

CORPORATE SOCIAL RESPONSIBILITY

A BRIDGE BETWEEN BUSINESS & SOCIETY

"The superior man seeks what is right; the inferior one, what is profitable."

- Confucius

I. Understanding Corporate Social Responsibility (CSR)

"Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to the economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large."¹

The World Bank Group further supplements this definition of CSR explaining that businesses should become socially conscious and responsible so as to contribute to sustainable development by working with the relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda and society at large.

Today companies are accountable not just to their shareholders but also to their stakeholders. It is interesting to note that a company's functioning not only affects those who have invested capital in the company but also those whose interests are directly or indirectly affected by the performance of the Company. The scope of company's responsibility to its stakeholders, post globalization and liberalization has cascaded and reached unforeseen heights. To align its common interests, it is necessary that mutual responsibilities are realized and business activities are altered to bring about a positive change for every stakeholder, thus making good business sense.

It is believed that 'Corporate Responsibility – the way a company deals with the economic, social and environmental impact of its practices has evolved from being the exception to being the norm.' Inclusive Growth is today's mantra for corporate and is beginning to form part of their business agenda, if not already. The Corporate believe in their values and principles and have sought to firmly intertwine it with their business objectives or the Vision and Mission Statement of the Company.

¹ World Business Council for Sustainable Development, 2004

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Be it a small company or a conglomerate, being socially conscious has earned the trust and loyalty of society and stakeholders that has stood the test of time. There is no dearth of the many ways to serve society profitably, by extension the country also. But is there a *Will* to do? How many companies and how far would a company go? The question remains as to how far this bridge between business and society continues to persist and what should or ought to be done by the socially conscious to bring about change, to bridge the two and align it to achieve social well being and economic success of the stakeholders at large.

"You must be the change you wish to see in the world."

- Mahatma Gandhi

II. CSR and Business - Justifying Shareholders' Money for Stakeholders' Benefit

More often than not questions have been raised as to the need and reasoning behind implementing CSR activities by companies and rightly so. One such issue is - How legitimate is it to put the interests of stakeholders before that of the shareholders?

Managers in corporate are reminded that it is the owner's money that they are spending on CSR initiatives. Particularly, attacking corporate philanthropy, critics have asked: whose company is it?²

It was explained very aptly in *The Economist* as follows³:

Corporate philanthropy is charity with other people's money... When Robin Hood stole from the rich to give the poor, he was stealing... he was still a bandit – and less of one, arguably, than the vicariously charitable CEO, who is spending money taken... from the people who have placed him in a position of trust to safeguard their property.

There is an ongoing debate among many believers and non believers today about *'Why CSR?'* and *'Why not CSR?'* How different is CSR from Corporate Philanthropy? Why should the Corporate adopt and implement it?

² *Corporate Social Responsibility beyond law, through law, for law* by Doreen McBarnet (2009) Edinburgh School of Law Working Paper Series, University of Edinburgh, Professor of Socio – Legal Studies, University of Oxford.

³ 22 January 2005, CSR survey supplement, p. 8

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CSR is not Corporate Philanthropy. It is about how a company aligns its values and interests and channelizes its efforts in a manner that it not only serves the 'bottom line' but also 'the triple bottom line'. Investment in CSR combines people and planet centric issues alongside the profit making agenda of every company. Adopting CSR initiatives is not a selfless act of giving; there are companies with enlightened self that implement activities that help derive long term benefits by increasing their shareholder value, discouraging excessive regulation and supplementing their brand image and value.

Today, Companies around the globe are aware of their responsibility to conduct their business by reconciling with the Triple Bottom Approach of CSR. The term 'triple bottom line', is often attributed to John Elkington, a co-founder and chair of SustainAbility, a sustainable business consultancy (Elkington 2004)⁴. It is a popular conceptualization and reporting vehicle for articulating corporate social, environmental, and economic performance and is receiving significant attention in connection with its efficacy and sufficiency as a means for reporting the extent to which an organization meets its societal responsibilities.⁵ The TBL dimensions are popularly referred to as the three Ps: People, Planet and Profits.

CSR is an important business strategy because, wherever possible, consumers want to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect; and NGOs, increasingly, want to work together with companies seeking feasible solutions and innovations in areas of common concern. CSR is a tool in the hands of the Corporate to enhance the market purview of their products, enhance its relation with stakeholders. CSR activities carried out by the enterprises affects all the stakeholders, thus making good business sense, the reason being contribution to the bottom line.⁶

Therefore, it is imperative that a Company takes to CSR, frames and designs its CSR policy and initiatives, in a manner that it furthers the business in a similar manner as advertising would.

⁴ In his book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*

⁵ Brown, D., J. Dillard and R.S. Marshall (2006) "*Triple Bottom Line: A business metaphor for a social construct.*" Portland State University, School of Business Administration

⁶ *CG Insights, Promoting Good Governance amongst Corporates* published by Institute of Company Secretaries of India

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This may be done by applying the Principle of Utility⁷, what is right is that which promotes the greatest happiness, it is not simply referring to the usefulness of actions but the extent to which an action promotes the good (happiness). It is for the Company to identify its own interests with that of the society and contribute to the *most happiness of the most people* thereby maximizing results and benefitting there from.

This reasoning, the combination of CSR as good business sense and business strategy, adopting CSR to reactively respond to social and market pressures, protecting the brand from reputational risk, and proactively seizing cost saving techniques and market opportunities is what is usually packaged as the 'business case' for CSR.

It may be concluded rather succinctly that: CSR is seen and should essentially be in harmony with the traditional pursuit of profit rather than in conflict with it. Market opportunities and cost savings make for short term profit, while CSR activity without direct and immediate financial reward can be seen as brand enhancement, beneficial to long term shareholder value.⁸

Presented this way, CSR is perfectly rational for business, the much cited 'win-win' situation for business *and* rest of the world. Good (ethical) business is good (profitable) business.

"Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it... because it is good for our business."

- Niall Fitzgerald

III. CSR - Mandate of Law and Beyond

The importance of businesses in improving the quality of life is well recognized. There is a growing need along with awareness that business also have significant and long-lasting impacts on people, our planet and our ability to sustain growth and development. This realization has brought an increasing concern amongst all *stakeholders*, who now demand and rightfully so, that businesses of all types and sizes need to function with fairness and responsibility. More

⁷ Jeremy Bentham's Principle of Utility or the Utilitarianism: In *An Introduction to the Principles of Morals and Legislation*, Jeremy Bentham, 1789 ("printed" in 1780, "first published" in 1789, "corrected by the Author" in 1823.) See Chapter I: Of the Principle of Utility. For Bentham on animals, see Ch. XVII

⁸ *Corporate Social Responsibility beyond law, through law, for law* by Doreen McBarnet (2009) Edinburgh School of Law Working Paper Series, University of Edinburgh, Professor of Socio – Legal Studies, University of Oxford.

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specifically that, businesses should be conscious of their social, environmental and economic responsibilities and balance these different considerations in an ethical manner. In any case, CSR is beginning to be part of the evolving legal environment of every country. The need has come therefore to understand the concept of CSR and its synergy with law and beyond the mandate of law.

At first sight the interface between CSR and Law might seem like a contradiction in terms. The adoption of CSR policies is, after all, routinely characterized as voluntary – a matter of business going the extra mile beyond what the law requires.⁹

Essentially CSR are the voluntary actions that businesses can take up over and above general legal compliances. Today, business responsibility does not just cover governance mandate but has accommodated even CSR to the Corporate Business Agenda. Mere compliance of the bare minimum applicable legislations for a company is not enough. The fact of the matter however remains that these are complied with for the purpose of businesses to keep their licenses and registrations intact and valid besides fear of litigation by non-governmental organizations or public in general.

Basic CSR for individuals and organizations are catered to through the laws relating to human rights, labour law, environmental and such other legislations but these are only bare minimum. Bringing voluntary CSR ideas and actions to the forefront alongside issues of legal compliance raises the threshold on what is required for business's legal behavior to be deemed legitimate.

The businesses today have evolved beyond this approach and attitude and have realized the importance of good governance and CSR. CSR as voluntary adoption has been endorsed by not just civil society but also the businesses.

"To govern simply by statute and to maintain order by means of penalties is to render the people evasive and devoid of a sense of shame."

- Confucius

⁹ Working Paper Series 2009/03, 'Corporate Social Responsibility beyond law, through law, for law' by Doreen McBarnet, School of Law, University of Edinburgh.

IV. Convergence of Corporate Governance, CSR and Sustainable Development

Due to the relentless disregard of laws and ethics by companies exposed through the many recent and not so recent corporate scams involving misuse of information and misappropriation of funds, the Regulatory Authorities have brought in both preventive and curative measures to correct this darker corporate scenario. Corporate Governance framework of law is one such crucial measure which has been mandated and encouraged alternatively to support Companies in their attempt and endeavor to remain ethical and fair in their business activities. On the other hand, the Authorities have encouraged the Companies to move to inclusive growth while implementing standard governance by taking up *suo moto* CSR.

CSR is often used interchangeably for other terms such as corporate conscience, corporate citizenship, social performance or sustainable responsible business. CSR is a form of corporate self-regulation integrated into a business model as most of the countries have not brought out mandatory compliance for CSR accountability or reporting to the stakeholders. CSR is a voluntary initiative by the company and is governed by a CSR policy.

CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

Furthermore, CSR-focused businesses can proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of public interest into corporate decision-making, that is, the core business of the company or firm, and the honoring of a triple bottom line: people, planet, profit. CSR is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers.

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There is clear evidence of convergence of Corporate Governance, CSR and Sustainability at various levels. Specifically, driven by the Stakeholders, Employees, Trust and Reputation attached to the Company, Globalization and Leadership, at the values level, CSR is only an external expression of ethics and values that flows from the top level management by way of good governance practices. Going beyond the core governance functions of an organization is what CSR is all about and at some point will converge due to the ethical tone attached to it that flows from the company's vision and mission statements. The other is at the operational risk level where good governance enables efficient and effective risk management and how far CSR may be converged with the governance practices is still ambiguous.

CSR may add to business risk, if at all, only to the extent it is not provided for sufficiently and in accordance to a systemized business strategy. Therefore, emphasizing legitimate, socially conscious and sustainable development as the ultimate objectives of the companies. However it is believed based on studies of the impact of CSR, that the pace of convergence has been only incremental and promises to grow in importance.

Sustainability, the capacity to endure coupled with every effort of the company is the highlight here. During the Earth Summit¹⁰, the Rio Declaration on Environment and Development sets out 27 principles supporting sustainable development. Sustainability Reporting is part of the CSR and Corporate Sustainability encompasses strategies and practices that aim to meet the needs of stakeholders today while seeking to protect, support and enhance the human and natural resources that will be needed in the future.

Thus, driven by the fact that governance, CSR and sustainability issues can materially affect the company's financial health, market performance, assurance of complete transparency and disclosure of material business affairs management and control – companies and the business community at large have taken upon themselves to respond to issues relating to all three by incorporating mechanisms to achieve compliance and surpass mere legal mandates.

¹⁰ Held in Rio De Janeiro in 1992, Major International Conference on *Sustainable Development*

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Every company must thereby assure its stakeholders and the society at large that development of the company meets the needs of the present without compromising the needs of the future.¹¹

"Let every individual and institution now think and act as a responsible trustee of Earth, seeking choices in ecology, economics and ethics that will provide a sustainable future, eliminate pollution, poverty and violence, awaken the wonder of life and foster peaceful progress in the human adventure."

- John McConnell, Founder of International Earth Day

V. CSR - Policy Making and Implementation

A. Planning a CSR Policy and Identifying Projects

For the purpose of drawing a policy and framework for the company, the Triple Bottom Line Approach to CSR answers the question of how to plan and identify projects that can be accommodated in the business agenda of the company so as to benefit the interests of the company, its stakeholders and the society at large. The company while drawing up a CSR policy can choose to identify projects that are directly connected with its existing line of business or otherwise. In that context, apart from the commerce perspective of the business, i.e. the profits, the company can identify projects in the following areas and implement its initiative.

(i) People

Health, Safety, Diversity, Ethnicity, Education and Literacy, Women and Child, differently-abled, Infrastructure Development, Skill Development/Empowerment, Community Development, etc.

(ii) Planet

Pro Environment Practices, Climate Change, Energy Conservation, Water, Biodiversity and Land use, Chemicals, toxics and heavy metals, Air pollution, Waste Management, Afforestation, etc.

¹¹ Governance, Business Ethics and Sustainability published by Institute of Company Secretaries of India, 2009

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Initiatives of State Governments, District Administration, Local Administration as well as Central Government Departments, Agencies, Self Help Groups, etc., could also be dovetailed and synergized with the initiatives taken by the Company.

B. Resources – Funding and Allocation

The Company may allocate a certain percentage of its profits while drawing up its annual budget every year for funding the CSR initiatives, which in some countries is provided by the statute itself to fund charitable funds not directly relating to the business of the company or welfare of its employees.

The other instance can be voluntary contributions of the Board, Senior Management, Employees, Trusts, and Organizations in connection to or in relation with the Company may be opted to supplement CSR initiatives of the Company. Such other sources may be identified by the Company from time to time to contribute at times of natural calamities, call of the nation like victims at war or affected citizens during epidemic.

The most innovative funding mechanism would be to involve the consumers in the CSR movement wherein the consumer can voluntarily contribute while purchasing a product of the company or the company can contribute a small portion of the sale proceed and in turn allocate the funds to by support charitable cause like education by supporting a school or an education programme or wellness by supporting hospital or extending support to a awareness of health related issues of the needy.

C. Implementing CSR Initiatives

CSR may come under the purview of the Corporate Governance Committee or a separate committee titled Ethics/CSR Committee of the Board of Directors of the Company in consultation with the Board and the Senior Management which may provide direction to the CSR initiatives along with a Plan of Action to implement CSR as a Business Agenda.

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Project activities identified under CSR may be implemented by or in association with specialized agencies, which could include Voluntary Organizations, formal or informal local bodies such as Panchayats, Institutes/Academic Institutions, Trusts, Self Help Groups, Government/Semi Government/ Autonomous organizations, Professional Consultancy organization etc.

Successful implementation of CSR Initiatives indicates convergence of Governance and CSR as business agendas of the Company. The implementation shall significantly alter the corporate image and reputation, build customer loyalty and continued patronage, attract and retain employees and reduce regulatory oversight to a great extent and thereby actualizing the objectives of the Company.

VI. Conclusion

With the contribution of the Corporate Sector there would be more equitable and inclusive growth of every business providing stability in the country and promoting a sense of participative social and business responsibility. The many insights to Corporate Governance have shown promising power of business to transform society and in the process make profit, build repute and grow in stature. Therefore, in an almost symbiotic way businesses cannot function and survive without the general regard and participation from society. There exists a social responsibility for every business like any individual may have towards society and it is time that Corporate took notice of reforms and implemented its initiatives to drive the era of social change spearheaded by businesses.

If the human race wishes to have a prolonged and indefinite period of material prosperity, they have only got to behave in a peaceful and helpful way toward one another.

- *Winston Churchill*