**CSR expenditure:** It refers to the spending more money on Corporate Social Responsibility (CSR) initiatives.

**CSR activities:** The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act.



**CSR policy:** It refers to the prescribed set of guidelines undertaken by organisations to carry out their CSR related activities and programmes.

**Social development:** Any effort or contribution made by the government, NGOs, including other organisations and agencies, which facilitate in helping the communities around their work and beyond.

**CSR committee:** The CSR Committee constituted in pursuance of Section 135 of the Companies Act, 2013 shall be required to carry out the following activities: a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII; b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and c) Monitor the Corporate Social Responsibility Policy of the company from time to time.

**National Voluntary Guidelines:** Refers essentially to a set of nine principles that offer businesses to undertake responsible business conduct.

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## 2.11 Self-Assessment Questions

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1. Explain the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.

Ans.

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2. Briefly outline Tata Corporate Sustainability Policy

Ans.

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## 2.12 Further Readings

Sanjay K Agarwal; Corporate Social Responsibility in India, SAGE Publications, Thousand Oaks, CA 91320.

C. Gopala Krishna; *Corporate Social Responsibility in India: A study of Management Attitudes*, Mittal Publications, New Delhi.

C. V. Baxi and R. Sinha Ray; Corporate Social Responsibility, Vikas Publishing House, Noida (U.P).

Pushpa Sundar; Business and Community: The Story of Corporate Social Responsibility in India, SAGE Publications India Private Limited, New Delhi.

## 2.13 Model Questions

1. Describe about the corporate social responsibility activities undertaken by HPCL.
2. Explain the CSR Act and its implications for social development.
3. Highlight on the classification of social responsibility of business by TATAs.

### Answers to Self-Assessment Questions

1. **Explain the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.**

#### **Answer**

India's National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) were released by the Ministry of Corporate Affairs (MCA) in July 2011. The national framework on Business Responsibility is essentially a set of nine principles that offer businesses an Indian understanding and approach to inculcating **responsible business** conduct.

#### **Principles on Responsible Business**

The NVGs are an aspirational and comprehensive guideline to encourage responsible business behaviour in India. The NVGs, a set of 9 principles, cover a broad array of social, economic, environmental and governance issues and developmental priorities. To actualise the principles a corresponding set of core elements have also been developed.

#### **The nine principles**

**Principle 1:** *Businesses should conduct and govern themselves with ethics, transparency and accountability*

**Principle 2:** *Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle*

**Principle 3:** *Businesses should promote the wellbeing of all employees*



**Principle 4:** *Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised*

**Principle 5:** *Businesses should respect and promote human rights*

**Principle 6:** *Businesses should respect, protect, and make efforts to restore the environment*

**Principle 7:** *Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner*

**Principle 8:** *Businesses should support inclusive growth and equitable development*

**Principle 9:** *Businesses should engage with and provide value to their customers and consumers in a responsible manner*

## 2. Briefly outline Tata Corporate Sustainability Policy.

### Answer

#### Classifications of Social Responsibility by TATAs

- **Responsibility towards itself**

It is the responsibility of each corporate entity run business and to work towards growth, expansion and stability and thus earn profits. If the corporation is to achieve social and economic ends, organizational efficiency should be boosted up.

- **Responsibility towards Employees**

Employees are the most important part of an organization. Following are some of the responsibilities which a business entity has towards its employees-

- ✓ Timely payment
- ✓ Hygienic environment
- ✓ Good and impartial behaviour
- ✓ Health care through yoga
- ✓ Recreational activities
- ✓ Encouraging them to take part in managerial decisions

- **Responsibility towards shareholders**

It is the responsibility of corporate entity to safeguard the shareholders' investment and make efforts to provide a reasonable return on their investment.

- **Responsibility towards state**

Out of the profit available, the state is entitled to a certain share as per the income tax laws. Utmost transparency has to be exerted regarding the profit & loss account and the balance sheet.

- **Responsibility towards consumers**

The Company should maintain high quality standards at reasonable prices. It should not resort to malpractices such as hoarding and black-marketing.

- **Responsibility towards environment**

It is the responsibility of the organization to contribute to the protection of environment. It should produce eco -friendly products. Moreover, industrial waste management must be taken care of.

