Indira Gandhi National Open University
School of Extension and Development Studies

MEDS-051
Fundamentals of CSR

Volume 1

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PGDCSR: POST GRADUATE DIPLOMA IN CORPORATE SOCIAL RESPONSIBILITY

Dear Learner,

Welcome to the Programme – Post Graduate Diploma in Corporate Social Responsibility (PGDCSR). As you know, philanthropy in the form of charity has been prevalent in India since ancient times. CSR in India has come a long way from voluntary practices to a regulatory mechanism. The Companies in India are governed by Clause 135 of the Companies Act 2013 to perform their CSR activities. The CSR rules have been applicable from the fiscal year 2014-15 onwards and require companies to set up a CSR Committee consisting of their board members. CSR is a rapidly growing and evolving field of study. Large Indian companies are now transitioning from philanthropy to a rapidly evolving strategic engagement in development issues. The process of establishing and responding to the CSR agenda within an organization will require specialists in this field. This programme was developed to train people in this area with the following objectives

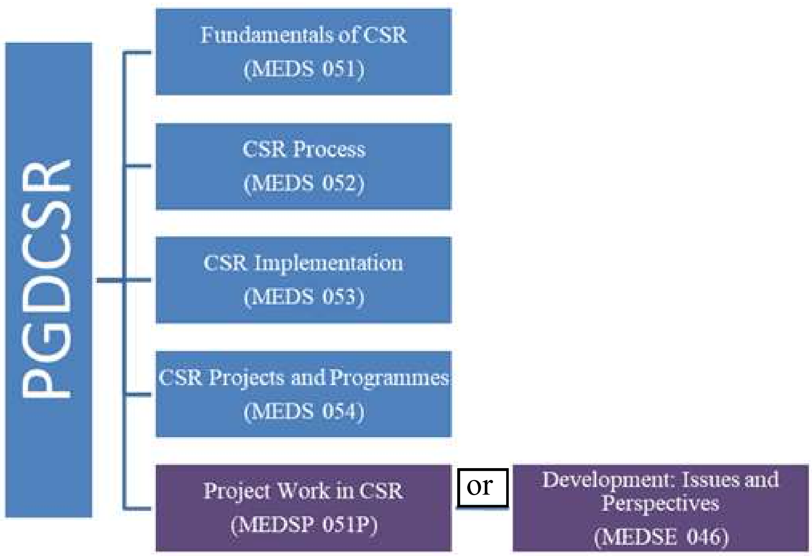
i) To impart knowledge and understanding about CSR through Open and Distance Learning.

ii) To expand the capacity of learners on various theoretical and practical aspects of CSR.

iii) To develop professional knowledge in formulation, implementation, monitoring and evaluation of CSR projects and programmes.

Programme Structure

The PGDCSR is a 32-credit programme comprising of four compulsory courses and one elective which can be a project work or an 8-credit course.



MEDS-051 FUNDAMENTALS OF CSR

Dear Learner,

Welcome to the course MEDS – 051 on 'Fundamentals of CSR'. This is the introductory course of the programme. In this course you will learn about the concept, perspectives and evolution of CSR in India and the world. It also covers the CSR legislations both in India and other countries of the world. You will also read about the various thematic areas in which CSR intervention can help in development of those sectors. It also discusses the key outcomes of CSR.

Course Structure

This course has five blocks. The contents covered under each of these blocks are as follows:

BLOCKS	UNITS
Evolution and Concept of CSR	• CSR: An Overview • Perspective in Global Context • Perspective in Indian Context
CSR Legislations and Guidelines: Global and India	• CSR Legislation in Other Countries • Companies Act, 2013 • CSR Policy Guidelines • Related Rules and Guidelines
Key Thematic Areas in CSR-I	• Poverty Alleviation • Quality of Life Improvement • Employment Generation and Livelihood • Women Empowerment
Key Thematic Areas in CSR-II	• Microfinance • Environment Protection and Biodiversity Conservation • Education and Skill Development • Awareness Creation
Key Outcomes of CSR	• Democratizing Development • Community Ownership • Connecting the Last Mile

Course Objectives

- To understand the concept and evolution of CSR and perspective of CSR both in the Indian and global context.
- To understand the legislations and guidelines of CSR both in India and in other countries across the world.
- To identify the various thematic areas in which CSR intervention can be done.
- To be able to identify the key outcomes of various CSR interventions.

Learning Outcomes

After successful completion of this course, the learners are expected to be able to:

- Give various definitions of CSR
- List out various provisions related to CSR in the Company's Act
- Discuss the importance of CSR intervention in various thematic areas
- Describe key outcomes of CSR interventions

For your convenience and easy handling, the SLM under MEDS-051 is presented in two volumes with two blocks in the first volume and three blocks in the second volume. Both the volumes are connected in such a way that after completing all 18 units, you will gain better knowledge and understanding of the fundamentals of CSR.

Block 1, Evolution and Concept of CSR with three units gives a general overview and perspectives of CSR in global and Indian context.

Block 2, CSR Legislations and Guidelines: Global and Indian with four units discusses the CSR legislations in different countries, Companies Act, 2013, CSR policy guidelines and related rules and guidelines.

Block 3, Key Thematic Areas in CSR - I with four units discusses the role of CSR in various thematic areas like poverty alleviation, quality of life improvement, employment generation and livelihood and women empowerment.

Block 4, Key Thematic Areas in CSR - II with four units discusses the role of CSR in various thematic areas like microfinance, environment protection and biodiversity conservation, education and skill development and awareness creation.

Block 5, Key Outcomes of CSR with three units discusses various outcomes of CSR like democratization of development, community ownership and connecting the last mile with the benefits of development.

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MEDS-051
Fundamentals of CSR

Block

1

EVOLUTION AND CONCEPT OF CSR

BLOCK 1 EVOLUTION AND CONCEPT OF CSR

Block 1 **Evolution and Concept of CSR** consists of three units.

Unit 1: **CSR: An Overview** discusses the various definitions of CSR. It also discusses various benefits of CSR. The drivers of CSR have also been discussed. It also discusses some of the theories of CSR.

Unit 2: **Perspective in Global Context** deals with the perspective of CSR in different regions including Europe, USA, Scandinavian countries, Latin America and other developing countries. It also discusses various international initiatives related to CSR.

Unit 3: **Perspective in Indian Context** discusses about the evolution of CSR in India and models of CSR operating in India. It also discusses about the evolution of legislation on CSR. Current trends and practices of CSR in India have also been discussed. Finally, it gives a few examples of CSR initiatives of Indian companies.

UNIT 1 CSR: AN OVERVIEW

Structure

1.1 INTRODUCTION

Dear Learners,

The CSR has become one of the standard business practices of our time. For companies, the overall aim of CSR is to have a positive impact on society as a whole while it engages in maximizing the creation of shared value for the owners of the business, its employees, shareholders and stakeholders. "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ('Triple-Bottom-Line-Approach'), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO).

In this unit we will learn about how the concept of CSR (Corporate Social Responsibility) has evolved over the years. We will also learn about a few theories of CSR. After reading this unit you will be able to

- List out various definitions of CSR
- Explain the need and benefits of CSR
- Describe the drivers of CSR
- Discuss various theories of CSR

1.2 MEANING AND DEFINITION OF CSR

1.2.1 Historical Evolution of Social Responsibility

Religious philosophies dominated philanthropy during the eighteenth and the nineteenth century. During 1800s and 1900s, to protect and retain the employees, companies took steps to improve their quality of life. E.g., Macy's in USA in 1875 contributed to an orphanage. The charity during those times were accounted as miscellaneous expenses. With the intention of improving the quality of life of its employees, the Pullman Palace Car Company created model industrial community in 1893. These were the times when industrialization and urbanization brought new challenges in labour market, for instance provision of better working conditions. This led to the formation of labour unions. With the end of World War II and with growth of business during the1940s, the companies started being viewed as institutions of social responsibility.

The period after World War II in 1950s was a period when there was a growing realization of the impact that the actions of large corporations had on the society and that there was a need to change their decision making to include consideration of their impact. Hence, this period marked the start of a new approach to management which emphasised the importance of improving the business response to its social impact. Thus, the period of 1950s and 1960s saw corporations as potential contributors to the improvement of social and economic conditions. Horward R. Bowen, Keith Davis and Joseph W. McGuire were the most famous supporters of this ideology.

Towards the end of the 60s, anti-war sentiment was on the rise and a growing sense of awareness that the corporations were not behaving in accordance to the societal expectations of that time. There were widespread anti-war and environmental campaigns and protests. In 1969, there was a major oil spill off the coast of Santa Barbara, California leading to environmental campaigns and protests which led to the 1st Earth Day Celebration in 1970. These protests called for a clean and sustainable environment and a check on such activities of the corporates which led to oil spills, toxic dumps, factories and power plants leading to environmental hazards. During early 70s, several advances were made towards environmental regulation, consumer product safety, equal employment opportunity and occupational safety and health. During the 70s, there were also several legislations in different countries that assigned broader responsibilities of various social concerns to the corporations.

During the 1980s, the debate around CSR shifted its focus from conceptualization of CSR to operationalizing CSR and its implementation. During the 1990s, with increasing globalization, the MNCs had to work in different environments abroad. The global visibility and increasing pressures, demands and expectations in the host countries increased the reputational risk of the corporations. In order to strike a balance between the challenges and opportunities of globalization, it became essential to institutionalize CSR. Also, the Rio Declaration on Environment and Development, the adoption of Agenda 21 and the United Nations Framework Convention on Climate Change (UNFCCC) (1992), and the adoption of the Kyoto Protocol (1997) led to setting of higher standards for the corporates regarding climate related issues. Some of the contributions to CSR during this decade include model of Corporate Social Performance (CSP) by Donna J. Wood, Carroll's 'Pyramid of Corporate Social Responsibility', five dimensions of strategic CSR given by Burke and Logsdon, the concept of 'The Triple-Bottom-Line', by Elkington and some alternative subjects like 'Stakeholder Theory', corporate social performance and corporate citizenship.

In the year 2000, the United Nations Global Compact was launched to fill the gaps of governance in terms of human rights and social and environmental issues and to insert universal values into the markets. It was also in the year 2000 that the United Nations adopted the Millennium Development Goals (MDGs). This was followed by the adoption of Sustainable Development Goals in 2015. International certifications like ISO 9001, ISO 14000 and ISO 26000 were also adopted. Also, during this period, strategic considerations were added to the concept and definition of CSR. It was believed that a strategic approach could result in the creation of shared value in terms of benefits for the society while improving competitiveness of the companies.

Post 2010, the concept of CSR reflected the belief that corporations need to be responsive to social expectations and their actions should be motivated by a drive towards sustainability. Porter and Kramer (2011) called for a change in business strategies which would focus on creation of shared values as their main objective. This decade is also marked by the launch of the 2030 Agenda for Sustainable Development.

1.2.2 Evolution of the Definitions of CSR

The initial definition of CSR was given by Horward R Bowen during 1950s in his book entitled *Social Responsibilities of the Businessman* in which he defines social responsibility as: "Obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".

In the 1960s, one of the most prominent definition of CSR was given by Keith Davis who defines social responsibility as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest".

Joseph W. McGuire is another major contributor to the definition of social responsibility during 1960s. In his book, Business and Society (1963), he states that, "The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations".

Thus, the definitions of social responsibility in the 1960s emphasized on the voluntarism of the corporate as an essential ingredient of social responsibility, and an acceptance of the fact that it involves cost which may not give any direct or measurable economic returns.

A new construct to the concept of CSR came from the Committee for Economic Development (CED) in 1971. CED noted that the social contract between the business and the community is changing. The period during late 1960s and early 1970s, witnessed a change in the status of issues related to environment, community, employees, work safety etc. from special interest to government regulation. CED gave a new three concentric circle definition of CSR.

"The inner circle includes the clear-cut basic responsibilities for the efficient execution of the economic function—products, jobs and economic growth. The intermediate circle encompasses responsibility to exercise this economic function with a sensitive awareness of changing social values and priorities: for example, with respect to environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment, and protection from injury. The outer circle outlines newly emerging and still amorphous responsibilities that businesses should assume to become more broadly involved in actively improving the social environment. (For example, poverty and urban blight)."

The 1970s saw increasing mention of the terms Corporate Social Performance and Corporate Social Responsibility. In 1975, an Economics Professor, Jules Backman said that the terms social audit, social indicators and social accounting cover different facets of social performance. S. Prakash Sethi, in his article titled ‘Dimensions of Corporate Social Performance” makes distinction between ‘social obligation’, ‘social responsibility’ and ‘social responsiveness’. While social obligation is the response of corporate to market forces or legal obligations, social responsibility is a notch higher than obligation and brings corporate behaviour in harmony with the existing social norms or values and expectations. Sethi describes social responsiveness as the adaptation of corporate behaviour to social needs.

The concept of CSR evolved and extended to beyond economic and legal components to encompass ethical and voluntary aspects as well. Caroll in 1979 gave a definition containing all four components. “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”.

The 1980s saw a quest to widen the concept of CSR and go beyond CSR with wider acceptance of the concept of Corporate Social Performance. During this period, the focus was on attempts to measure CSR and to include alternative thematic frameworks. Thomas M Jones in 1980, extended the concept of CSR as ‘a process’. He argued that CSR should not be seen as a set of outcomes but as a process. Corporate Social Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders, and beyond that which is prescribed by law and union contract. In 1985, Steven Wartick and Philip Cochran presented the *Evolution of the Corporate Social Performance Model*, which integrated the concept of responsibility, responsiveness and social issues.

The 1990s did not see any major contribution to the definition of CSR. During this period, the main focus was on various related themes like Corporate Social Performance, the Stakeholder theory, Business Ethics theory and Corporate Citizenship.

2000 onwards, has been an era of defining the activities that can be embraced as CSR activities and about regulating CSR.

1.2.3 CSR Perspectives in Selected Countries

CSR activities as a voluntary measure have been carried out in the USA for decades, and it is prevalent in many other countries like Australia, Canada, UAE etc.; it is at infancy stage in Africa. At the international level, CSR activities have been integrated as part of business strategy and corporate policy. In fact, promoters of large corporates have floated not-for-profit companies/trust, to carry out CSR activities, for example HCL Technologies Foundation, Hindustan Unilever Foundation etc.The organizations are adopting CSR as a part of their policy matters to address the concern of different stakeholders including investors and to enhance the competition to access the global market and satisfying the needs of society. The CSR perspectives of different countries are given below. Definitions for all countries, except India, are sourced from the World Business Council for Sustainable Development (WBCSD, 2000).

USA

"CSR is about taking personal responsibility for your actions and the impact that you have on society. Companies and employees must undergo a personal transformation, re-examine their roles, their responsibilities and increase their level of accountability"

THE NETHERLANDS

"CSR is about making a leadership commitment to core values and recognizing local and cultural differences when implementing global policies. It's about companies endorsing the UN Convention on Human Rights and the ILO Rights at Work"

TAIWAN

"CSR is the contribution to the development of natural and human capital, in addition to just making a profit"

THAILAND

"CSR must be locally relevant and meaningful only if backed up by action"

THE PHILIPPINES

"CSR is about business giving back to society"

BRAZIL

"CSR is about commitment to strive for the best economic development for the community, to respect workers and build their capacities, to protect the environment and to help create frameworks where ethical business can prosper"

ARGENTINA

"CSR is about a corporation's ability to respond to social challenges. It starts with developing good relations with neighbours. Companies should make a strong commitment to education, worker rights, capacity building, and job security. CSR is stimulating the economic development of a community"

GHANA

"CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government"

INDIA

"It urges businesses to embrace the "triple-bottom-line" approach whereby its financial performance can be harmonized with the expectations of society, the environment and the many stakeholders it interfaces with in a sustainable manner (MCA, Government of India, 2011).

1.2.4 Definitions of CSR

In a "free society," "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970).

"Another aspect of any workable definition of corporate social responsibility is that the behavior of the firms must be voluntary" [Manne &Wallich, 1972, p. 5)

"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (Carroll, 1979, pp. 500).

"It refers to how business takes account of its economic, social and environmental impacts in the way it operates. maximizing the benefits and minimizing the downsides. CSR undertakings are the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (World Bank, 2013).

"Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders and stakeholders" (UNIDO)

"Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (WBCSD, 2000).

Wayne Visser uses CSR in developing countries to represent 'the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries, while remaining sensitive to the prevailing religious, historical and cultural contexts in which they operate' (Visser et al., 2007).

The International Standard Organization brought out international standard on social responsibilities of organizations (ISO 26000), first published in 2010, which defines social responsibility as:

"An organization's responsibility for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour;
- and is integrated throughout the organization and implemented in its relations".

Source of Section 1.2
(Carroll, 2008; Carroll, 1999; Bhaduri and Selarka, 2016)

1.3 BENEFITS OF CSR

Businesses these days can no longer limit their focus to profit maximization and be satisfied just by creating employment and paying their taxes. They are also required to address the needs of other stakeholders like creditors, employees, shareholders, consumers, government and public. Companies these days are more vulnerable to consumer boycotts and campaigns. The companies need to be socially accountable to the communities among whom they operate. Hence, CSR as a strategy and in fact as a necessary activity, is becoming increasingly important for businesses due to the following benefits: (CII, 2013)

1) **Communities provide the license to operate:** The CSR behaviour of corporate is not just driven by their values but are also influenced by the stakeholders like government, investors, customers and community. Today's corporate understands that the license to operate in any particular area is not just given by the government but also by the communities that get impacted by the activities of these companies. A strong CSR programme provides the companies with the license to operate and to maintain the trust of the local community.

2) **Attracting and retaining employees:** CSR interventions that help the employees to participate give them a sense of belongingness to the company. Good CSR initiatives can attract employees to the company and give them the incentive to remain motivated and committed to the company.

3) **Communities as suppliers:** There are instances wherein as a part of CSR activities, the communities have been incorporated into the supply chain to enhance their livelihood. Such initiatives have helped in increasing their incomes and ensuring the companies with a steady and secure supply chain.

4) **Enhancing corporate reputation:** When the companies position themselves as responsible corporate citizens, it creates good will and a positive image, thereby helping them to enhance their brand image in the market.

Activity 1

Visit a CSR project of a company in your vicinity. Ask the employees, how according to them, CSR has benefitted the company. Write down their responses.

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1.4 DRIVERS OF CSR

According to the KPMG Survey of Corporate Responsibility Reporting 2011, around the world, corporate responsibility reporting has become a fundamental imperative for businesses. According to the KPMG survey, the top ten motivators driving corporations to engage in CSR for competitive reasons, the following have emerged:

- Economic considerations

- Ethical considerations
- Innovation and learning
- Employee motivation
- Risk management or risk reduction
- Access to capital or increased shareholder value
- Reputation or brand
- Market position or share
- Strengthened supplier relationships
- Cost saving

In simple words, the underlying reasons for business organizations to be involved in CSR are as follows:

i) **Public Image:** CSR creates a positive brand image in the minds of the potential consumers. Effective communication of CSR activities, boosts the purchase intentions of the prospective consumers. Business can earn goodwill and reputation by performing the activities towards the welfare of the society. People prefer to purchase products of the company that engage in various social welfare programs.

For example: Levi Strauss practices CSR in three areas i.e. the masses, climate, and its products. It's non-profit Red Tab Foundation provides aid to its employees and retirees in case of financial emergency. As a part of its contribution to the environment, it has signed the Climate Declaration and aims to use 100 percent renewable energy in order to reduce carbon emissions and other greenhouse gases. In addition, in a bid to save water, it has started production of its new denim cloth-line which has helped them save more than 1 billion litres of water since its inception in 2011.

ii) **Government Regulation:** Most companies prefer to remain a step ahead of government regulations in identifying the social needs and formulating policies to address them, out of the fear that if they don't, the government may take the responsibility, which might prove costly for the employers. To avoid government regulations businessmen should discharge their duties voluntarily. For example:-

a) **Coca-Cola, USA** continues to make strides towards the alleviation of environmental issues. After realizing that its fleet of delivery trucks accounted for 3.7 million metric tons of greenhouse gases (GHGs) in 2014, Coca-Cola made significant changes to its supply chain like investing in trucks that are powered by alternative fuels. Those changes should support the company's goal of reducing its carbon footprint by 25 percent by 2020.

b) **Ford, USA** is another corporation attempting to improve their environmental performance. To reduce its GHG emissions, an EcoBoost engine was developed to increase fuel efficiency and the company hopes to offer 13 new electric vehicle models in near future. In addition, American Ford dealerships now use wind sail and solar PV systems as their primary power source.

iii) Survival and Growth: Every business is a part of society. It utilizes the available resources of power, land, water etc. of the society, therefore it should be the responsibility of every business to spend a part of its profit for the welfare of the society.

E.g. **Amul Dairy** has launched a novel scheme "Rural Sanitation Campaign" for total rural sanitation. The dairy with the support of **District Rural Development Agency** (DRDA) will provide interest free loans to its milk producers in the districts of Anand and Kheda, to set up 'pucca' toilet blocks, which will not only help women milk producers avoid embarrassment but will ensure hygiene as well. (For more details visit http://www.amuldairy.com/index.php/component/content/category/13-csr-initiatives)

iv) Employee Satisfaction: Besides getting good salary and working in healthy atmosphere employees also expect other facilities like proper accommodation, transportation, education, and training.

For example, **Lemon Tree Hotels Group** ('LTH') believes that people with disabilities (whether physical, social or economic disabilities leading to an opportunity deprivation) must be provided the same opportunities as others to realize their full potential and live with dignity. Lemon Tree has defined the goal as mainstreaming 'Opportunity Deprived Indians' i.e. ODIs into its workforce. By creating a supportive environment in the organization that allows them to deliver their best, LTH helps in bringing social inclusiveness through livelihood creation. (For more details visit ttps://www.lemontreehotels.com/factsheet/LTH_CSR_Policy.pdf)

v) Consumer Awareness: Nowadays consumers have become very conscious about their rights. They protest the supply of inferior and harmful products by forming different groups. This has made it obligatory for businesses to protect the interest of the consumers by providing quality products at competitive prices.

For example, **Burberry** announced banning fur in its products along with other ladies' bag manufacturing companies like Gucci, Versace, Armani, Stella McCartney and others after a long campaign from the animal rights group PETA.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Give any one definition of CSR.

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2) List out the various benefits of CSR.

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1.5 THEORIES OF CSR

In this section we will discuss three basic theories of CSR. They are

i) Carroll's CSR Pyramid

ii) Triple Bottom Line CSR Theory

iii) Stakeholder Theory

i) Carroll's CSR Pyramid

Carroll talks about four obligations that businesses have towards society.

1) **Economic Responsibility:** According to Carroll, businesses have an economic responsibility towards the society that permitted them to be created and sustained. The society expects business organizations to sustain themselves to continue producing goods and services that the society needs. As a reward, the society allows them to take profits. The businesses make profit by value addition and in doing so, they benefit all the stakeholders of the business.

   Businesses need to make profit not just to reward the owners but also to reinvest the profit to grow the business further. To fulfil their economic responsibility, businesses employ several business concepts that are directed towards financial effectiveness such as attention to revenues, cost-effectiveness, investments, marketing, strategies, operations, among several other professional concepts focused on augmenting the long-term financial success of the organization. According to Carroll, 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. Hence economic responsibility is the basic responsibility of any business and has been placed at the bottom of the CSR pyramid.

2) **Legal Responsibilities:** The society has established minimum ground rules under which the businesses are expected to function. The businesses are expected to follow fair business practices and operate within the rules and regulations laid down by the lawmakers at local and national levels. Compliance officers are employed by the Companies to ensure compliance to these rules. According to Carroll (2016), while meeting these legal responsibilities, important expectations of business include:

   - 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.

3) **Ethical Responsibilities:** Laws are essential but not enough. Society also expects businesses to operate and function in an ethical fashion. Ethical responsibilities imply that the activities, norms, standards, and practices taken up by the businesses need not necessarily be codified in law, but still the businesses are expected to follow them. The ethical expectations carry the legal expectations a step further to uphold the norms, values, principles, and standards considered important by the consumers, employees, owners, and the community at large. The activities of the businesses should also abide by the universal principles of moral philosophy such as rights, justice, and utilitarianism

While meeting these ethical responsibilities, important expectations of business include: (Carroll 1991)

- 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 goes beyond the mere compliance with laws and regulations.

4) **Philanthropic Responsibilities:** Business giving is done purely on voluntary basis. Though philanthropy is not a responsibility, it is what the public expects the business to give back to society. It is mainly guided by the desire of businesses to participate in activities that are neither mandated by law nor expected from ethical point of view. It stems out of the expectations of the citizens to be good corporate citizens as is expected from individuals as well. Various philanthropic activities in which the companies engage include gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community.

Companies are also driven by motivation to engage in philanthropy in an effort to enhance company's reputation. The philanthropic category of business giving is different from the ethical category in the sense that philanthropic giving is not necessarily expected in ethical sense. Companies will not be called unethical if they don't practice philanthropic giving. It is more voluntary in nature and companies practicing philanthropic giving are considered as practicing good 'Corporate Citizenship'.

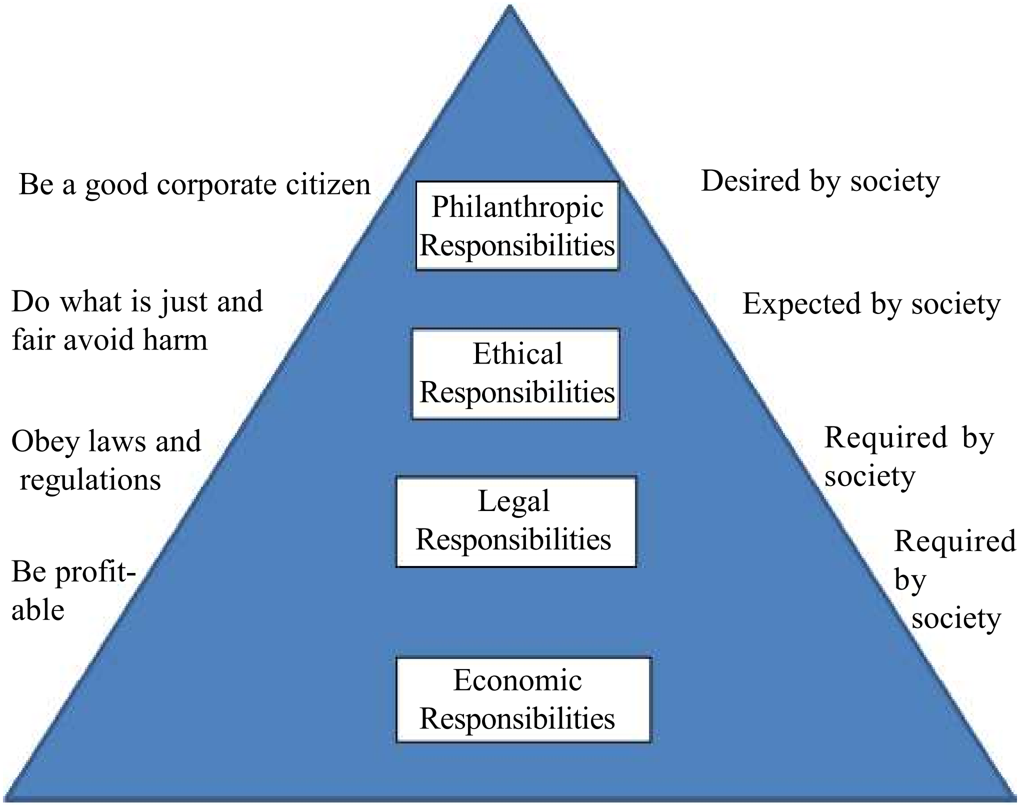

Figure 1: Carroll's Pyramid

Figure 1shows Carroll's pyramid of CSR. The economic responsibility being the fundamental requirement in any business is placed at the base of the pyramid. The infrastructure needed for a sound CSR is based on the economic soundness and sustainability of any business. The business is expected to operate following certain laws and regulations which forms the second part of the pyramid. The existence of legal and regulatory framework in any country significantly affects the multinational investments in these countries. Thirdly, business is expected to operate in an ethical way to avoid causing harm to any stakeholder and always do what is just, fair and right. Finally, a business is expected to be a good corporate citizen and provide any financial, physical, or human resource contribution to the communities within which it operates.

ii) Triple-Bottom-Line Theory

John Elkington first coined the term triple-bottom-line in his book "Cannibals with Forks: The Triple-Bottom-Line of the 21st Century Business". Triple-bottom-line theory expands the traditional accounting framework to include three dimensions i.e. Economic, Social, and Environmental. These three bottom lines are also referred to as the 3 P's i.e. People, Planet and Profit. According to Elkington, all the three dimensions should perform sustainably.

1) **Economic Dimension/Profit:** According to the theory, the most important thing for a company, is not to make huge profits but rather, to make continuous profit on a sustainable basis over a long period of time. Sustainable profits can be achieved by drawing a strategic plan that takes into account expenditures and taxes, forecasting business climate factors, evaluate market benchmark and avoid maximum risk threats. Triple-bottom-line businesses also recognize that profit is not diametrically opposed to people or planet.

Example: Swedish furniture giant IKEA reported sales of $37.6 billion in 2016. The same year, the company turned a profit by recycling waste into some of its best-selling products. Before, this waste had cost the company more than $1 million per year. And the company is well on its way to "zero waste to landfill" worldwide. According to Joanna Yarrow, IKEA's head of sustainability for the UK, "We don't do this because we're tree huggers, we do this because it's very cost effective."

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

2) **Social Dimension/People:** According to the theory, for businesses to be sustainable in the long run, they should take up activities that satisfy the needs of the society in which they operate. According to the triple-bottom-line CSR framework, it is essential that the corporations achieve social sustainability. Since societal needs vary from one region to another, the corporations need to collect data on various social parameters including unemployment rate, female labour participation, educational services, health services etc. This will help in prioritizing the community needs and the corporations then take steps to satisfy the societal needs to the extent possible. A triple-bottom-line company also pays fair wages to its employees and provides safe working conditions.

Example: 3M partners with United Way to fund STEM education across the world. This initiative is an example of "enlightened self-interest"—acting to further the interests of others, ultimately, to serve one's own self-interest. The community benefits, and 3M provides itself a well-educated source of scientists and innovators for generations to come.

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

3) **Environmental Dimension/Planet:** Environment is an important dimension of the triple bottom line approach. Corporations should pay attention to maintaining environmental sustainability. The enterprises should try to reduce ecological footprints as much as possible and the ones that harm the environment should also bear the cost. Some of the factors which help in maintaining environmental sustainability include reducing waste, investing in renewable energy, managing natural resources more efficiently, and improving their logistics.

Example: Apple has invested heavily in environmental sustainability. Its massive U.S. data centres are LEED certified. In 2016, the company announced that 93 percent of its energy comes from renewable sources. These actions have nudged other tech giants like Facebook and Google as well toward using more renewable energy sources to power facilities.

Source: https://sustain.wisconsin.edu/sustainability/triple-bottom-line/

iii) Stakeholder Theory

Stakeholder Theory was given by Dr. F. Edward Freeman, a professor at the University of Virginia, in his book, "Strategic Management: A Stakeholder Approach" which suggests that, shareholders are just one of the many stakeholders of a company. Stakeholders are described broadly by Freeman and Reed as any identifiable group or in-dividual who can affect the achievement of an organization's objectives or who are affected by the achievement of an organization's objectives. According to Dr. Freeman, the stakeholder may include the consumers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups etc. and for a company to be successful in the long run, the concerns of all groups should be taken into account. If a company ignores the concerns of its stakeholders, it may gain profits in the short run but in the long run, once the stakeholders become dissatisfied, the company cannot survive.

According to Freeman, "If you can get all your stakeholders to swim or row in the same direction, you've got a company with momentum and real power." He goes on that, "Saying that profits are the only important thing to a company is like saying, 'Red blood cells are life.' You need red blood cells to live, but you need so much more." A company needs to be aware not just of the needs of its shareholders but also of its workers, those who live near its factories, the competitors etc. He quotes the example of 'Enron' as to how the desire to attain short term gains, led to corruption, and finally brought about the downfall of the company in 2000.

Let us now understand the functioning of various stakeholders under this theory:

1) Employee: The employees expect to be treated and compensated fairly and to be given reasonable working hours. Otherwise, there would be bad word of mouth among potential workforce and the company will be adversely impacted.

2) Suppliers: Like employees, the expectations of the suppliers in the stakeholder theory also includes fair treatment and compensation. The stakeholder theory also expects due diligence on the part of the suppliers that they will also conduct their business in a fair and ethical manner.

3) Manufacturers: With the opening of the economy, there are instances when the product or their parts are manufactured at a location away from the project, sometimes even in a different country. It is expected that the working conditions and wages should be fair for the manufacturers as well.

4) Environmentalists: People living in vicinity to the project need to be assured that the environment, power, or water will not be adversely affected due to the project. These people who are affected by the local ecology are also considered as stakeholders in the stakeholder theory and need to be apprised of the plans and developments and their views should also be taken into account while planning the project.

5) Government Bodies: Government approvals need to be sought for any project before it starts its operations. Hence government bodies and various regulating agencies are also one of the stakeholders.

6) Community: People living in the nearby neighbourhoods, are also stakeholders and the project should consider their concerns of whether it will enhance or maintain their quality of life and not impact it negatively in any manner.

Activity 2

Visit a CSR project being implemented in the city of your residence. Identify and list out the stakeholders of the project.

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iv) Some Other Views on CSR

1) Theodore Levitt's Dangers of Social Responsibility

Levitt was a critic of inclusion of CSR in the corporate objective function. He argues that when CSR is incorporated in the corporate objective function, this leaves the managers of the businesses responsible to make judgements on which social issue to purse and which not to. Levitt calls CSR a 'fashion accessory' of the self-interested businessmen who have in mind neither the health of the business nor the welfare of the society but are driven by their own political agenda or self-realization. He also argues that CSR is seen as a profitable strategy by businesses and objected to the practice of dressing up profit making objectives as philanthropic. According to Levitt, an ethical approach to CSR is to pursue CSR only when it is profitable, and admit that profit is the real motive behind any CSR activity.

The strongest argument of Levitt is that the responsibilities of public and private sectors should be kept separate. Levitt argues that it is both undemocratic and unethical on the part of the managers to assume a role in which they have no expertise and hence they are not likely to succeed in this role. According to Levitt, if the managers assume any role other than that of profit makers, they are bound to fail.

2) Milton Friedman's Shareholder Theory of Capitalism

According to Friedman, the social responsibility of business is to increase profits. Friedman originally expressed this thought in his book Capitalism and Freedom in 1962. Later in his article published in New York times he writes:-

"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

According to Friedman, shareholders are the economic engine of an organization and hence the only group to which the firm is socially responsible. He opines that a corporate executive is an employee of the owners of the business, and hence his/her primary responsibility is to them. He says that an executive spending company money on 'social cause' is in fact spending somebody else's money. For example, if a business executive refrains from increasing the price of a product to fulfil the social objective of preventing inflation or if the amount of expenditure he makes beyond what is required by the law, on reducing pollution to fulfil the social objective of improving the environment, then he acts in a way that is not in the interest of the employers. Thus, according to Friedman, "Insofar as his actions are in accord with his "social responsibility" to reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money."

The customers, stockholders, employees of a firm could separately spend their money on any social cause they wished to. Friedman goes further to say that if a corporate executive does this, he in effect imposes taxes on one hand and decides on how to spend the tax proceeds on the other. This act raises questions at two levels: principles and consequences. As far as principle is concerned, imposition of taxes and their expenditure are government functions. However, here the businessman decides whom to tax, by how much, for what purpose and he spends the proceeds. On the grounds of consequences, he questions the corporate executive's judgement to spend the proceeds. He says that "in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions."

3) Ackerman and Bauer's Social Issues Life Cycle Model

Ackerman and Bauer reworked the product life cycle model to produce a generic model called the 'Social Issues Life Cycle Model.' It comprises of three stages:

Stage 1: At Stage 1, the social issue is felt as a weak signal. At this stage, the challenges that need to be dealt with include establishing the social issue, assessing its relevance, and understanding the level of political support it could attract in the society. There is uncertainty about the nature and impact of the issue. At this stage, the stakeholders are not properly organized.

Stage 2: During Stage 2, the issue is emerging and unresolved but its importance amongst the general public increases. The core issues that need to be addressed at this point include how to identify and resolve the problem, identification of the stakeholders with vested interest, what new competencies need to be developed, and how can corporate be made to respond. Stakeholders are more organized.

Stage 3: In Stage 3, the problem has been characterized and the solutions to the problem have been identified. The firm is in a condition to measure the economic impact of the issue. New norms or laws have been established which have institutionalized stakeholder demands. Accordingly, socially responsible corporate behaviour has also been established.

Ackerman and Bauer also pointed out three stages involved in achieving the full integration of social issues within the firm:

In Stage 1, the CEO becomes aware of the importance of social issue and formulates policy to address the same. As all the dimensions of the issue are not properly understood, the individual divisions show their reluctance to commit themselves. The newly formed policy destabilizes the firm's structural framework and standard operating procedures. As a result, the departments adopt a wait and watch policy or there may be stiff resistance from within.

Stage 2 is a stage where the social issue has been characterized and a best fit response has been determined. Now the issue is more technical hence the firm appoints a dedicated executive, a social issue expert, who reports directly to the top management. This expert gives the necessary technical guidance to handle the issue and is responsible to push policy at the ground level.

The third and final stage, is when the organizational response is implemented. Here the CEO calls for demonstration of commitment to policy enforcement. The problems of this phase center around managerial transformation, resource allocation within and without divisions. The social issues expert takes a backseat at this stage and supports division level actions.

4) Gandhi's Philosophy of Trusteeship

"The idea of trusteeship was propounded by Mahatma Gandhi. It evolves from the belief that everything belongs to God and hence to everyone and not to any particular individual. Gandhian philosophy always aims at bringing economic equality through non-violent social change. Gandhi propounded the doctrine of trusteeship as a way to realize such change. The peaceful removal of economic inequalities is possible if the rich, after meeting their reasonable needs, hold the surplus wealth in trust for society. In this way, the rich man is not dispossessed of his surplus wealth, but he is required to use this wealth in the broader interest of the community, and not in his personal interest. The doctrine of trusteeship is based on the idea that everything is from God, and belongs to God. Therefore, it is for God's people as a whole, and not for a particular individual. If an individual possesses more than his proportionate share, he becomes a trustee of that surplus amount for God's people. As to the question of the determination of the successor of the trustee, Gandhi replied that the original trustee is to be allowed to make his choice, but that choice is to be finalized by the state. Thus, a check is put on the state as well as on the individual. A summary of Gandhi's doctrine of trusteeship is as follows:

a) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one; it gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.

b) It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its own welfare.

c) It does not exclude legislative regulation of the ownership and use of wealth.

d) Thus, under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.

e) Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that could be allowed to any person in the society. The difference between such minimum and maximum income should be reasonable, equitable and variable from time to time, so much so that the tendency would be towards obliteration of the difference.

f) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed" (Pyarelal, 1965).

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is the role of Government bodies according to the Stakeholder Theory?

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2) What is Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model?

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1.6 LET US SUM UP

In this unit we have discussed about how the concept of CSR has evolved over the years. You also read about the CSR perspectives in other countries. The unit also gives different definitions of CSR given by experts. It discusses how CSR helps in building brand image, attaining competitive advantage and facilitates long term business interest. We have also discussed about various drivers of CSR. Finally, we discussed in detail the three basic theories of CSR i.e. Carroll's CSR Theory, Triple-Bottom-Line Theory and Stakeholder Theory. We have also looked into the views on CSR of some of the experts like Levitt, Friedman, Ackerman, and Gandhi's Philosophy of Trusteeship.

1.7 KEYWORDS

CSR : Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Stakeholder : A person who impacts or get impacted by the actions and activities of the business.

Triple Bottom Line : The triple-bottom-line (TBL) is a framework that recommends that companies commit to focus on social and environmental concerns along with profits. The TBL posits that instead of one bottom line, there should be three: profit, people, and the planet.

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1.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress - 1

Answer 1: Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

Answer 2: Some of the benefits of CSR are

1) Communities provide the license to operate

2) Attracting and retaining employees

3) Communities as suppliers

4) Enhancing corporate reputation

Check Your Progress – 2

Answer 1: According to the Stakeholder's Theory, Government approvals need to be sought for any project before it starts its operations. Hence, government bodies and various regulating agencies are also one of the stakeholders.

Answer 2: Stage 2 of Ackerman and Bauer's Social Issues Life Cycle Model, include how to resolve the problems, identification of the stakeholders with vested interest, what new competencies need to be developed and how can corporates be made to respond. Stakeholders are more organized.

UNIT 2 PERSPECTIVE IN GLOBAL CONTEXT

Structure

2.1 INTRODUCTION

In the previous unit you have read about the concepts and definitions of CSR. You also read about various theories of CSR. We know that over the years, the understanding of CSR has undergone several changes. One of the reasons for the shift in the understanding from voluntarism to due diligence is the number of disasters that have happened at the production sites of Western companies mostly in the developing countries. The meaning of CSR varies substantially from country to country. It would be relevant here to look at the perspective of CSR from the view point of different countries and regions. In this unit you will learn about the Perspectives and drivers of CSR for different regions of the world.

After reading this unit you will be able to

- Discuss about approaches to CSR of different countries in Europe and Scandinavian Countries
- Discuss the perspective of CSR in US and Latin America
- Describe the drivers for CSR in developing countries
- Discuss various international initiatives related to CSR

2.2 CSR IN EUROPE

The European Commission in its 2011-14 strategy on CSR has defined CSR as ‘the responsibility of enterprises for their impact on society’. The Commission believes in CSR being company led with public authorities playing a supportive role through a mix of voluntary policy measures and regulations.

CSR has been a subject of interest among both businessmen and governments in Europe. However, there has been contrasting positions taken by European Commission (EC) and NGO’s and trade unions. While EC has been rejecting regulation and emphasizing on CSR being a voluntary initiative for business to practice, the European parliament along with NGOs and trade unions have been demanding for regulations and compulsory reporting of the social and environmental impacts of the businesses.

The Commission promotes CSR and encourages countries to follow international guidelines and principles. The EU policy on CSR is based on various actions to support this approach. They include:

1) Enhancing the visibility of CSR and disseminating good practices
2) Improving and tracking levels of trust in business
3) Improving self and co-regulation processes
4) Enhancing market rewards for CSR
5) Improving company disclosure of social and environmental information
6) Further integrating CSR into education, training, and research
7) Emphasizing the importance of national and sub-national CSR policies
8) Better aligning European and global approaches to CSR.

A Public Consultation of CSR 2011-14 was launched by the Commission to evaluate the CSR strategy.

Some core components of the EU's 2011 CSR strategy include:

- The development of CSR should be led by enterprises themselves.
- But public authorities should play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation, for example to promote transparency, create market incentives for responsible business conduct, and ensure corporate accountability.
- Enterprises must be given the flexibility to innovate and to develop an approach to CSR that is appropriate to their circumstances.

2.2.1 Approaches of various countries in Europe

1) Austria

Austria is a very regulated country with its Company's Act dating back to 1966. The Sustainable Strategy adopted by the Austrian government in 2002 aims at integrating economic, social, and environmental spheres. The strategy emphasizes on sustainable public procurement and concerns with ecological, social, and ethical aspects of supply chain. CSR reporting is recommended in the CSR guiding vision since 2009. Eco-efficiency and sustainable consumption are the key drivers of CSR in Austria.

2) UK

UK is considered as a leader in CSR, particularly because UK houses world's greatest thinkers, practitioners, and campaigners in this field. The amount of finances given by the companies to the society is considered as the key indicator of CSR in UK which generally is ½ to 1 percent of their pre-tax profits. UK also has a Minister of CSR, appointed by the government. To encourage CSR, UK has passed several regulations to complement the voluntary initiatives taken by companies. e.g.

- Amendment to the Pensions Act, 2000 which requires the occupational pension funds to disclose the extent of CSR issues taken into consideration while making investments.

- Companies Act, 2000 requires the companies to take into account the wider interest of the stakeholders while acting on the interest of the shareholders. It also directs the companies to disclose the policies related to environment, workplace, social and community matters and about the effectiveness of these policies.

- Modern Slavery Act, 2015 which require the companies to combat modern slavery in its business and supply chain.

3) France

In France there has been a moderate development of CSR. The labour relations in France are governed by a system of state regulations and agreements. There are also several initiatives that go beyond the legal requirements. Certain laws affecting CSR were passed in the beginning of 21st century.

- "The Law on Employment and Saving Plan of 19 February 2001, which asks fund managers to take into account social, environmental and ethical considerations in the choice of investments.

- The Law on New Economic Regulations of 15 May 2001, which requires listed companies to introduce environmental and social information within their yearly reports to shareholders.

- The Law on Retirement Reserve Funds of 17 July 2001, which requires environmental and social information to be introduced in the yearly reports of retirement funds." (Mullerat, 2013)

- In the year 2007, the 'Diversity Charter' was signed by 1700 companies. It is a business initiative which was launched to fight discrimination.

- To address environmental issues through a five-way dialogue between business, local authorities, government, NGOs and trade unions, the Grenelle Environment Forum was initiated in 2007.

- Several actions have also been launched to support the CSR initiatives of Small and Medium Enterprises in France. e.g. A group of 3300 SME managers called the "Centre des Jeunes Dirigeants" developed a methodology for "Global Performance Standard" in 2008.

4) CSR in Germany

In Germany, the Federal Ministry for Labour and Social Affairs is the lead ministry for CSR in the Federal Government of Germany. The ministry has established National CSR Forum to bring together the stakeholders to work towards social responsibility and to provide needed support to the government to develop the national CSR strategy.

2.3 CSR IN USA

According to Milton Friedman, the social responsibility of business is to increase its profit. Traditionally, the companies looked at CSR from the view point of business footprint where the companies were concerned only with making a positive impact. However, the consumers in US now expect the companies to go beyond the issues that impact their operations and take up larger societal challenges. A recent survey by Cone communication says that 87 percent of the consumers said that they purchased a product because the company advocated for an issue they care about and 76% of the consumers said that they would refuse to purchase a product if they found out that the company supported an issue contrary to their beliefs (Cone Communications, 2017). Thus, consumer expectations and behaviour in support of CSR can be called as the key driver to CSR in USA. Given similar price and quality of any product, the consumers in US are more likely to switch brands in favour of those which are associated with good causes.

The labour and capital markets in US being unregulated, the state provisions for welfare is very low. Hence, education, health and other such community issues are taken up under Corporate Social Responsibility. Both CSR activities and reporting are not considered as a regulatory compliance issue in USA. As there is no obligation to undertake social and environmentally responsible practices, CSR is usually characterized by voluntary societal engagements by businesses. Such responsible behaviour by the businesses which goes beyond financial reporting requirements is known as corporate citizenship. Businesses are obliged to engage in economic, legal, ethical, and philanthropic activities.

In US, the U.S. Bureau of Economic and Business Affairs (EB) leads a corporate social responsibility team with the primary objective of promoting responsible business, encouraging sustainable development, and building economic security. It provides the companies and the stakeholders with the needed guidance to engage in corporate citizenship. The CSR team of EB provides support on various issues including corporate citizenship, human rights, supply chains, anticorruption, health and social welfare, employment and industrial relations, environment protection, natural resource management, intellectual property, women's empowerment etc. The EB's policies are drawn majorly from OECD's 'Guidelines for Multinational Enterprises.'

Let us discuss in brief some of the EB's corporate policies (Camilleri, 2017):

1) Corporate Citizenship and Human Rights

In US, the Bureau of Democracy, Human Rights and Labour (DRL) has a mandate of promoting and monitoring human rights. For this purpose, it has set up a Human Rights Democratic Fund (HRDF) which is used in the promotion of democratic principles. Such efforts by DRL have helped US to minimize human rights abuses and bring a positive change across the globe.

Similarly, the Office to Monitor and Combat Trafficking in Persons (TIP) focuses on corporate policy, planning, public awareness and tracing of supply chain and transparency to reduce forced labour in supply chain. The office also funds an emergency global assistance project that helps people identified as trafficked persons.

2) Labour Supply Chains

Human trafficking was made illegal in US in the year 2000. The law requires manufacturers earning revenue of more than $100 million to list out their efforts towards bringing down slavery and human trafficking in their supply chains. DRL also promotes labour rights in the supply chain by enforcing labour laws and providing due diligence.

For example: EB, in cooperation with DRL and other stakeholders, has coordinated the U.S. Department of State's participation in the Kimberley Process to stem the flow of conflict diamonds and to address their traceability across supply chains (Camilleri, 2017).

The Kimberly Process is a commitment to remove conflict diamonds from the global supply chain. The Kimberley Process (KP) is a multilateral trade regime established in 2003 with the goal of preventing the flow of conflict diamonds. The core of this regime is the Kimberley Process Certification Scheme (KPCS) under which States implement safeguards on shipments of rough diamonds and certify them as "conflict free". Kimberley Process (KP) defines conflict diamonds as: 'rough diamonds used to finance wars against governments' - around the world.

Source: https://www.kimberleyprocess.com/en/what-kp Accessed on 12/04/2019

3) Anticorruption

You are all aware of the ill effects of corruption. It is not just bad for economic growth and sustainable development of any country, it also deters the foreign investors from investing in many countries. The Foreign Corrupt Practices Act was brought into effect in US in 1977. This law penalizes the US nationals and companies who indulge in bribing foreign officials in commercial transactions. The Presidential Proclamation 7750 of January 2004 also denies refuge to corrupt officials. US has also been an active participant in the United Nations Convention Against Corruption (UNCAC) and member of the OECD's Anti-Bribery Convention.

4) Health and Social Welfare

There were several exploitative practices being followed by the insurance companies in the US. Some of these practices include screening of pre-existing condition and charging higher premium in case a person has any ailment at the time of buying a policy, cancellation of insurance policy on various technicalities when illness is imminent, imposing annual or lifetime limits on the health coverage benefits that can be claimed by individuals etc. In 2010, reform on the Patient Protection and Affordable Care Act (PPACA), also known as Obamacare and the Health Care and Education Reconciliation Act (HCERA) were passed which were designed to remove the exploitative practices of the insurance companies.

5) Environmental Sustainability

US has a long tradition of environmental leadership from 1969 when the National Environmental Policy Act (NEPA) was passed with the intention of maintaining productive harmony between the requirements of present and future generations. The Environmental Protection Agency (EPA) formulates policies and instruments that would promote sustainable use of resources. Similarly, the Bureau of Energy Resources (ENR) promotes the use of secure, reliable, and clean energy in US. It is also responsible for maintaining good governance and transparency in the energy sector.

The first National Action Plan on Responsible Business Conduct was launched by the US Government on December 16, 2016. The National Action Plan is a reflection of Government's commitment to fight corruption and promote human rights by partnering with domestic and international stakeholders. It encourages companies to follow high standards of responsible business conduct.

Activity 1

Write a comparative analysis of approaches to CSR in Europe and US.

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2.4 CSR IN SCANDINAVIAN COUNTRIES

Scandinavia is considered as the global leader in CSR and sustainability. Historically, Scandinavia referred to the countries of Denmark, Norway, and Sweden. However, in recent years, Finland is also included as a part of Scandinavia by many people. The CSR in Scandinavia stems from the notion that companies sometimes must pursue a social issue not based on the risk or cost involved or on the feasibility but for the simple reason that it is the right thing to do. The key driver of CSR in the Scandinavian countries is the long-term vision of shared value creation. Scandinavian firms like Novo Nordisk, Ikea, H&M, Norsk Hydrom Novozymes and Statoil have long demonstrated effective value creation for the company and its stakeholders (Strand, 2014).

The Scandinavian companies also perform very well in various CSR and sustainability performance measurements including Dow Jones Sustainability Index (DJSI) and the Global 100 Index. The Scandinavian countries have also figured out in the top 10 rank of the Adjusted Global Competitiveness Index published by the World Economic Forum in 2013. These countries have also consistently topped the annual Transparency International Corruption Perceptions Index. Thus, the Scandinavian countries lead in most of the CSR and sustainability performance indicators.

Let us now discuss some of the factors influencing CSR in the Scandinavian countries (Strand et. al., 2015)

1) **Stakeholder Engagement and Corporate Reputation:** Studies have shown that there is a strong relation between the CSR performance of a firm and the level of stakeholder support and corporate reputation enjoyed by it. The impact of CSR performance has been so much so that it overshadows other considerations like financial performance, quality of goods and services and innovations. The CSR performance is directly linked to the stakeholder engagement as it is the center of effective CSR and sustainability.

2) **Creating Shared Value:** Creating shared value means creation of economic value by creating value for the society by addressing the needs and challenges of the society. This concept of creating shared value has a Scandinavian origin. The firms of Scandinavian origin have always demonstrated a shared value strategy.

For example: Novo Nordisk, a Danish pharmaceutical company initiated a strategy to grow its market in China by improving diabetes care. The strategy was to increase the demand for the insulin products manufactured by the company by improving diagnosis of diabetes. For this, the company invested in physical training, patient education and local production. This would not just improve company sales but also improve the lives of Chinese citizens by improving diabetes diagnosis, care, and treatment.

3) **Institutional Influence:** The political parties in the Scandinavian countries have promoted the egalitarian policies and given due consideration to the welfare of present and future generations thus backing the virtues of stakeholder engagement. These countries have in place the institutions that would facilitate socially responsible behaviour of the companies. Some of the important influencers include mandatory representation of employees on the Boards of Directors. Also, they have a flatter pay structure in which the CEO to average worker pay ratios are very modest. Such policies lead to greater likelihood of stakeholder engagements.

4) **Cultural Influence:** Scandinavian culture is very much reflected in the Scandinavian management and is depicted in the form of consideration of well-being of stakeholders and not just shareholders, power sharing, participation, cooperation, consensus building etc. The Scandinavian countries are said to have the most feminine cultures in the world where gender roles overlap. Both men and women are supposed to display the finer qualities of being modest, tender and being concerned with the quality of life. The CSR agenda of stakeholder engagement and being concerned with the needs of the future generation aligns well with the Scandinavian feminine culture.

2.5 CSR IN LATIN AMERICA

2.5.1 What Drives CSR in Latin America?

The drivers to CSR can be classified into two:

i) Altruism: Selfless concern for the wellbeing of others

ii) Utilitarianism: Considers best action to be one that maximizes utility

In Latin America, the philanthropic traditions in the past have been rooted in religious beliefs. A large part of the regions tradition of charity has been derived from the region's catholic background. Thus, altruism and solidarity have been significant drivers of CSR in Latin America's private sector. Most of the business leaders, particularly from the family owned firms, speak of their commitment to the society as doing the right thing from ethical point of view

Two important utilitarian motives driving CSR in Latin America include (i) managing risks and (ii) gaining competitive advantage through image building.

Corporates may engage with the community in order to avert any identified risk. For example, Ausol, a multinational corporation in Argentina, involved in construction and maintenance of highways, works with local communities and this helps them gain community goodwill which is important as highways have several disruptive features. Improvement in the firm's image or market share is another utilitarian motive which drives its social commitments. For example, Posada Amazonas, an eco-tourism project in the Peruvian Amazon basin, invited an indigenous community to work and eventually become owners. Their participation makes it a unique experience for travellers (Pérez and Taboada, 2003). A strong blend of altruistic and utilitarian drives is most sustainable for business as a purely altruistic motive may not be favourable during economic downturns and a purely utilitarian motive may fail to establish the needed connect with the social partners.

2.5.2 How has CSR Evolved in Latin America?

There are two ways in which CSR has evolved in different countries:-

i) Through responsible business operations which is generally governed by regulations

ii) Community investment

In US, CSR has grown through regulations and hence is driven by responsible business operation. The details of which will be discussed in the next section. In Latin America however, regulation of responsible business operations is less common. This is mainly because Latin America does not have strong worker's organizations like trade unions or social groups like women and ethnic groups. Without pressure from society and such organized groups, the government is less likely to create standards which imply extra cost to the business organizations. In light of the lack of government framework for responsible business practices, the corporations interested in creating a common baseline for responsible business practices took it on themselves to create the standards.

For example

Abrinq Foundation, a non-profit in Brazil, offers a logo (or a special seal) to companies committed to fighting the use of child labour. Corporations are certified through Arbinq's Child Friendly Companies Programme once they pass a series of social audits from unions, employees, and NGOs. Companies use the logo to market their corporate value to youths (Grayson and Hodges 2002).

CSR in Latin America has evolved more through community investment. The corporations in Latin America are investing in communities to create a stable society. Community investments improve the bottom line or the net earnings of the corporate as it improves the life of the communities which are the consumers of their products. There have also been incidences where the corporations have influenced government regulations to enhance the impact of CSR activities.

For Example

In 1990, after a flood devastated the state of Chihuahua in Mexico, the business community approached the state government with a plan to give assistance to those most in need: a special tax of 0.2 percent on earnings to be paid by each of the 29,000 business enterprises in the region with the condition that members of the business community themselves would manage the funds generated. The overwhelming success in providing disaster relief and rebuilding the community prompted the business community to make this "Community Investment" tax permanent under state law. In 1994, the Chihuahuan Business Foundation was established to administer these funds (Gutierrez and Jones, 2007).

2.5.3 Recent Trends of CSR in Latin America

1) The firms are working towards deepening the CSR model so that the corporate responsiveness of the firms is effectively mirrored in dealings between their subsidiary units and the ultimate stakeholders.

2) Large corporations are extending their CSR practices to suppliers.

3) Another important trend is the rapid increase in cross sector alliances. For example, Federation of Brazilian Banks, Febraban, collaborated with a network of NGOs called the Brazilian Semi-Arid Articulation to provide cisterns for the dry northeast region of the country. In this collaboration, the bank provided the funds and the NGOs provided the required training, low cost methodologies and local management. The entire dialogue between the two was facilitated by the government.

4) Another trend that is catching up is the building up of relational capital with the grass root organizations. This begins with helping the communities to organize and take collective action, helping the organizations to work together and scaling up the local operations.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the various actions on which the EU policy on CSR is based?

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2) List out the factors influencing CSR in Scandinavian countries.

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2.6 CSR IN DEVELOPING COUNTRIES

To understand how CSR is conceived, incentivized, and practiced in developing countries, let us understand what are the various drivers for CSR in these countries. In this section we will discuss the 10 drivers for CSR in developing countries as discussed by Wayne Visser (2008).

1) **Cultural Traditions:** CSR in developing countries draws its roots from the traditions of philanthropy, business ethics and community push. Kautilya, the great Indian statesman and philosopher advocated moral principles-based business practices. In the African continent, the philosophy of 'Ubuntu' or African humanism is the foundation upon which rests the modern inclusive approaches to CSR. Similarly, CSR in Nigeria is based on the religious beliefs, charitable traditions, and communalism.

2) **Political Reform:** The socio-political reform process also had a great bearing on CSR activities in the developing countries. For example, in South Africa, CSR has been driven to a great extent by the move towards democracy and reforms towards justice.

3) **Socio-economic Priorities:** A good business will always have its CSR guided by the socio-economic needs of a country. e.g. In Nigeria, the CSR is guided by the country's socio-economic challenges like poverty alleviation, education, infrastructure development, health care etc. On the other hand, the CSR in Western countries is guided by issues like climate change, fair trade, consumer protection, socially responsible production, green marketing etc.

4) **Governance Gaps:** Good governance requires a government to provide for the basic needs of the citizens like housing, education, health care, roads, electricity, etc. Many a times, in developing countries, the governments fail to provide for these basic services and in such cases, CSR is seen as a way to fill in these governance gaps. However, there are several criticisms to this approach as businesses are primarily responsible towards their shareholders. Also depending on profitability, the multinationals would disinvest from a region to invest in regions that would be more profitable. Hence the local governance should be more proactive to ensure accountability and inclusiveness and not depend on CSR to fill in the governance gaps as is the trend in many developing countries.

5) **Crisis Response:** Different crisis in the developing countries also act as a catalyst to CSR response. These crises could be natural, industrial, environmental, social, health related or economic. Catastrophic events like natural disasters also bring into play immediate CSR responses. The corporate response to tsunami in Asia is a classic example.

> **For example:** Unilever (Sri Lanka) is one of the largest and oldest multinational companies in Sri Lanka. The Asian tsunami in 2004 had resulted in mass launch of CSR programmes in Sri Lanka. Unilever played to its strength while shaping its tsunami CSR response. It used its organizational strength of wide distributional network which was made available to emergency relief operations working with the local agencies to distribute food and other necessary products. There were also employee

donations to the central relief fund. After the initial relief work, Unilever started with its rehabilitation and reconstruction projects under which it undertook rebuilding of 150 homes in Sri Lanka.

6) **Market Access:** Another important driver of CSR is to gain market access by viewing unfulfilled needs of those at the bottom of the pyramid as an untapped market. Besides, CSR also helps the companies of the developing countries to access the markets of the developed countries. There is a strong relationship between CSR reporting and international sales and the companies from developing countries need to comply with the international stock market listing requirements in order to globalize.

7) **International Standardization:** Growing adoption of ISO 14001 and the Global Reporting Initiative's Sustainability Reporting Guidelines shows that CSR codes and standards are also important drivers of CSR in developing countries. CSR is also driven by standardization imposed by multinationals on their subsidiaries and operations in developing countries in their bid to achieve global consistency and to deal with social issues in developing countries like child labour and role of women in workplace.

8) **Investment Incentives:** Another important driver of CSR is Socially Responsible Investment (SRI) which involves investing in companies that promote environmental stewardship, consumer protection and human rights.

9) **Stakeholder Activism:** In developing countries where the government does not have strong control over the environmental, ethical, and social operations of companies, activism by stakeholder groups becomes an important driver for CSR. The development agencies, trade unions, international NGOs and business associations are the four major stakeholders which emerge as major activists for CSR in developing countries. This activism could be in the form of civil regulation, litigation against companies and international legal instruments.

10) **Supply Chain:** The ethical requirements imposed by multinationals on their supply chains acts as another significant driver for CSR in developing countries. This began with fair trade auditing and labelling of agricultural products produced in developing countries. Multinational supply chains in the developing countries especially those in sporting and clothing sector are marred with poor labour conditions and human right abuse issues. To deal with such conditions, standards like SA 8000 were developed which are used by multinationals in selecting their suppliers in developing countries.

Activity 2

Visit a CSR project being implemented in the city of your residence and discuss with the CSR project head about the key driver for the company to take up that project. Write their response.

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2.7 INTERNATIONAL INITIATIVES RELATED TO CSR

In this section we will discuss some of the international initiatives related to CSR on which the guidelines of CSR strategies of various countries have been built. Some of these initiatives are as follows:

i) United Nations Global Compact

ii) United Nations Guiding Principles on Business and Human Rights

iii) ISO 26000 Guidance Standard on Social Responsibility

iv) International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy

v) OECD Guidelines for Multinational Enterprises

i) United Nations Global Compact

UN Secretary General Kofi Annan announced the UN Global Compact in January, 1999 and it was officially launched in July, 2000 at the UN Headquarters in New York. It was established as an organization which would work on the mandate set by the UN General Assembly to "promotes responsible business practices and UN values among the global business community and the UN System". UN Global Compact is one of the largest international corporate sustainability initiatives. It aims to mobilize sustainable companies to take up shared responsibility to create a better world. It helps the companies to align their strategies to the ten basic principles of the UN Global Compact and to take strategic action towards attaining developmental goals like the Sustainable Development Goals. It also acts as driver of change across various aspects of corporate sustainability including **12 social issues** like child labour, children's right, education, forced labour, human rights, indigenous people, labour, migrant workers, persons with disabilities, poverty, gender equality, women's empowerment; **five environmental issues** like biodiversity, climate change, energy, food and agriculture, water and sanitation and **three issues related to governance** like anti-corruption, peace and rule of law. The UN Global Compact inspires guides and supports companies to do responsible business.

The ten principles of the United Nations Global Compact are:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: https://www.unglobalcompact.org/what-is-gc/mission/principles

Case Study UN Global Compact Initiative

Empowering Refugee Women Project Brazil is receiving increasing numbers of refugees from African and Middle Eastern countries. In response, Global Compact Network Brazil, in partnership with UNHCR and UN Women, has teamed up with local and foreign companies and NGOs to help women refugees navigate the job market. Over the course of the project, the partnership has succeeded in raising awareness about the issues women refugees face in Brazil, with more than 10 companies having offered employment and training opportunities to over 80 women refugees. As an example of the WEPs in action, this project is demonstrative of the collective action that can be taken to build an employment pipeline for marginalized women.

Source: Women's Empowerment Principles Global Trends Report, 2018

ii) United Nations Guiding Principles on Business and Human Rights:

Commonly known as the UNGPs it is a list of 31 principles implementing the 'Protect, Respect and Remedy' framework. These principles provided the first global standards to address the issue of adverse impact of business activity on human rights. It was developed by the Special Representative of the Secretary General, John Ruggie and was unanimously endorsed by the United Nations Human Rights Council, making it the first corporate human rights responsibility initiative to be endorsed by the United Nations.

The UN Guiding Principles help the businesses to fulfil their obligations towards respecting human rights and complying with the existing laws. It helps prevent risks of human rights violation in business activities. It also lays down remedies for any breach of the existing laws.

These principles are based on three pillars:

a) The State's duty to protect human rights: It is the duty of the state to protect the human rights of its subjects through various mechanisms like policy making, regulation and enforcement.

b) The corporate responsibility to respect human rights: The guiding principles states that the private sector has an important role in protecting and upholding the human rights. In order to avoid infringing on the rights of the individuals, the corporate must act with due diligence.

c) Access to remedies when the rights are breached: The third pillar states that it is the state's responsibility to provide access to remedy to the individuals whose human rights have been infringed upon. For this, the state may use judicial, administrative, and legislative means. It is also the responsibility of the corporates to prevent and remediate any infringement of human rights for which they are responsible.

In this unit we will restrict to the principles related to corporate responsibility to respect human rights. Out of the total 31 principles, a total of 14 principles are related to the corporate responsibility to respect human rights. The principles under this head are classified as foundational and operational principles. Let us look at each of them:

Foundational Principles

1) Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.

2) The responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

3) The responsibility to respect human rights requires that business enterprises: a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

4) The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership, and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise's adverse human rights impacts.

5) In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including: a) A policy commitment to meet their responsibility to respect human rights; b) A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; c) Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

Operational Principles

6) As the basis for embedding their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that: (a) Is approved at the

most senior level of the business enterprise; (b) Is informed by relevant internal and/or external expertise; (c) Stipulates the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services; (d) Is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties; (e) Is reflected in operational policies and procedures necessary to embed it throughout the business enterprise.

7) To identify, prevent, mitigate, and account for how they address their adverse human rights impacts, business enterprises should carry out human rights' due diligence. The process should include assessing actual and potential human rights impacts, integrating, and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence: (a) Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships; (b) Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations; (c) Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise's operations and operating context evolve.

8) To gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should: (a) Draw on internal and/or independent external human rights expertise; (b) Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.

9) In order to prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action. (a) Effective integration requires that: (i) Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise; (ii) Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts. (b) Appropriate action will vary according to: (i) Whether the business enterprise causes or contributes to an adverse impact, or whether it is involved solely because the impact is directly linked to its operations, products, or services by a business relationship; (ii) The extent of its leverage in addressing the adverse impact.

10) In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should: (a) Be based on appropriate qualitative and quantitative indicators; (b) Draw on feedback from both internal and external sources, including affected stakeholders.

11) In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. In all instances, communications should: (a) Be of a form and frequency that reflect an enterprise's human rights impacts and that are accessible to its intended audiences; (b) Provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved; (c) In turn not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality

12) Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.

13) In all contexts, business enterprises should: (a) Comply with all applicable laws and respect internationally recognized human rights, wherever they operate; (b) Seek ways to honour the principles of internationally recognized human rights when faced with conflicting requirements; (c) Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue wherever they operate.

14) Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.

iii) ISO 26000 Guidance Standard on Social Responsibility

The ISO Committee on Consumer Policy was the first to identify the need to work on social responsibility standards in 2001. ISO 26000 provides guidance on how businesses can operate in a socially responsible way. It is concerned with the issues organizations need to address in order to function in a socially responsible way and with the best practices in social responsibility. ISO 26000 cannot be used as a certification standard as the provisions in it are only voluntary guidance and not requirements.

The guidance in ISO 26000 is based on the best practices developed by existing private and public sector social responsibility initiatives. It is consistent with various international conventions and declarations including International Labour Organization (ILO), United Nations Global Compact Office (UNGCO), Organization for Economic Co-operation and Development (OECD).

The core subjects on which guidance is given are:

i) Organizational Governance

ii) Human Rights

iii) Labour Practices

iv) The Environment

v) Fair Operating Practices

vi) Consumer Issues

vii) Community Involvement and Development

iv) International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy (MNE Declaration)

The MNE Declaration provides guidance to enterprises on responsible and inclusive workplace practices. It facilitates outreach and understanding of Decent Work Agenda in the private sector. It is the only instrument that has been widely adopted by governments, employers, and workers around the world. It was adopted 40 years ago and has been amended twice in 2000 and 2006 and revised in 2017. Its principles are based on international labour standards and cover areas such as employment, training, conditions at work, industrial relations etc.

The MNE Declaration lays down principles in the fields of employment, training, conditions of work and life, and industrial relations which governments, employers' organizations, workers' organizations, and multinational enterprises are recommended to observe on a voluntary basis.

What Does MNE Declaration Contain

The MNE Declaration consists of ***General Policies*** laid down for all the parties concerned with the declaration including guidelines for multinational enterprises and governments of hosts countries. It also contains guidelines related to various aspects of ***Employment, Training, Conditions of Work and Life and Industrial Relations.***

1) Employment

Under this section, the declaration sets guidelines on various aspects. We will be looking at some of the key points under each section

i) Employment Promotion: These are a set of instructions or guidelines to multinational enterprises for employment promotion in the host countries. It says that

"Multinational enterprises, particularly when operating in developing countries, should endeavour to increase employment opportunities and standards, taking into consideration the employment policies and objectives of the governments, as well as security of employment and the long-term development of the enterprise." (ILO, 2017).

It instructs the MNEs to work in harmony with the national social development policies. It also instructs them to give priority to the employment of nationals of the host country.

ii) Social Security: It instructs the governments to establish social security as a fundamental element of national security systems. It instructs Multinational Enterprises to complement the public social security systems through their employer sponsored programmes.

iii) Elimination of forced or compulsory labour: It instructs the Governments to take steps to eliminate forced labour and protect the victims of forced labour and help them get compensation and rehabilitation and sanction the perpetrators of forced labour. The governments should provide support to the employers to take measures to identify, prevent and mitigate forced labour. It also instructs enterprises to take measures to prohibit and eliminate forced labour in their operations.

iv) Effective abolition of child labour- minimum age and worst forms: It instructs the governments to have national policies in place to prohibit and eliminate child labour and raise the minimum age for employment to a level consistent with complete physical and mental development of young persons. It also instructs multinational enterprises to abide by the minimum age for employment and prohibit and eliminate child labour in their operations.

v) Equality of opportunity and treatment: Government policies should promote equality of opportunity and treatment in employment and eliminate any discrimination based on race, colour, sex, religion, social origin etc. Government should promote equal pay for both men and women. Multinational enterprises should also be guided by the principle of non-discrimination in their operations.

vi) Security of Employment: It instructs the governments to study the impact of multinational enterprises on employment in various industrial sectors. It also instructs the multinational enterprises to make efforts to provide stable employment for workers employed by them. It also instructs them to notify to the concerned government authorities about changes in operations that may have major employment effects like mass layoffs in case of closure of the operation.

2) Training

It instructs the governments to develop national policies for employment linked vocational training and guidance. It also instructs multinationals to provide relevant training to workers at all levels to develop useful skills, promote lifelong learning and development. It also instructs the multinational enterprises to provide services of the expertise of their skilled personnel for training programme organized by governments.

3) Conditions of Work and Life

i) Wages, benefits, and conditions of work

The wages, benefits and conditions of work provided to the workers by the MNEs should be comparable to those provided by comparable employers in the host country. It instructs the MNEs to take into consideration the needs of workers and their families, cost of living, living standards of various social groups, social security benefits and other economic factors. It also instructs the governments to ensure that the activities of MNEs provide as much benefit as possible to lower income groups and less developed areas.

ii) Safety and Health

It instructs the Governments to ensure that MNEs provide adequate safety and health standards and provide safe and healthy working environments to their employees. International labour standards and ILO codes of practices and guidelines on occupational safety and health should be taken into account. They should provide information on safety and health standards relevant to their operations to all concerned including workers, worker organizations and other competent authority in the countries they operate.

4) Industrial Relations

MNEs should observe standards of industrial relations

i) Freedom of association and right to organize

It instructs the MNEs to uphold the right of their employees to join organizations of their choice, subject to the rules of the organizations concerned and protect them against acts of anti-union discrimination. It also instructs the governments of the host countries that when they offer special incentives to attract foreign investment these incentives should not limit worker's freedom of association and right to organize and bargain collectively. It instructs that the representatives of workers should have the freedom to hold meetings for consultation or exchange of views.

ii) Collective Bargaining

The workers of MNEs should have the freedom to form representative organizations for collective bargaining. It instructs the MNEs to authorize representative of workers to conduct negotiations with the representatives of management who are authorized to take decisions of the issues under negotiation. It instructs the governments to provide the worker's organizations with the information on the industries in which the enterprise operates which would help them in laying down objective criteria in the collective bargaining process.

iii) Consultation

It instructs MNEs to allow mutual consultations on matters of mutual concern between employers, workers, and their representatives.

iv) Access to remedy and examination of grievances

It instructs the governments to protect the workers in their territory against business related human rights abuses. MNEs should use their leverage to encourage their business partners to provide effective means to enable remediation of human rights abuses. It also instructs the MNEs to respect the rights of the workers and have a proper grievance redressal mechanism in place.

v) Settlement of industrial disputes

It instructs the governments and the MNEs to make available a conciliation machinery to assist in settlement of industrial disputes between the employers and workers.

5) OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are a set of recommendations for responsible business conduct addressed by Governments adhering to the guidelines to the multinational enterprises operating in and from these adhering countries. The guidelines were first adopted in 1976 and have been revised 5 times since then, the latest being in 2011.

What Do the Guidelines Contain?

There are 11 chapters to the guidelines. The first chapter on ***Concepts and Principles*** deals with the concepts and principles which are the backbone of these guidelines. The second chapter on ***General Policies*** contains a set of recommendations in the form of policies which are the basis for various principles. This chapter deals with various provisions like dealing with adverse impacts, implementing due diligence, stakeholder engagement etc. The third chapter in ***Disclosures*** contains recommendations to the enterprises to be transparent in their operations and responsive to the increasing demand for information. The fourth chapter on ***Human Rights*** deals with the recommendations for the enterprises to meet their responsibilities towards various internationally recognized human rights. This chapter is aligned with the UN "Protect, Respect and Remedy" Framework and 'Guiding Principles on Business and Human Rights.' The fifth chapter on ***Employment and Industrial Relations*** deals with the role of the Guidelines in promoting the observance of International Labour Standards as set by the ILO by the enterprises. The sixth chapter on ***Environment*** reflects on the 'Rio Declaration on Environment and Development' and 'Agenda 21'. It provides recommendations for the enterprises to contribute towards environment protection through better planning and management. Chapter Seven on ***Combating Bribery, Bribe Solicitations and Extortion*** provides recommendations for enterprises to fight and eliminate bribery from the system. The eighth chapter on ***Consumer Interests*** draws its recommendations from the OECD Committee on Consumer Policy and Committee on Financial Markets and other international organizations. It calls on enterprises to ensure quality and reliability of the products produced by them by following fair trade, marketing, and advertising practices. The ninth chapter on ***Science and Technology*** aims to promote transfer of technology to the host countries. The tenth chapter on ***Competition*** focuses on the importance of enterprises carrying out their activities in consonance with the competition laws and regulations and refraining from anti-competitive activities and agreements. The eleventh chapter on ***Taxation*** covers recommendations on fundamental taxation.

The policies on which the guidelines are based focus on two aspects: (i) Positive contribution of multinational enterprises to sustainable development and (ii) avoiding adverse impacts. Let us discuss some of the important policies on which the guidelines are based:

1) Adverse Impacts: Enterprises should avoid causing adverse impacts on matters covered by the guidelines either through their own activities or through activities linked to the enterprise by business relationships like business partners, supply chain or other entities linked to the business operations.

2) Due Diligence: This means to make identification and prevention of adverse impacts an integral part of business decision making and risk management systems of an enterprise. The enterprises with large supply chains are expected to identify the general areas where there is a risk of adverse impacts and prioritize suppliers for due diligence.

3) Stakeholder Engagement: During planning and decision making of the projects, the enterprises should engage the stakeholders specially when the project is going to impact them. For example, if the project involves

extensive use of land or water or any such resource which could adversely impact the local community, their views need to be taken into account.

4) Fostering Confidence and Trust: Enterprises should develop a relationship of mutual trust and confidence with the communities in which they work. They are also required to work within the statutory frameworks of human rights, environment, health and safety, taxation etc. and not seek undue exemptions.

5) Human Capital Formation and Capacity-building: Enterprises should work closely with the local community and create employment opportunities for the locals. To build their capacities, it should also provide training to the employees. Promoting awareness and compliance with the company policies and Guidelines is also encouraged.

6) Corporate Governance: Supporting and upholding good corporate governance principles is recommended. The practices of good corporate governance are drawn from the OECD Principles of Corporate Governance and OECD Guidelines of State-Owned Enterprises.

Implementing the Guidelines

The guidelines are implemented in different countries through the National Contact Points. During instances of conflict the interested party could submit a 'Specific Instance' to the NCP regarding the non-observance of the Guidelines.

National Contact Points: The governments adhering to the Guidelines are obliged to set up National Contact Points (NCPs) whose main role is to undertake promotional activities, handle inquiries and resolve issues arising out of non-compliance to the Guidelines. The NCPs report to the OECD investment committee and meet on a regular basis and share their experiences.

Specific Instances: The NCPs are not judicial bodies but focus on problem solving by mediation. In case of any non-observance of guidelines, the interested party can submit a specific instance to the NCP. Once a specific instance has been submitted, it is subjected to three phases.

Phase 1: Initial Assessment: This phase involves initial analysis of the issue and to determine if it requires further examination.

Phase 2: Offer of Good Offices: If the matter requires further investigation, the NCPs facilitate access to consensual means to resolve the issues. For this matter, it consults with the parties and if necessary, it asks for advice from the relevant stakeholders. It also offers mediation whereever relevant to help resolve the issue.

Phase 3: Conclusion: Finally it issues a report if the agreement is reached, a statement if the party is not willing to participate in the procedures or if no agreement is reached or if the specific instance does not require any further examination after the initial assessment . The UN initiative for CSR specially also include the Sustainable Development Goals adopted in 2015. This has been discussed in detail in Block 4 of Course 2.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Write any two principles of UNGC.

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2) What are the core subjects on which guidance is given under ISO 26000?

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2.8 LET US SUM UP

The perspective on CSR varies from country to country. In this unit you have read about the perspectives of some of the European countries including Austria, Germany, France, and UK. You have also read about the CSR initiatives in US, Latin America, and Scandinavian countries. This unit also discusses about various drivers for CSR in developing countries. There are several international initiatives which are key expressions of the broader systems of public and private governance from which the private initiatives emerge. In this unit you have also read about such initiatives like United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy and OECD Guidelines for Multinational Enterprises.

2.9 KEYWORDS

Drivers of CSR : Drivers are the factors that encourage companies to be more socially responsible.

Shared Value : Shared Value is based on the idea that companies can increase profits and enhance competitiveness by solving societal problems.

Collective Bargaining : Collective bargaining is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working conditions, benefits, and other aspects of workers' compensation and rights for workers.

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2.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress – 1

Answer 1: The EU policy on CSR is based on various actions to support this approach. They include:

1) Enhancing the visibility of CSR and disseminating good practices
2) Improving and tracking levels of trust in business
3) Improving self and co-regulation processes
4) Enhancing market rewards for CSR
5) Improving company disclosure of social and environmental information
6) Further integrating CSR into education, training, and research
7) Emphasizing the importance of national and sub-national CSR policies
8) Better aligning European and global approaches to CSR.

Answer 2: Factors influencing CSR in the Scandinavian countries:

5) Stakeholder Engagement and Corporate Reputation
6) Creating Shared Value
7) Institutional Influence
8) Cultural Influence

Check Your Progress-2

Answer 1: Two principles of UNGC are:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Answer 2: The core subjects on which guidance is given are:

viii) Organizational Governance
ix) Human Rights
x) Labour Practices
xi) The Environment
xii) Fair Operating Practices
xiii) Consumer Issues
xiv) Community Involvement and Development

UNIT 3 PERSPECTIVE IN INDIAN CONTEXT

Structure

3.1 INTRODUCTION

In this unit we will read about the evolution of CSR in India over time. India has a long tradition of philanthropy since ancient times. During the preindustrial period, philanthropy was largely motivated by religion. The merchants also used to help the society to get over various natural calamities like famines and floods. During the colonial rule, the industrial families used to contribute to social causes. During independence movement, the notion of 'Trusteeship' introduced by Mahatma Gandhi put pressure on the industrialists to contribute towards nation building and social development. Post-independence, with the coming up of Public Sector Undertakings (PSUs), private sector took a backseat and public sector became a key driver of development. However, the limited effectiveness of the public sector, shifted the expectation back to the private sector for socio-economic development of the country. The economic liberalization in the 1990s helped the Indian companies to grow rapidly. This increased their willingness to contribute towards social causes. The companies started getting involved in various CSR programmes like building schools and hospitals, empowering rural youth by providing vocational trainings, organizing health camps etc. Corporates also started joining hands with NGOs to use their expertise in bringing about a positive change in the lives of the people. With the passing of the Company's Act 2013 and the New CSR Rules 2014 which have come into effect since April 2014, CSR has become binding under legislation.

This unit aims to help you to understand the evolution of CSR in different stages of India's development. After reading this unit you will be able to:

- Discuss the evolution of CSR in India
- Explain the models of CSR operating in India
- Discuss the current trends and practices of CSR in India

3.2 CSR IN INDIA: HISTORICAL BACKGROUND

3.2.1 The Phases of Development of CSR in India

The mention of the concept of CSR in India dates to the Vedic period. Rigveda mentions about sharing of wealth by the rich with the poor. Ancient texts like Manu Smriti also talks of the nature of business done which should be for the good of the society and for the good of the business in the long run. It also instructs that the means of wealth that is acquired should be in line with the principles of *dharma.* One form of giving is through the religious institutions. Prior to the evolution of modern philanthropy, religious institutions were the most important sources serving the poor either through temple trusts, waqfs, gurudwaras and churches. For instance, schools were established by Tirumala Tirupati Devasthanams (TTD), the trust managing Tirumala Venkateshwara Temple in Andhra Pradesh, way back in 1876.

The book 'Beyond Business: From Merchant Charity to Corporate Citizenship' gives an account of philanthropic practices in India. This section draws on that book. According to Sundar (2000), the development of CSR in India can be divided into four phases.

Phase 1 (CSR driven by Charity and Philanthropy): This phase is from 1850 to 1914. CSR in the initial phase was driven by culture, traditions, family values, industrialization, and religion. Religious obligations and traditions based on charity and philanthropy like dan, seva and zakat have been followed in India since ancient times. In 1850s, the merchants, driven by the purpose of committing themselves to the society for religious purposes made huge donations for construction of temples. During times of famines and epidemics, the merchants also helped the society in overcoming these calamities by donating food and money.

Industrialization was pioneered in India in the 19th century by a few families like Tatas, Birlas, Godrej, Shriram, Singhania, Lalbhai, Sarabhai, Mahindra, Modi, Bajaj and Annamali. These business houses were committed to CSR, however, while doing so they also had motives such as business considerations, supporting of specific communities and political objectives. During this phase, all the donations were done for the construction of schools, hospitals, temples etc. without any consideration of the long-term impact of these donations.

Phase 2 (CSR driven by Social Development): The second phase of CSR in India is from 1914 to 1960. This period was dominated by India's struggle for independence. The CSR during this period was greatly influenced by Gandhi's theory of trusteeship. Established family businesses had trusts for building of schools, colleges, scientific and training institutions etc. These trusts also involved themselves in various social causes initiated by Mahatma Gandhi like abolition of untouchability, women's empowerment, and rural development. During this phase, the business houses were drawn to the political fight for independence. Not only did they participate in the economic and social development of the country, they perceived the economic development of the country as the fight against the British rule. The vision of living in a free country was the driving force which led to involvement of corporate sector in the development of the country.

Phase 3 (CSR in the Mixed Economy): The third phase of CSR in India is from 1960 to 1980. The role of state in development increased greatly after independence. This phase was characterized by emergence of several public enterprises. Several legislations on corporate governance, labour and environmental standards also came into existence during this phase. Heavy regulations and License Raj replaced the self-regulatory activities of the corporate. However, the state failed to eradicate poverty and support economic development. The expectation shifted back to private sector and their involvement in the socio-economic development of the country became very essential. Businesses were expected to be more transparent, socially accountable and have regular stakeholder dialogues. Inspite of all these efforts, the CSR failed to match the expectations in its contribution to development.

Phase 4 (Interface between Philanthropic and Business Approaches): This phase starts from 1980s till the present day. During this phase, the companies started viewing CSR as a sustainable business strategy and started adopting multi-stakeholder approach. With the liberalization of the economy in 1990s, India became integrated with the global markets. With the abolition of the license systems, there was a boom in the economy. The growth in the economy has helped the Indian companies to grow rapidly which has increased their willingness to participate more actively in the socio-economic development of the country. India has now become an important production and manufacturing base for many of the transnational companies as a result of which, the Indian companies involved in production and export of goods to developed countries are required to comply with various international standards of labour, environment etc.

3.3 MODELS OF SOCIAL RESPONSIBILITY OPERATING IN INDIA

A report by The Energy and Resource Institute (TERI) (Kumar et al., 2001) mentions four models of CSR that are present in India.

1) **The Ethical Model:** This is based on the Gandhian Model of Trusteeship. The philosophy of Trusteeship propounded by Mahatma Gandhi believes that the rich should use their wealth for the welfare of the poor and the underprivileged. In India, poverty and inequality still is a structural problem and unless businesses come forward to strengthen the society, these problems will continue to create conflict of interest among different segments of the society. The Gandhian model of Trusteeship is based on the principle that the surplus wealth should be kept in trusts for the greater good of the society. The business while being economically viable should also uphold their ethical values to create sustainable livelihoods for all. The Gandhian model provides directions for transforming an unequal society into an egalitarian society. Some corporate are huge in terms of their size and the number of lives they impact and hence can be instrumental in bringing about structural changes in the society. When the corporate governance and finance are in order, they can generate social reforms.

2) **The Statist Model:** This model came into being with the adoption of socialist and mixed economy by Jawahar Lal Nehru. In this model, the corporate responsibilities were governed by state ownership and legal requirements. The Labour Laws and Management Principles had in them the basic elements

of corporate responsibility, particularly those related to community and worker relationships. Most of the public sector companies even today follow the statist model of state sponsored corporate philosophy.

3) **The Liberal Model:** This model was propounded by Milton Friedman. According to Friedman, the social responsibility taken up by the corporate distorts economic freedom of the shareholders as they have no say in deciding how their money will be spent in these activities. He argued that corporations should engage in activities that would generate revenue and profit. However, in doing so they should abide by the law and follow ethical customs. Friedman in his article in New York Times in 1970 titled *The Social Responsibility of business is to increase its profits* says that "… there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game, which is to say, engages in open and free competition, without deception or fraud."

   In his argument he says that the Directors of corporation or other executives should not take up socially responsible programmes as they do not have any incentive for prudent spending of the shareholder's money.

4) **The Stakeholder Model:** The Stakeholder Model was propounded by Edward Freeman. The theory argues that the company should be driven by the welfare of the stakeholder and not stockholders alone. Stakeholders include shareholders, employees, consumers, suppliers, competitors, related government agencies and local communities. This model considers itself with not just profit earning but also the impact upon major stakeholders. In support of this model Freeman argues that when a firm is responsive towards the concerns of the stakeholders, they become more resilient themselves. It also results in better long- term performance of both the firm as well as the society.

Activity 1

Discuss with elderly members in your family/society about how philanthropy was carried out during their times. Ask if they had contributed to any of the philanthropic/charity activities. Write about it.

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Check Your Progress 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the characteristics of the third phase of development of CSR in India?

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2) Discuss the statist model of social responsibility.

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3.4 EVOLUTION OF A LEGISLATION ON CSR: VOLUNTARY PRACTICES TO REGULATORY MECHANISM

The corporation in India, have a long tradition of philanthropy and have been engaged in social activities. CSR started becoming a topic of interest for the policy makers and corporate in the late 1990s. At policy level, CSR was first formalized in India with the issuance of Corporate Social Responsibility Voluntary Guidelines in 2009 by the Ministry of Corporate Affairs. It included the basic elements of CSR like ethical functioning, human rights, worker's right, environmental considerations, stakeholder welfare etc. This was followed by another guidelines called the National Voluntary guidelines of Social, Environmental and Economic Responsibilities of Business, issued in 2011 by the Ministry of Corporate Affairs. These guidelines urged the corporate to adhere to the nine principles of CSR and the adherence to the guidelines was based on the 'apply or explain' approach. With the enactment of Section 135 of the Companies Act 2013, India became the first country to make CSR spending and disclosure mandatory for large companies with specific turnovers.

The Department of Public Enterprises (DPE) has also been issuing guidelines on CSR for Central Public Sector Enterprises (CPSE) from time to time. The guidelines on Corporate Governance for CPSEs was given in 2010 to bring more transparency and accountability in the functioning of CPSEs. These guidelines pertain to both listed and unlisted CPSEs and give clear directions in terms of the composition, functional roles of Board of Directors, Audit Committee, Remuneration Committee, Subsidiary Companies, Disclosures, Report, Compliance and Schedule of implementation. DPE also issued the guidelines on Corporate Social Responsibility and Sustainability for CPSEs. These guidelines spell out the sustainability initiatives the CPSEs are expected to take. The CPSEs Conclave held in April, 2018 recommended utilization of CSR funds in a focused manner by adopting a theme based approach. It was proposed that a common theme be identified each year for undertaking CSR by CPSEs. School education and health care were identified as the theme for focused intervention for the year 2018-19. Sixty percent of the annual CSR expenditure of the CPSEs was required to be for the thematic program. A list of 112 aspirational districts was identified by NITI Aayog which were to be given preference.

3.4.1 The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business

The National Voluntary Guidelines (NVGs) were laid down by the Ministry of Corporate Affairs to provide guidance to the companies to work in accordance with the national policies of inclusive growth and climate change. The guidelines help the corporate to formulate objectives keeping in consideration their impact on stakeholders and environment.

The NVGs are based on nine principles which are as under

The Nine Principles of National Voluntary Guidelines

1) Businesses should conduct and govern themselves with ethics, transparency, and accountability.

2) Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycles.

3) Businesses should promote the wellbeing of all the employees.

4) Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

5) Businesses should respect and promote human rights.

6) Business should respect, protect, and make efforts to restore the environment.

7) Businesses when engaged in influencing public and regulatory policy should do so in a responsible manner.

8) Businesses should support inclusive growth and equitable development.

9) Businesses should engage with and provide value to their customers and consumers in a responsible manner.

(Source: Khandelwal, 2011)

3.4.2 The Companies Act 2013 and CSR

(Source: mca.gov.in)

The Act

The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the government's efforts of equitably delivering the benefits of growth and to engage the Corporate World with the country's development agenda. The Companies in India are governed by Clause 135 of the Companies Act 2013 for performing their CSR activities.

Section 135

Section 135 of the Companies Act 2013 lays down that:

- The companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of 5 crore INR and more shall constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director.
- The CSR Committee will be responsible to
  - i) 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;
  - ii) recommend the amount of expenditure to be incurred on the activities referred to in (i); and
  - iii) monitor the Corporate Social Responsibility Policy of the company from time to time.
- The Board of every company shall
  - i) 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 place it on the company's website, if any, in such manner as may be prescribed; and
  - ii) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.
- It is also the duty of the Board to ensure that the company spends two percent of the average net profits made by the company in the preceding three financial years and while spending the CSR amount, giving preference to local areas where it operates.
- If the company fails to spend the amount, the Board in its report shall specify the reasons for not spending the same.

Though section 135 makes CSR spending and reporting mandatory, it gives flexibility to the companies to choose the CSR activities from the list of activities that the corporate can potentially undertake.

The CSR Rule, 2014

Source: mca.gov.in Companies Act Notification 2014, Ministry of Corporate Affairs

A set of rules framed under section 135 of the Act, came into force on 1st April, 2014. It lays down rule for the following:

CSR Activities

- The CSR activities taken up by the companies will be as per the stated CSR policy and activities taken up by the company under its normal course of business will be excluded from CSR activities. A company can implement the CSR activities approved by the CSR committee either on its own or through a non-profit foundation set up by the company to facilitate this initiative or through an independently registered non-profit organization that has a record of being into such activities for at least three years or in collaboration with other companies.

- The activities undertaken in India will only be considered under the CSR activities.

- Spending on activities that benefit only the employees of the company, also known as self-serving expenditure will not be considered as CSR spending. The companies are free to spend on capacity building of their employees but the expenditure should not be more than 5 percent of the total CSR expenditure in any particular year.

- Contribution to political parties will also not be considered as CSR activity.

- The income generated from the CSR activities should be credited back to the community or CSR corpus and this would be over and above the mandatory 2% of profit.

CSR Committee

- The companies which are bound by the CSR clause are required to constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director. A private company with only two directors on its Board will have only two directors in the CSR Committee and in case of foreign company, the Committee will have at least two persons of which one will be an authorized person residing in India and the other will be nominated by the foreign company.

CSR Policy

- The CSR policy of a company will include

  - List of projects or programmes within the Schedule VII of the Act which the company will undertake, along with the implementation schedules and other modalities.

  - Monitoring process of these programmes.

- The policy will also specify that the surplus generated from the CSR programmes will not be a part of the business profit of the company.

CSR Expenditure

- All expenses including contribution to the corpus for programmes relating to CSR activities approved by the board will be included as CSR activities provided, they are in conformity with the activities which fall within the purview of Schedule VII of the Act.

CSR Reporting

- The rules also provide a format for the board report on CSR which includes reasons for spending of less than 2 % of the average net profits of previous three years and a responsibility statement stating that the company's CSR policy, implementation and monitoring mechanism are in accordance with the CSR objectives. The report is signed by the CEO, MD, or Director of the company.

Display of CSR Activities on its Website

- The Board of Directors shall disclose the content of the CSR policy in its report as well as on the company's website as per the particulars specified.

Schedule VII

Source: www.mca.gov.in

The Schedule VII of the Companies Act provides a list of activities which can be included by companies in their CSR policies where the CSR spending can be done. These activities relate to:

i) Eradicating extreme hunger and poverty;

ii) Promotion of education;

iii) Promoting gender equality and empowering women;

iv) Reducing child mortality and improving maternal health;

v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria, and other diseases;

vi) Ensuring environmental sustainability;

vii) Employment enhancing vocational skills;

viii) Social business projects;

ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities, and women; and

x) Such other matters as may be prescribed.

Activity 2

Visit a CSR office of a company in the city of your residence. Find out the various CSR projects undertaken by the company. Identify which of the activities mentioned in Schedule VII do these projects correspond to.

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3.5 CURRENT TRENDS AND PRACTICES OF CSR IN INDIA

Prior to Companies Act 2013, CSR clause was voluntary for companies, they were however required to disclose their CSR spending to their shareholders. After the amendment to Companies Act 2013, made in April 2014, India became the first country in the world to make CSR mandatory.

Some of the emerging trends that the CSR in India is expected to witness are:

(Sharma and Gupta, 2019)

1) NGOs Will Adapt and Get Better at Working with the New Type of Funders – Corporates

Traditionally, the NGOs have been collaborating with government agencies and the international aid agencies. However, in recent years NGOs have found new collaborators in the large Indian companies and multinational corporations. There is an increasing trend of MNCs partnering with the NGOs to execute their social responsibility initiatives in areas like education, sanitation, sustainability, health, water etc. This partnership with corporates has better equipped the NGOs not just in terms of higher funds but also with the required technological and intellectual resources required in implementing the projects. The role of NGOs has become more focused on aspects like impact, deliverables, adhering to timelines, doing diligent reporting etc. Now the focus is more on measurable outcomes.

2) Corporates Will Start Thinking of CSR as Another Pillar of Their Corporate Strategy, Instead of as Philanthropy

Sustainability issues and social responsibility have become a key consideration for business leaders and decision-makers in the corporate sector, in the last couple of years. Companies these days think of CSR as an integral part of their managerial process, decision making and overall strategy with an aim to position themselves not just as philanthropic but also as socially responsible organizations. Companies view CSR as an investment to build sustainable societies which have a significant positive impact on the societies. Companies have seen a shift from having a separate CSR strategy to having a corporate strategy which incorporates CSR.

3) More Companies Will Comply and Engage in Long-term Partnerships with NGOs

NGOs have the expertise and experience in working in a variety of development sectors like environment, education, health, gender issues etc. Each of these sectors is different from the other and needs a different approach to deal with its set of challenges and issues. Also, measurable impacts of various interventions take a long time to achieve. With companies having very little or no knowledge of working in the development sector, they seek to engage in long term collaborations with NGOs to be able to make a greater on-ground impact.

4) For-Profit Social Ventures Will Emerge as a Major Force of Social Good

Other than the non-profit organizations working in the social sector, there are several for-profit ventures that have emerged in the past few years that are tackling social issues through innovative products and services. One such example is of women entrepreneurs manufacturing low cost sanitary napkins which are made accessible to semi-rural and urban areas. For-profit ventures are also equipped with better managerial and technical skills needed to address some major issues in the social sector. They are also helping corporate sector to build effective organizational and governance models.

5) **Technology and Innovation Will Play a Major Role in Addressing Structural Issues in the Social Sector and Building NGOs' Organizational Capabilities**

Technology has proven to be useful to both social sector as well as the corporates. Technology has helped the social sector to move away from the traditional mode of operating to a more efficient and transparent way by digitizing and automating workflows and streamlining the way the organizations interact with each other. Technology can also help corporate to assess the consistency between the ethical value the company endorses and their actions supporting the same by collating, accessing and analysing relevant data.

3.6 CSR INITIATIVES OF INDIAN COMPANIES

Some of the CSR initiatives of Indian companies are listed below:

1) **Tata Chemicals Ltd.**

Tata Chemicals Ltd. has spent 25.68 crores for CSR in 2018-2019 which was much higher than the prescribed amount of 19.86 crores. Improving the quality of life and fostering sustainable and integrated development in the communities where it operates is central to Tata Chemicals' corporate philosophy. In order to do so Tata Chemicals established Tata Chemicals Society for Rural Development (TCSRD) in 1980 as a society and trust. It lays emphasis on the spirit of participatory development by involving the beneficiaries at each stage of the development process which ensures viability and sustainability of the programmes (Fernandes, 2019). Around 30 percent of the TCSRD funds are spent of wildlife conservation. The amount is distributed over three places the company operates - Mithapur in Gujarat, Haldia in West Bengal and Babrala in Uttar Pradesh.

2) **Infosys Ltd.**

Infosys Limited had established the Infosys foundation in 1996 to implement its social development projects. During 2019, the company had spent INR 342 crores against the prescribed 340 crores towards various CSR schemes. The major works of the Foundation included the introduction of Aarohan Social Innovation Awards, restoration of water bodies in Karnataka, supporting the construction of a metro station in partnership with Bangalore Metro Rail Corporation Limited, enabling the pursuit of access and excellence in sports through the GoSports Foundation, and relief efforts in Tamil Nadu, Karnataka, and Kerala (Fernandes, 2019).

3) **Bharat Petroleum Corporation Ltd.**

BPCL as a part of its CSR initiatives, focuses on imparting holistic education by facilitating usage of technology and infrastructural facilities. Additionally, BPCL's CSR philosophy also includes participation in projects of national importance like the Swachh Bharat Abhiyan involving creation and maintenance of toilets, associated sanitation facilities, waste management initiatives leading to overall health and hygiene for the communities.

4) Mahindra & Mahindra Ltd.

Among the various development programmes supported by Mahindra and Mahindra Ltd. are Nanhi Kali programme to provide educational support to underprivileged girls in India. It sponsors Lifeline Express (hospital on train) to provide medical care, treatment, and surgical intervention to individuals. Through Mahindra Hariyali 0.95 million trees were planted which contributed to improving green cover and protecting bio-diversity in the country.

5) Vedanta Ltd.

The CSR portfolio of Vedanta Ltd. has diverse projects based on 10 broad thematic areas running across various locations. The Nandghar project is the flagship initiative which aims at rebuilding Anganwadis to ensure health and learning of children in rural areas and for skilling and empowering women.

6) Indian Oil Corporation Ltd.

Indian Oil Co. Ltd. has been involved in various social development activities across the nation. Most of these projects are for improving the quality of life of the marginalized and underprivileged sections of the society. The key thrust areas of the company include Safe drinking water and protection of water resources, Healthcare and sanitation, Education and employment-enhancing vocational skills, Empowerment of women and socially/economically backward groups.

7) Hindustan Unilever Ltd.

Hindustan Unilever Limited (HUL), believes in long term sustainable growth achieved by reducing environmental footprints and increasing its positive social impact. The various CSR programmes of the company include Handwashing Behaviour Change Programme, Plastic Waste Management, Project Prabhat, Water Conservation Project, Swachh Aadat Swachh Bharat, Project Shakti, Domex Toilet Academy, Asha Daan, Sanjeevani and Supporting Healthcare.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What does Section 135 of Companies Act, 2013 lay down?

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2) List out the emerging trends of CSR in India.

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3.7 LET US SUM UP

In this unit you read about the evolution of CSR in India. You read about how CSR evolved from being driven by charity and philanthropy in the 19th Century to CSR being a sustainable corporate strategy. You have also read about the four models of CSR present in India – The Ethical Model, the Statist Model, Liberal Model and Stakeholder Model. You have also read about how Indian CSR shifted from voluntary practices to a regulatory mechanism with the inclusion of CSR mandate in the Companies Act 2013. Further, the unit discusses some of the emerging trends that the CSR in India is expected to witness. Finally, the unit briefs about some of the CSR initiatives by few leading companies.

3.8 KEYWORDS

Philanthropy : The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes.

Schedule VII : The Schedule VII of the Companies Act provides a list of activities which can be included by companies in their CSR policies where the CSR spending can be done.

National Voluntary Guidelines : The National Voluntary guidelines were laid down by the Ministry of Corporate Affairs to provide guidance to the companies to work in accordance with the national policies of inclusive growth and climate change.

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3.10 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: The third phase of CSR in India is from 1960 to 1980. The role of state in development increased greatly after independence. This phase was characterized by emergence of several public enterprises. Several legislations on corporate governance, labour and environmental standards also came into existence during this phase. Heavy regulations and License Raj replaced the self-regulatory activities of the corporate. However, the state failed to eradicate poverty and support economic development. The expectation shifted back to private sector and their involvement in the socio-economic development of the country became very essential. Businesses were expected to be more transparent, socially accountable and have regular stakeholder dialogues. Inspite of all these efforts, the CSR failed to match the expectations in its contribution to development.

Answer 2: The statist model came into being with the adoption of socialist and mixed economy by Jawahar Lal Nehru. In this model, the corporate responsibilities were governed by state ownership and legal requirements. The Labour Laws and Management Principles had in them the basic elements of corporate responsibility, particularly those related to community and worker relationships. Most of the public sector companies even today follow the static model of state sponsored corporate philosophy.

Check Your Progress 2

Answer 1: Section 135 of the Companies Act 2013 lays down that:

- The companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of 5 crore INR and more shall constitute a CSR Committee of the Board consisting of 3 or more directors of which one will be an independent director.

Answer 2: Some of the emerging trends that the CSR in India is expected to witness are:

1) NGOs will adapt and get better at working with the new type of funders – corporates
2) Corporates will start thinking of CSR as another pillar of their corporate strategy, instead of as philanthropy
3) More companies will comply and engage in long-term partnerships with NGOs
4) For-profit social ventures will emerge as a major force of social good
5) Technology and innovation will play a major role in addressing structural issues in the social sector and building NGOs' organizational capabilities

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Fundamentals of CSR

Block

2

CSR LEGISLATIONS AND GUIDELINES: GLOBAL AND INDIA

BLOCK 2 CSR LEGISLATIONS AND GUIDELINES: GLOBAL AND INDIA

Block 2 **CSR Legislations and Guidelines: Global and India** consists of four units.

Unit 1: **CSR Legislation in Other Countries** discusses CSR legislations in various regions including Europe, Americas, East Asia, Middle East and Africa and Australia.

Unit 2: **Companies Act, 2013** discusses legislations governing the companies of India. It discusses in detail about the various CSR related sections, schedules and rules under the Companies Act.

Unit 3: **CSR Policy Guidelines** discusses global guidelines to promote CSR practices. It also discusses the guidelines for public sector enterprises and guidelines on CSR for CPSEs.

Unit 4: **Related Rules and Guidelines** discusses the sector specific guidelines for different sectors like mining, cement, pharma, chemicals, oil and gas, IT, steel and paper. It also discusses the guidelines for MNCs, SEBI and industrial associations.

UNIT 1 CSR LEGISLATION IN OTHER COUNTRIES

Structure

1.1 INTRODUCTION

Globally, corporate entities are increasingly being recognized as important stakeholders in the pursuit of development. While decades ago, corporates were considered to be responsible singularly for bringing in industrial progress through creating employment and strengthening markets, calamities such as the Bhopal gas tragedy jeopardizing human existence have diverted the attention to recognizing corporate entities to invest and function socially and responsibly. With the advent of globalization, businesses are seen as playing an active role in the sustenance and improvement of healthy ecosystems, in fostering social inclusiveness and equity and in upholding ethical practices and good governance (Satyendra, 2014). Corporate social responsibility (CSR) therefore, is an important constituent of the global development agenda as the interplay of corporate entities and societies is tightly knitted and important for holistic progress. Different countries have different ways of application of CSR. In this unit we will discuss about the CSR legislations across the globe.

After reading this unit you should be able to:

- Discuss the rationale for regional variation in CSR legislation globally
- Describe the CSR legislation in Europe, East Asia, The Americas, Middle East and Africa, and Australia

1.2 CSR IN THE GLOBAL CONTEXT

CSR, as understood in common parlance, is the way through which a company achieves a balance of economic, environmental and social imperatives, while addressing the expectations of its shareholders and stakeholders. Transformation in consumer behavior over time has led corporate entities to project a socially responsible image in order to ensure positive public relations. With consumers being more educated and informed, corporates are increasingly aspiring to implement CSR initiatives that are sustainable and socially impactful. Thus, the practice of CSR has become an essential requirement than an option.

The approach followed in a particular country is determined by the array of problems a country faces. The issues that take dominance in a particular region guide the practice of CSR. What may be relevant in one region may be of little or no significance in another. Typically, in the under developed world, issues such as poverty, illiteracy, poor health and sanitation, absence of clean water and electricity, fraud and bribery take dominance while issues such as global warming, terrorism, corporate and individual philanthropy, CO_2 emission reduction might be affecting all nations but are prioritized and publicized more by industrialized ones (Idowu and Filho, 2009). Resultantly, the legislative framework around CSR also ropes in regional idiosyncrasies and therefore, is different for different geographical regions. Alongside, there are standardized measures of CSR practice that are being propagated globally, a snapshot of which is provided in Box 1. Although, the primary mandate of CSR practice is guided by the CSR legislation applicable to a particular country, these measures are finding space in reporting CSR initiatives and streamlining them with the global development mandate.

Box 1: CSR Reporting and Standardization Frameworks

The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society. It is deemed to be one of the most referred to and followed guidelines across the world for businesses and companies with regard to their CSR rules (United Nations Global Compact, 2014).

Another such globally acclaimed initiative is the Global Reporting Initiative (GRI) that supports and guides businesses, governments and other organizations in perceiving, understanding and communicating the impact of business on major, critical sustainability issues. In pursuit of this mission, GRI has pioneered sustainability reporting since the late 1990s, transforming it from a niche practice to a practice embraced today by a growing majority of organizations. GRI provides the world's most widely used standards on sustainability reporting, enabling businesses, governments, civil society and citizens to make better, sustainable decisions based on information that matters (GRI, 2015).

The Organization for Economic Co-operation and Development (OECD) is a group of 30 democracies that work together to address the economic, social and environmental challenges of globalization. The OECD Guidelines for Multinational Enterprises provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the contribution to sustainable development made by multinational enterprises (OECD, 2008).

Box 2: ISO 26000

ISO 26000 is an International Standard giving guidance/recommendations about how any organization can improve its Social Responsibility and thus contribute to sustainable environmental, social and economic development. The core content of the standard comprises of

i) Seven principles;

ii) Seven core subjects and their related issues; and

iii) Stakeholder engagement.

Check Your Progress 1

Note: a) Use the spaces given below for your answers.

b) Check your answers with those given at the end of the unit.

1) Why is CSR important for bringing about development in a country?

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2) Is the practice of CSR similar or different across geographies? If no, why?

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1.3 CSR LEGISLAION IN EUROPE

CSR has been an important instrument for the European Union (EU) in paving the path towards sustainable development, innovation and competitiveness in EU's social market economy. In this context, sustainable and responsible European enterprises are strongly promoted by the European Commission (EC) through CSR (EC, 2008). Also, CSR is indicated to reinforce the development of new markets and opportunities for growth and innovation because it requires enterprises to carefully follow changing social expectations and ensure consumer trust through adopting new sustainable business models (EC, 2011, 3). The EU, since the 1990s, has been aware of the importance of CSR as part of its sustainable development strategy, deeming CSR to be an attempt to improve companies' accountability to public institutions and citizens. In this regard, EU strongly encourages the effective implementation of CSR in European enterprises as a crucial push factor that contributes to the EU's Europe 2020 strategy, aiming for sustainable development through smart, sustainable and inclusive growth. Apart from much debated concepts of CSR in literature, the European Commission, a very active actor in the development of public policy to promote CSR, in its

2001 Communication defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (EC, 2001). As Türker and Altunta (2012) state, through this definition, EU identified CSR as a voluntary action rather than a compulsory framework. However, in February 2014, the European Council and the European Commission reached an agreement that guarantees that the agreed upon European directive on corporate social responsibility will require all publicly traded companies with more than 500 employees to report their performance on a number of non-financial metrics every year. Specifically, companies will be required to provide “relevant and useful information” concerning their human rights impacts, environmental performance, anti-corruption measures, and diversity programmes in their annual reports (Krishnamurthy, 2014). These reports are to be based on recognized CSR frameworks such as the U.N. Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. The measures mentioned here are expected to make significant changes to the legislative framework in the European Union.

Delving into the micro picture, however, yields that the cultural, economic and demographic diversity across the European continent shapes the interaction between business and society. Many countries in the European Union have traditionally practiced CSR. While some have evolved from the realization that businesses can contribute to societal well-being, several have been driven from external pressures from civil society and consumers. The Global Education Research Network (2009) explicates that in Western Europe, the welfare state system that evolved in the second half of the 20th century emphasized the role of the state as the primary provider of welfare while companies were designated to fulfill societal obligations by complying with laws, paying taxes and providing employment. In recent times however, economic and socio political factors have redefined the boundaries between public and private sector with more attention being placed on the voluntary actions companies take as part of their CSR to manage their economic, social and environmental impacts. In Central and Eastern Europe, companies are the primary agents of change and the public sector and civil society has been comparatively inactive. Being a stable region, the issues and challenges related to CSR in Europe differ from the ones faced by the less developed regions. While there could be several social responsibilities that are voluntary activities for corporate entities around the world, in Europe, they are legally defined. The following sub sections briefly outline the CSR legislations in European countries.

1.3.1 Austria

The social market economy of Austria is highly regulated with numerous environmental, labor and social protection laws that set maximum business standards. The 1966 Companies Act of Austria emphasized how a corporation must extend its benefits beyond its shareholders to the wider public. This was followed by the Austrian government adopting the joint sustainability strategy in 2002 with the aim of integrating social, economic and environmental spheres (CSR Europe, 2010). A variety of stakeholders including the private sector, government and civil society fall in the ambit of the strategy. There is no legal framework stipulating CSR reporting apart from CSR guiding vision of 2009 that recommends it (Ibid, 2009).

1.3.2 Belgium

Highly productive and skilled workforce, high gross national product and high per capita exports characterize the industrialized economy of Belgium. Belgium has three regions, each with various initiatives on CSR. The law on 'Coordination of the federal policy for sustainable development' of 1997 at the national level defines the framework of the strategies to be followed with six priority areas translated in 31 actions of which the 31st is for CSR. It was only in 2006 that the federal action plan for CSR in Belgium was developed to implement the 31st action. The objective of the action plan is to promote CSR in Belgium and stimulate companies to integrate it in their management. The action plan however does not obligate companies to follow provisions. Instead, it is recommendatory (Ibid, 2010).

1.3.3 Croatia

The democratic union of Croatia is grappling with persistent decrease in its GDP. Till date, there is no CSR legislation in Croatia. However, a sustainable development strategy has recently been drafted which will most likely give rise to higher benefits to companies through the support of CSR related programmes. For now, there is no regulation with respect to reporting of CSR and SD initiatives (Ibid, 2010). However, this is expected to change in the wake of UNGCN regulations.

1.3.4 Czech Republic

The Czech Republic has multiple policies and provisions related to CSR, the most important being National Labor Code, Consumer Protection Law, Law on General Product Safety and Environmental Law. The National Quality Policy adopted by the government in the year 2000 includes CSR as a priority (Ibid, 2010). No legislation exists that obliges companies to report on their CSR activities. The main CSR related priorities are environment, wellbeing and philanthropy.

1.3.5 Finland

Finland does not have a legislation specific to CSR. Although, there are laws that cover many areas of CSR such as social, consumer rights, labor, educational and environmental aspects. CSR reporting is also not mandatory. Of late, companies are using global frameworks such as UNGCN, OECD and GRI guidelines to plan, communicate and engage stakeholders in their CSR initiatives (Ibid, 2009).

1.3.6 France

France has almost a dozen significant legal texts on the application of CSR in the country. It began with the law on social reporting in 1977 that mentioned companies to provide social reports without mentioning the word CSR (Harribey, 2009). It was in 2001 that the NRE law (*Nouvelles Regulations Economiques*) was adopted that mandated listed companies to account for the social and environmental consequences of their activities (Ibid, 2010). Since then, more laws have been added to complete the CSR legal framework in France.

1.3.7 Germany

No legislation on CSR exists so far in Germany. Literature suggests that there is ambiguity related to the term CSR in Germany and it is seen as a voluntary activity for a business. The only initiative in this regard is the constitution of a multi stakeholder forum on CSR in 2009 that adopted the recommendation of having a national action plan on CSR in the year 2010 (Ibid, 2010).

1.3.8 Greece

There is no specific legislation related to CSR in Greece. Even though there are several legislative provisions related to basic CSR issues it does not find mention in a clear and direct manner in any of the legislative texts (Ibid, 2010).

1.3.9 Russia

There is no legislation on CSR in Russia. CSR practice by businesses is open to interpretation within local contexts and it is not always limited to activity beyond that which is legally mandated. Of late, more number of companies are undertaking CSR activities in line with the government's increasing recognition that CSR is essential to tackle pressing social, political and environmental issues (Belal and Lubinin, 2009).

1.3.10 Sweden

The public sector in Sweden dominates the space of social responsibility. Boards of state owned companies take ownership of issues and set examples for private companies and civil society to follow. It was only in the year 2000 that the Swedish government took a broad approach to CSR and launched the national initiative '*Globalt Ansvar*' (The Swedish Partnership for Global Responsibility) in response to the principles set by UNGC. The aim of this initiative is to assume increased roles in social responsibility (Pagrotsky, 2003). This was followed by the establishment of the 'Commission of Trust' in 2002 for the purpose of evaluating the trust for Swedish business community and developing guidelines for desirable corporate governance.

1.3.11 United Kingdom of Great Britain and Ireland

CSR in the United Kingdom (UK) dates back to 200 years with the country being acknowledged as the world leader in the field. The UK Corporate Governance Code prescribes that a company's duties extend beyond its shareholders. However, there is no explicit mention of CSR in the code. It is with the Companies Act of 2006 that mandates companies to report on various social and environmental issues that emerges to be a significant step towards formalizing the CSR movement in the UK (Idowu, 2009).

Ireland views CSR as a voluntary approach of the business and endorses the EU's views in this regard. There is no such legislation on CSR however except the Credit Institution Act of 2008 that requires financial institutions supported by the government guarantee scheme to report their corporate responsibility through the Irish Banking Federation (Ibid, 2009).

Activity 1

Go through the section above and give a comparative analysis of CSR legislations in different European countries.

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Check Your Progress 2

Note: a) Use the spaces given below for your answers.

b) Check your answers with those given at the end of the unit.

1) How has the concept of CSR evolved in the European continent?

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2) Give few examples of countries in the European continent that do not have CSR legislation. How are they engaging corporates in social development?

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1.4 CSR LEGISLATION IN EAST ASIA

Broadly, the Asian continent is perceived to lag behind its western counterparts in defining CSR and prompting businesses to pursue CSR practice. Asia also continues to house the largest number of poor people living on less than $1 per day with many countries grappling with increasing economic inequality hindering human development and deteriorating quality of life. While most of the East Asian countries in the continent have leaped forward in their population's education status but universality of access to basic services continues to go missing. The pressing social issues in the continent call for businesses to operate more responsibly and be more responsive to their environment beyond immediate shareholders and stakeholders. Even though, CSR is a western concept, in recent times, it has found its place in the Asian context with an increasing number of businesses and corporations beginning to streamline their CSR operations and policies. The heterogeneity of the region however makes every country different owing to differing social, cultural and religious factors that define priorities and key drivers of CSR.

The following sub sections provide a brief overview of CSR legislations in three East Asian countries, namely, China, Japan and South Korea. These three countries have the highest Gross Domestic Product in the East Asian region. Literature suggests that all three countries are influenced by their Confucian heritage. However, other religions and historical events have had differing impacts on each country's CSR prerequisites (Pfannkuch, 2016).

1.4.1 China

China is a political economy with a multitude of ministries and central government bodies taking part in its CSR strategy. In addition to these central government institutions, the local authorities, such as the Environmental Protection Bureaus and Departments of Corporate Social Responsibility in China play important roles. The application, scope and enforcement of CSR policy can vary greatly from one region to another. In the more developed parts of China (Beijing, Shanghai and the Pearl River Delta), CSR is generally better known than in the western part of the country (Netherlands Enterprise Agency, 2016).

The Chinese government places emphasis on safeguarding the legal rights and interests of citizens and has established an elaborate well defined legal system where in several key legislations contain the element of CSR. It has only been since 2004 that the Chinese government, civil society and the private sector have taken active actions to develop CSR as an effective means to build a harmonious society and achieve sustainable development (Lehman, et al., 2019). Specifically, the government has been working hard since 2017 to put businesses and civil society under pressure to comply with environmental law and responsible business policies (CSR Europe, 2018). These have a direct impact on most of the Chinese population. Some of the most significant CSR policies in 2017 include - improving CSR at a regional level, proposing a mandatory environmental information disclosure system, support for voluntary service and so on. To clarify on the environmental protection tax, Chinese ministries solicited public opinions on the implementation Rules of the Environmental Protection Tax Law. Another notable initiative is the Chinese government's pilot programme for environmental damage compensation by setting up a nationwide pilot programme, and further identifying details like the compensation range, subjects of responsibility, subjects of compensation claim, etc. For the next three years from 2017, targeted poverty reduction is deemed to be one of the main focuses of China as the country has declared in the statement issued after the Central Economic Work Conference (Ibid, 2009).

1.4.2 Japan

The traditional philosophy on CSR in Japan is termed as '*Sanpo-yoshi'* which means three-way satisfaction implying benefits to the seller, to the buyer and to the local community. Japan presents a somewhat puzzling case in relation to CSR. Several studies suggest that Japan is a latecomer or even a laggard in the field of CSR. However, CSR in Japan itself seems to be driven in part by pressures of foreign investors, who are generally associated with a more liberal and shareholder oriented model of the corporation (Jackson and Bartosch, 2017). The primary forces in driving CSR in Japan emerge to be the Ministry of Economy, Trade and Industry within the national government and the private sector companies. The Japanese Business Federation ('Keidanren') emphasizes CSR reporting and environmental reporting to gain public trust and rapport. It prescribes that a corporation has a responsibility to contribute to economic development of the society and make their presence useful to the society at large (METI, 2012).

While extensive literature exists on the characteristics of Japanese business enterprise, CSR has only emerged as a significant topic for research since 2013. Such literature is focused on environmental technologies and sustainability management, rather than a more general view of CSR. Several studies agree that Japanese firms score high in the environmental dimension relative to firms in other OECD countries. Japanese firms are often cited being as among first adopters of environmental policies. Nonetheless, corporate responsibility activities in the social dimension are less explicitly developed. Past research suggests that Japanese firms tend to score similar to the US and generally lower than European or especially Nordic firms in this regard (Ibid, 2009).

1.4.3 South Korea

Korean society recognized the importance of CSR during its financial crisis from 1997 until the 1998. It was during this time that CSR earned recognition among its key stakeholders from private corporations to the government, public sector companies and civil society (Choi and Aguilera, 2010). However, till date, the Korean corporate law does not have any legislative mention of CSR and there is no legal definition governing the concept. Thus, the country largely operates on American legal theories, systems and laws on CSR introduced by corporate scholars (You, 2012). The ambiguity around the practice of CSR however continues to be driven by a corporate's perceived definition of CSR. In actual practice, many Korean companies equate CSR with philanthropy. The vast major of CSR activities in South Korea take place in this area. A majority of South Korean unions' engagement with CSR is steered by two national centers, the Federation of Korean Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU) (Liem, 2014).

More than half of the companies in South Korea, including big names like KT, Samsung, SK Energy and Hyundai Motor Group, run CSR departments. According to a survey by the industrial association Federation of Korean Industries (FKI) in 2006, 75% of the 120 largest corporations in the country are engaged in CSR projects. However, these companies spend only 2% of their profits on CSR activities thus, keeping lower than the standard values of the United States and Japan (Backer, 2011). In the year 2008, FKI passed a formal resolution which committed the organization to increase the social involvement of its member companies. Accordingly, the FKI established a CSR committee responsible for monitoring member companies' 'economic responsibility', 'legal responsibility', 'moral responsibility' and 'social responsibility' (Ibid, 2014).

Activity 2

Go through the above section and give a comparative analysis of CSR legislations in different East Asian countries.

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1.5 CSR LEGISLATION IN THE AMERICAS

1.5.1 USA

CSR practice in the United States of America (USA) appears to be evolving and accelerating at an uneven pace across industries due to differences in leadership, perspective towards CSR, economic incentives, government regulations and community pressures (Ibid, 2009). Traditionally, CSR was understood as philanthropy in the US. The contemporary definitions have broadened to imply 'corporate citizenship' through CSR recognizing the importance of other stakeholders such as the government and civil society (Waddock, 2006). The variation in the understanding of CSR can therefore be attributed to the fact that there is no government wide mandate for CSR in the US (GAO, 2005).

The government plays a passive role in policies regarding US corporations and the same holds true for CSR activities. There is no regulatory compliance for CSR initiatives and reporting of activities related to philanthropy, volunteerism and environmental affairs in the US. Therefore, CSR in the US is often characterized by voluntary societal engagements by businesses as they are not obliged to undertake social and environmental responsibility practices. Corporate social responsibility is identified as having a social extension that goes beyond financial reporting requisites. Cause-related marketing, philanthropic and charitable contributions are examples of such acts (Camilleri, 2017). Incidentally, US companies donate ten times as much as their British counterparts (Brammer and Pavelin, 2005). Chen and Bouvain (2009) reported that the percentage of U.S. companies that were members of the Global Compact was much lower than in the other countries. This finding could indicate that certain aspects of the Compact may not be acceptable to the U.S. corporations. US corporations are already operating in various contexts where they could be mandated by law to abide by national legislation and regulation. This contribution has reported how different U.S. institutions, including bureaus, agencies and other stakeholders are pushing forward the social responsibility, environmental sustainability as well as the responsible corporate governance agenda.

1.5.2 Mexico

The concept of CSR is neither well known nor well developed in Mexico. Traditionally, corporations associated CSR with philanthropy and did not seek engagement of civil society. The civil society at the same time was characterized by a hostile attitude towards the private sector. Lack of cooperation between the two sectors prevented development of CSR in Mexico (Weyzig, 2007).

The contemporary scenario, however, has a new CSR perspective that has found its way from Europe to Mexico that defines the social responsibility of an enterprise towards all its stakeholders. Mexicans appear interested in contributing to social initiatives. However, lack of transparency and blurred communication keeps them away from getting involved. Transparent public information is not common and the society at large relies on corporate data to evaluate social performance. The most common CSR initiatives found in Mexico are aimed at improving environment, education and health (Vel‘azquez et. al, 2009).

1.5.3 Costa Rica

Costa Rica does not have a clearly spelt out legislation on CSR and its practice. The government of Costa Rica maintains and enforces laws on labor and employment rights, consumer protection and environmental protection with no specific mention of CSR. Thus, CSR is still emerging as a concept and a practice (Ibid, 2009).

Over time, a greater and closer coordination between the public and private sector is evident with several NGOs working with private companies in addressing social issues. The Costa Rica government has its mandate to invite high tech companies to the country as their strong CSR culture gets imbibed into the CSR culture in the country. Both, consumers and producers in Costa Rica are aware about the concept of CSR (Bureau of Economic and Business Affairs, 2015).

1.5.4 Brazil

The discourse on CSR started in the early sixties in Brazil (Bandeira and Parra, 2009). Kishiname and others (2007) cite that since the 1960s, different approaches have evolved in Brazil. Until the 1960s, the companies didn't acknowledge that there are any social problems, in the 1970s, the companies acknowledged that problems exists but didn't own them up. In the 1980s, the companies acknowledged that problems exist and also owned it up in proposing solutions. Currently, with social pressures from all ends, companies are actively involved in addressing social problems.

However, till date, CSR is considered to be under construction in Brazil with no legislative provision specifying the definition of CSR or mandating social responsibility of the corporates (Ibid, 2009). Thus, CSR in Brazil is still open to interpretation and understood differently by different stakeholders.

Activity 3

Go through the section above and give a comparative analysis of CSR legislations in different South American countries.

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Check Your Progress - 3

Note: a) Use the spaces given below for your answers.

b) Check your answers with those given at the end of the unit.

1) How is the CSR in China different from that of Japan?

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2) Give a summary of the CSR ecosystem in the Americas.

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1.6 CSR LEGISLATION IN THE MIDDLE EAST AND AFRICA

CSR in the Middle East and Africa continues to oscillate between interpreting it as philanthropy to responsibly driven corporate social investment. The traditional concept of giving is the foundation of interpreting the concept of CSR in the region. Different constituent countries are moving at a different pace in operationalizing and universalizing the definition of CSR and drafting legislation to create a regulatory framework for performing and reporting CSR activities.

1.6.1 Egypt

There are no legislative or professional requirements in Egypt that stipulate that companies must report on the social initiatives they undertake even though the economic growth that Egypt has witnessed in recent years necessitates the deployment of CSR initiatives across the country (Salama, 2009). The literature available on CSR in Egypt indicates that CSR is strongly influenced by Egypt's religious beliefs. Traditionally, Egypt has a powerful culture of giving and thus, has a history of corporate sector contributing to community development. However, having undergone numerous political and economic reforms lately, Egypt continues to treat CSR as a non-institutionalized phenomenon, rather than as a philanthropic concept. As a result, for Egyptian companies, CSR is largely voluntary which prevents them from being socially impactful and sustainable initiatives leading to social development. Without a legislative binding in Egypt's corporate milieu, CSR is subject to interpretation and therefore, pursued differently by different institutions and different goals (CSR Middle East, 2012).

At the same time, however, as an outcome of the recommendations made in the 'Business Solutions for Human Development Report' in 2007, the Egyptian Corporate Responsibility Center (ECRC) was established in the year 2008 which has since then worked on the principles of the United Nations Global Compact Network to provide business development advisory services and capacity building training to private companies to improve the national capacity to design, apply and monitor sustainable CSR policies (IMC & UNDP, 2016). In conclusion, it can be said that Egypt's CSR policy needs to be reformed to make both, state and non-state actors responsible and coordinated to achieve sustainable social development.

1.6.2 Turkey

The United Nations survey on CSR in Turkey (UN Global Compact, 2016) highlights the confusion in the CSR business environment of Turkey. The evolution of CSR in Turkey can be traced back to philanthropic initiatives of businesses since the Ottoman era. During the Ottoman era, the 'waqf' (foundation) was the institutional mechanism for philanthropic services in the field of education, health and social security. In the contemporary setting, the social expectations from corporate conglomerates are woven around the philosophy of 'waqf' (Onday, 2016). Owing to the political and economic turbulence faced by Turkey over the past 50 years, a conducive environment to support the building of CSR could not be created resulting in no standard definition of CSR being constituted in the Turkish context (UNDP, 2007).

CSR consciousness in Turkey has increased through Turkey's efforts of integrating its economy with developed countries that led to its work with international bodies. There are several drivers in furthering CSR in Turkey. These include NGOs, multinational companies (MNCs) and individuals who engage in philanthropic activities. External drivers such as international organizations and NGOs also support CSR in Turkey. However, lacking a legislative approach to CSR has led to the Turkish industry making scattered investments across various sectors resulting in the absence of any socially visible impact (Michael et al., 2005). The only document that can be considered as a guideline document for implementation of CSR in Turkey is the Corporate Governance Code announced by the Capital Markets Board (CMB) in the year 2003. The code created awareness and understanding of implementation of CSR (Akgoz and Engin, 2016). With Turkey's admission into the European Union, Turkey presents a promising environment for CSR. However, to ensure that its potential is tapped optimally, the government needs to have clear legislations that incentivize corporate conglomerates to pursue and contribute to social development through CSR.

1.6.3 Nigeria

The CSR environment in Nigeria is driven by philanthropic initiatives by the corporate sector. A study by Amaeshi et.al. (2006) found that indigenous firms in Nigeria purse CSR as corporate philanthropy to address various socio-economic challenges in their local context thereby establishing CSR as a socially embedded construct. There is no specified CSR legislation in Nigeria. However, it is argued that there are specific legislative provisions that directly or indirectly regulate or mandate the observance or practice of CSR which are either poorly managed or are unenforceable (Mordi et.al., 2012).

Given that the Nigerian economy is faced with problems of low growth and decay of public institutions, a structured CSR legislation making available a regulatory framework for corporate entities to operate in a socially responsible manner can pave way for providing the much-required impetus to the Nigerian economy.

1.6.4 South Africa

CSR in the context of South Africa has its roots in the issues of apartheid and colonialism that crippled the country for a long time. Traditionally, CSR was understood in terms of corporate social investment (CSI) or strategic philanthropy much in the corporate's area of operation (Hamann, 2009). However, lately CSI is being criticized in the light of considering it to be an extension of a business's strategy with no social outcome or sustainability being ensured. Much of South African CSR in the contemporary milieu is being driven by the King Report that is, the King Report on Corporate Governance for South Africa that explicitly defines and motivates concepts such as corporate citizenship, social responsibility and sustainability reporting (Kirby, 2014).

There is no CSR legislation in South Africa that binds companies to perform CSR activities. With the recent overhauling of the Companies Act however, a provision has been made that stipulates companies to constitute a social and ethics committee. Provisions have been made such that there are corporate entities that leave out a set of companies that are not obliged to constitute the committee. As a result, the CSR ecosystem in South Africa is bound to be divided with differing compliances for different entities (Kirby, 2014). Over time, the need for CSR legislation in the country is being felt and is much needed to create uniformity in compliance that is driven by law than by a perceived sense of responsibility.

1.6.5 United Arab Emirates (UAE)

Charity has dominated the ecosystem of giving in the UAE. 2017 was declared as the year of giving by the UAE during which the Ministry of Economy launched 11 initiatives that guided companies on CSR initiatives to promote social responsibility and corporate investment. To incentivize corporates to invest in development initiatives, 'National Corporate Social Responsibility Index' and 'Social Responsibility Passport' were launched to create an environment of giving (Zakaria, 2017).

It is after the year of giving that the CSR law in UAE was enforced from February 1, 2018 which stipulates companies to report on CSR activities and financial contributions. The purpose of the law is to establish a regulatory framework for CSR contributions in the UAE which will keep a record of all development activities undertaken through CSR and will incentivize companies that are making effective contributions (Clyde and Co, 2018).

Activity 4

Go through the above section and give a comparative analysis of CSR legislations in different Middle Eastern and African countries.

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1.7 CSR LEGISLATION IN AUSTRALIA

The slow pace of corporate social responsibility investment in the development ecosystem of Australia could be attributed to the strong social security environment in the country. Consensus on a universally accepted definition of CSR continues to be missing in Australia owing to the diversity of corporations that operate in the country (Ibid, 2009). There is no specified CSR legislation in Australia that stipulates corporates to perform or report on CSR. Balten and Birch (2005) in their study indicate that 'there is considerable hesitation in funding long term community involvement' by corporate firms in Australia. The government's mandate to promote social investments by corporates is largely missing with much being left on market forces and industry self regulation to govern (Gustavson, 2009). The Corporations Act of 2001 does not directly mention CSR or sustainability but makes indirect mentions of performing business responsibly keeping the welfare of other stakeholders also into consideration.

Absence of CSR reporting requirements by Australian corporate entities, however, has not kept them away from reporting on their social responsibility investments. There is an increasing community pressure on corporates to report on aspects other than the financial bottom line. Laws such as the Gender Equality Act and the Anti Competitive Behavior and several others regulate the behavior of businesses in Australia (Davies, 2014). However, CSR continues to be open to interpretation in the Australian corporate ecosystem.

Check Your Progress - 4

Note: a) Use the spaces given below for your answers.

b) Check your answers with those given at the end of the unit.

1) What forms the basis of CSR in Middle East and Africa?

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2) What legislation exists in Australia to govern CSR practice?

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1.8 LET US SUM UP

The global evolution of CSR is driven with an increasing realization that corporate entities are important stakeholders in the process of development. Standardized guidelines such as UNGCN, GRI and OECD present frameworks for CSR practice and reporting. Different countries are at different stages of creating an environment of CSR practice. CSR legislation does not exist in all countries owing to country-specific features or the nature of companies and businesses in a given region. However, CSR is growing in terms of its importance and recognition across the globe where small, medium sized and large companies are adopting CSR guidelines to make effective social contributions.

1.9 KEYWORDS

Corporate Social Responsibility : A corporate's initiative of defining its policies and procedures that have a socially responsive extension in order to address issues in the social milieu.

Corporate Social Investment : A corporate's investment in addressing the pressing development problems in the society through financial and/or knowledge investment.

Shareholders : Individuals or groups who have financial investment and share in the profits of a corporate entity.

Stakeholders : Individuals or groups affected with the presence and functioning of corporate entities. These include community groups located in close proximity to the functional geography of a corporate.

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1.11 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress-1

Answer 1: CSR can provide much needed resources to address major social issues in a country. Corporate entities are important resources, financially as well as socially and social investment from corporates can improve the socio economic situation of a country.

Answer 2: CSR practice is different for different countries. The issues that take dominance in a particular region guide the practice of CSR. What may be relevant in one region may be of little or no significance in another. Developed nations have different problems when compared with developing nations and therefore, CSR practice varies geographically.

Check Your Progress-2

Answer 1: Traditionally, in Europe, CSR was considered to be a voluntary activity taken up by corporate entities. However, with increased consciousness and change in consumer behavior, Europe has several legislative texts in place that mandates corporate entities of a particular size to engage in social activities and report on various parameters important for measuring development.

Answer 2: Countries like Croatia, Germany, Greece and Russia have no CSR legislation in place. However, there are several legislative texts that indirectly address the issues related to CSR practice and reporting. For instance, in Croatia, a sustainable development strategy has recently been drafted which is expected to extend support to companies to engage in CSR practice.

Check Your Progress-3

Answer 1: CSR in China is driven by multiple stakeholders including government, civil society, and private sector. There are several legislative provisions in place to promote corporate entities to take responsible actions and contribute in sustainable social development. In Japan, CSR continues to be a primitive concept linked to the traditional practice of 'sanpo-yashi'. CSR in Japan is drawn by pressures of foreign investors. Japan focuses on environmental dimension of CSR.

Answer 2: The Americas are characterized by an uneven pace in the development of concept of CSR and its practice. While in the United States of America, the government plays a passive role in policies pertaining to US corporations, in Mexico and Costa Rica, CSR is developing as a concept influenced by policies in the European countries. There is no clearly developed CSR legislation in Mexico, Costa Rica or Brazil.

Check Your Progress-4

Answer 1: The principle of giving forms the basis of CSR in Middle East and Africa. CSR is largely understood as philanthropy.

Answer 2: There is no CSR specific legislation in Australia to govern CSR practice. However, there are several legislations that directly or indirectly impact the functioning of corporate entities to make them socially responsive and responsible.

UNIT 2 COMPANIES ACT, 2013

Structure

2.1 INTRODUCTION

In the previous unit, you learnt about the Corporate Social Responsibility (CSR) legislations in various countries across all continents of the world. As is observed, CSR legislations vary according to the country's corporate environment, extent of government's engagement in corporate policies and the socio-cultural ethos. These factors in addition to several others serve as the backdrop for drafting legislations that govern a corporate's functioning from a socio economic perspective. What are the guiding factors that are playing an important role in shaping India's CSR practice? Which legislation governs companies to contribute to social good besides earning profits and to what extent? The answers to these questions lie in understanding the Companies Act of 2013 and the related provisions enlisted in various sections of the act.

After studying this unit, you should be able to

- Discuss the provisions of Companies Act of 2013.
- Analyze and relate various sections in the Act that pertain to CSR.
- Describe the various activities that fall in the ambit of a corporate's CSR mandate and scope.

2.2 LEGISLATIONS GOVERNING COMPANIES IN INDIA

The first ever legislation in India related to the constitution and functioning of companies was enacted by the parliament of India in the year 1956. The purpose of the Companies Act of 1956 was to consolidate and amend the law relating to companies and certain other associations. It enabled the companies to be constituted by registration setting out responsibilities of companies, their directors and secretaries and made available procedures for its winding. However, with time, the Companies Act of 1956 was looked at from the lens of requiring serious modifications to make it more contemporary and relevant to the key stakeholders regulated by the Act. After several attempts to modify the provisions of the Act, it was in 2011 that the Companies Bill was considered by the Parliamentary Standing Committee on Finance which submitted its report on 26th June, 2012.

The bill was thereafter approved in the Lok Sabha on 18th December, '2012 as the Companies Bill of 2012. After Rajya Sabha's approval on 8th August, 2013, the bill received President's assent on 29th August, 2013 and became the Companies Act of 2013 (PwC, 2013). The Companies Act of 2013 presents several milestone changes in the original Act which has set a new course and environment in which the companies operate in India.

2.2.1 The Companies Act of 2013

The Companies Act of 2013 is divided into 29 chapters containing 470 sections as against 26 chapters containing 658 sections in the Companies Act of 1956. It also has seven schedules (MCA, 2013). Provisions in the new Act related to corporate governance match with the global best practices (Singh, 2018). The new Act has introduced new concepts and definitions. The concept of a one-person company finds place in the Companies Act 2013. The maximum number of members permitted for a private limited company is increased from 50 to 200. It also accords more power to the shareholders. The concept of 'dormant companies' has been introduced which declares any company not engaged in business for two consecutive years as dormant. Important terms such as 'key managerial personnel' have been redefined to imply the chief executive officer, managing director, manager, company secretary, chief financial officer and any such other officer as may be prescribed (Ibid, 2013). Women have been given importance in the 2013 Act with stipulating appointment of at least a woman director on the Board for a certain class of companies. The National Company Law Tribunal has been introduced through the 2013 Act to replace the Company Law Board thereby relieving the courts of their burden. Provisions have been made for fast track and cross border mergers (George, 2013).

Besides provisions made to regulate and ease the governance processes of companies, a landmark provision that stands out in the Companies Act of 2013 is listed as Section 135 which mandates companies to undertake 'Corporate Social Responsibility' (CSR). The CSR voluntary guidelines were introduced in the year 2009 which were considered in the 2013 Act to mandate that companies having a net worth of INR 2500 crore or more or a turnover of INR 1000 crore or more, or a net profit of INR five crore or more during any financial year shall constitute a CSR committee of the board (Ibid, 2013). Besides constituting a CSR committee, the company is supposed to spend at least 2% of its average net profit for immediately preceding three financial years on corporate social responsibility activities. Additionally, 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 (Rotary Foundation, 2013). Select sections in the Act relate to mandatory provisions for ensuring adherence to CSR and its implementation and are described in the following sub sections.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Which year was the first Companies Act enacted in India and what was its primary objective?

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2) When was the Companies Act revised and what is its constitution?

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3) How is the new Companies Act different from the previous Act?

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2.3 CSR RELATED SECTIONS OF COMPANIES ACT

2.3.1 Section 135

To formulate and monitor the CSR policy of a company, a CSR Committee of the Board needs to be constituted. Section 135 of the 2013 Act requires the CSR Committee to consist of at least three directors, including an independent director. The Board needs to give its report in adherence to the sub section three of section 134 ensuring disclosure of the composition of CSR committee.

The committee needs to formulate and recommend to the board, a CSR policy which shall indicate the activities to be undertaken by the company in line with the activities specified under Schedule VII, estimate the expenditure to be incurred corresponding with the activities planned, and monitor the CSR policy from time to time.

The board needs to take into account recommendations made by the CSR committee, approve the CSR policy for the company and disclose contents of such policy in its report as well as make it publicly available through its website. The board is also supposed to ensure that the activities proposed by the committee are undertaken by the company. A major responsibility vested with the board is that the company, in every financial year spends at least two percent of the average net profits the company made during the preceding three financial years. In case the company fails to spend the earmarked amount, the board is required to specify the reasons for the unspent amount in its report. Section 135 also provides that a company will give preference to the local area and areas around it where it operates for undertaking CSR activities (MCA, 2013).

2.3.2 Section 134

Section 134 prescribes that details of the policy developed and implemented by the company on CSR initiatives taken during the year needs to be put as a part of the financial statement and the Board's report which has to be approved by the Board of Directors before it is signed by the Chairperson of the company on behalf of the Board (Ibid, 2013).

The report shall include an annual report on the CSR activities and should provide a brief outline of the CSR policy, overview of activities proposed to be undertaken, composition of the CSR committee, average net profits of the three immediately preceding years, prescribed CSR expenditure, details of the amount spent on CSR during the year including total amount to be spent, reasons for unspent amount and a responsibility statement from the CSR committee that the monitoring and implementation of CSR policy is in line with the CSR policy of the company (The Institute of Company Secretaries of India, 2019).

2.3.3 Section 171

A company can undertake its CSR activities through a registered trust or society, a company established by its holding, subsidiary or associate company or otherwise, provided that the company has specified the activities to be undertaken, the modalities for utilization of funds as well as the reporting and monitoring mechanism. If the entity through which the CSR activities are being undertaken is not established by the company or its holding, subsidiary or associate company, such entity would need to have an established track record of three years undertaking similar activities. The CSR rules specify that a company which does not satisfy the specified criteria for a consecutive period of three financial years is not required to comply with the CSR obligations, implying that a company not satisfying any of the specified criteria in a subsequent financial year would still need to undertake CSR activities unless it ceases to satisfy the specified criteria for a continuous period of three years (Bahl, 2014). This might augment the burden on small companies which do not continue to make significant profits. If the company has been unable to spend the minimum required on its CSR initiatives, the reasons for not doing so are to be specified in the Board Report.

Section 171 of Companies Act 2013 grants the company members the right to inspect the register kept with regard to the utilization of CSR funds (Corporate Law Reporter, 2019). This section was notified by MCA Notification dated 26th March, 2014 to be effective from 1st April, 2014 (Corporate-Cases, 2017). It also provisions that the register be kept open for inspection at every annual general meeting and shall be made accessible to any person attending the meeting (Ibid, 2013). It also stipulates that the register be open for inspection during business hours and empowers the members with the right to take extracts and copies from the register free of cost within thirty days. To protect this right, the section also provisions that if inspection under the previous clause is refused or a copy required under that clause is not sent within thirty days, the registrar of companies upon receipt of such an application can order immediate inspection and ensure supply of copies required. Chapter XI of the Section 171 however makes an exemption for a government company in which the entire share capital is held by the central government or by any state government or governments. As an antidote to the exemption however, a notification dated 13th June, 2017 states that this exemption shall only be applicable to a government company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the registrar.

2.3.4 Section 172

Section 172 of the act prescribes the terms of punishment for corporates not adhering to the provisions mandated under the Act. Specifically, it deals with contents and manner of service of notice and persons on whom it is to be served. Simply put, if a company does not comply with any of the provisions of the Chapter from Section 149 to 171 of the Act and for which no specific punishment is provided therein, the company and every officer of the company who is in default shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees. 'Every officer of the company' is defined in the clause 59 of Section 2 of the Companies Act. It specifies that 'officer' includes any Director, Manager or Key Managerial Personnel or any person in accordance with whose directions or instructions the Board of directors or any one or more of the directors is or are accustomed to act (Ibid, 2013).

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is Section 135 of the Companies Act of 2013 and what is its key provision?

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2) Which section of the Companies Act prescribes reporting on a companies' CSR policy?

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3) What is the scope of punishment for companies not adhering to the provisions of CSR under Companies Act of 2013?

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2.3.5 Section 188

Section 188 of the Companies Act became effective from 1st April, 2014. The section explains the guidelines for related party transactions which are applicable to both private and public limited companies. Since a company has a separate legal entity, any transaction with a related party must be identified, approved and disclosed, as per accounting standards in India. It requires a company to obtain approval of the board and of the members prior to entering any transaction or agreement with a related party. The term 'Related Party' as defined in the Act under Section 2(76) means

i) a director or his relative

ii) a key managerial personnel or his relative

iii) a firm in which a director, manager or his relative is a partner

iv) a private company in which a director or manager is a member or director

v) a public company in which a director or manager is a director or holds along with his relatives, more than 2 per cent of its paid -up share capital

vi) any body whose board of directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager

vii) any person on whose advice, directions or instructions a director or manager is accustomed to act (Ibid, 2013).

The nature of transactions have also been defined in the section and range from sale, purchase or supply of any goods or materials or availing or rendering of any services. The section also provisions for disclosures to be made in notice calling board meeting to ensure transparency and accountability. From the perspective of CSR, the section assumes relevance while engaging an external agency to implement activities devised under the CSR policy. Contracting or sub contracting an entity for CSR investment also calls for transparency and accountability and similar restrictions need to be observed thereof.

2.3.6 Section 198

Section 198 of the act lays down the manner of calculations of net profits of a company. The net worth, turnover and net profits are to be computed in terms of Section 198 of the 2013 Act as per the profit and loss statement prepared by the company in terms of Section 381 (1) (a) and Section 198 of the 2013 Act. To compute the profits, following are the specific provisions:

i) Credits to be given for bounties and subsidies received from any government, or any public authority constituted or authorised in this behalf, by any government unless the Central Government directs otherwise

ii) Credits shall not be given for the following sums, namely:

a) profits, by way of premium on shares or debentures of the company, which are issued or sold by the company

b) profits on sales by the company of forfeited shares

c) profits of a capital nature including profits from the sale of the undertaking or any of the undertakings of the company or of any part thereof

d) profits from the sale of any immovable property or fixed assets of a capital nature comprised in the undertaking or any of the undertakings of the company, unless the business of the company consists, whether wholly or partly of buying and selling any such property or assets

e) any change in carrying amount of an asset or of a liability recognised in equity reserves including surplus in profit and loss account on measurement of the asset or the liability at fair value.

iii) In computing profits, the following sums shall be deducted:

a) all the usual working charges

b) Directors' remuneration

c) bonus or commission paid or payable to any member of the company's staff, or to any engineer, technician or person employed or engaged by the company, whether whole time or part time basis

d) any tax notified by the Central Government as being in the nature of a tax on excess or abnormal profits

e) any tax on business profits imposed for special reasons or in special circumstances and notified by the Central Government

f) interest on debentures issued by the company

g) interest on mortgages executed by the company and on loans and advances secured by a charge on its fixed or floating assets

h) interest on unsecured loans and advances

i) expenses on repairs, whether to immovable or to movable property, provided the repairs are not of a capital nature

j) outgoings inclusive of contributions made under Section 181

k) depreciation to the extent specified in Section 123

l) the excess of expenditure over income, which had arisen in computing the net profits in accordance with this section in any year which begins at or after the commencement of this Act, in so far as such excess has not been deducted in any subsequent year preceding the year in respect of which the net profits have to be ascertained

m) any compensation or damages to be paid in virtue of any legal liability including a liability arising from a breach of contract

n) any sum paid by way of insurance against the risk of meeting any liability such as is referred to in clause (m)

o) debts considered bad and written off or adjusted during the year of account.

iv) In making the computation, the following sums shall not be deducted:

a) Income tax and Super tax payable by the company under the Income-tax Act, 1961, or any other tax on the income of the company not falling under clauses (d) and (e) of Sub-section (4)

b) any compensation, damages or payments made voluntarily, that is to say, otherwise than in virtue of a liability such as is referred to in clause (m) of Sub-section (4)

c) loss of a capital nature including loss on sale of the undertaking or any of the undertakings of the company or of any part thereof not including any excess of the written-down value of any asset which is sold, discarded, demolished or destroyed over its sale proceeds or its scrap value

d) any change in carrying amount of an asset or of a liability recognized in equity reserves including surplus in profit and loss account on measurement of the asset or the liability at fair value (Ibid, 2013).

The section clearly specifies that profits from any overseas branch of the company, including those branches that are operated as a separate company should not be included in the computation of net profits of a company. The relevance of this section for CSR practice is to ensure that the profits are calculated correctly such that the company's qualification and adherence to Section 135 can be decided and accordingly, the quantum of CSR funds available and their corresponding investment can be worked out. The section also clarifies that if there is any surplus arising from CSR activities, it needs to be reinvested to perform CSR activities. The surplus cannot be calculated as CSR investment for any future work and this remains over and above the mandatory contribution of a company towards CSR (SKP Business Consulting LLP, 2015).

2.3.7 Section 443

Section 443 of the Companies Act imparts power to the Central Government to appoint company prosecutors. According to the provisions under the section, the Central Government may appoint generally, or for any case, one or more persons as company prosecutors for the conduct of prosecutions arising out of the Companies Act and the persons so appointed as company prosecutors shall have all the powers and privileges conferred by the Code on Public Prosecutors appointed under section 24 of the code (Corporate Law Reporter, 2019).

2.3.8 Section 450

Section 450 of the Companies Act provisions for punishment where no specific penalty or punishment is provided. The provisions under the section as specified in the Act detail that "If a company or any officer of a company or any other person contravenes the provisions of this act or the rules made thereunder, or any condition, limitation or restriction subject to which any approval, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded, given or granted, and for which no penalty or punishment is provided elsewhere in the Act, the company and every officer of the company who is in default or such other person shall be punishable with fine which may extend to ten thousand rupees, and where the contravention is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the contravention continues" (Ibid, 2013). From the perspective of CSR, Section 450 is of importance from the lens of penalizing companies that do not adhere to the provisions of setting up a CSR committee, drafting a CSR policy and executing CSR activities.

Activity 1

Go through all the CSR related Sections of the Company's Act and mention the key issue handled in each section.

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Check Your Progress - 3

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) How does Section 188 of the Companies Act of 2013 relate to CSR practice?

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2) In light of CSR provision of the Companies Act, what all sections of the Act hold relevance to ensure appropriate adherance?

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2.4 SCHEDULES UNDER THE COMPANIES ACT

As described earlier, the Companies Act of 2013 has seven schedules as against sixteen in the Companies Act of 1956. A detailed analysis reveals that the new Companies Act has only retained four out of the 16 schedules of the older act and introduced three new ones of which Schedule VII outlines activities which may be included by companies in their CSR policies (Kurthalanathan, 2014). Schedule VII of the Act outlines activities which may be included by companies in their Corporate Social Responsibility policies. The activities are as follows (MCA, 2019):

a) eradicating extreme hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swach Bharat Kosh set up by the Central Government for hte promotion of sanitation and making available safe drinking water

b) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects

c) promoting gender equality, empowering women, setting up homes and hostels for women and orphans, setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups

d) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set up by the Central Govdernment for rejuventation of river Ganga

e) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art, setting up public libraries, promotion and development of traditional arts and handicrafts

f) measures for the benefit of armed force veterans, war widows and their dependents

g) training to promote rural sports, nationally recognized sports, paralympic sports and olympic sports

h) contribution to the Prime Minister's Relief Fund or any other fund set up by the Central Government for socio-economic development and relief wlefare for the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women

i) contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded universities and/ or institutions

j) rural development projects

k) slum area development where 'slum area' denotes 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

l) disaster management, including relief, rehabilitation and reconstruction activities.

The scope of activities listed under Schedule VII can be interpreted liberally so as to capture the essence of the subjects mentioned. The World Business Council for Sustainable Development terms the Schedule VII activities to be focused on larger public good promoting the well being of people with special attention to the underprivileged, the deserving poor (Parmar, 2018).

In wake of the COVID-19 pandemic, the Ministry of Corporate Affairs had issued a circular related to the clarification on spending of CSR funds for COVID-19 on 23rd March, 2020 and another one on "COVID-19 related Frequently Asked Questions (FAQs) on Corporate Social Responsibility (CSR)" on 10th April, 2020. The clarification mentions that spending of CSR funds for COVID-19 is eligible CSR activity. Funds can be spent for various activities related to COVID-19 under item numbers i and xii of Schedule VII which are related to promotion of health care including preventive health care and sanitation and disaster management.

It was also clarified in the circular related to COVID-19 related FAQs that Contribution made to 'PM CARES Fund' shall qualify as CSR expenditure under item no (viii) of Schedule VII of the Companies Act, 2013. 'Chief Minister's Relief Fund' or 'State Relief Fund for COVID-19' is not included in Schedule VII of the Companies Act, 2013 and therefore any contribution to such funds shall not qualify as admissible CSR expenditure. However, Contribution made to State Disaster Management Authority to combat COVID-19 shall qualify as CSR expenditure under item no (xii) of Schedule VII of the 2013. If any ex gratia payment is made to temporary / casual workers/ daily wage workers over and above the disbursement of wages, specifically for the purpose of fighting COVID-19, the same shall be admissible towards CSR expenditure as a onetime exception provided there is an explicit declaration to that effect by the Board of the company, which is duly certified by the statutory auditor (MCA, 2020)

Activity 2

Go through various literature on expenditure under CSR by various companies and write down five major activities under which most of the expenditure is done.

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2.5 CSR RULES FRAMED UNDER THE COMPANIES ACT

The Corporate Social Responsibility rules were issued by the Central Government and were made effective on 1st day of April, 2014. These rules were prepared with the intent of simplifying the interpretation and application of the Act. In all, nine rules were issued in the notification and are as follows:

1) **Title:** The rules may be called the Companies Rules, 2014.

2) **Definitions:** For the purpose of these rules, key words have been defined and are as follows:

   a) Act means the Companies Act, 2013

   b) "Corporate Social Responsibility (CSR)" means and includes but is not limited to:

      i) Projects or programmes related to activities listed under Schedule VII of the Act

      ii) Projects or programs relating to activities undertaken by the Board of Directors in accordance with the recommendations of the CSR committee of the Board as declared under the CSR policy of the company given that the policy covers the subjects outlined in Schedule VII of the Act

   c) "CSR Committee" means the CSR committee of the Board, the constitution of which is outlined in Section 135 of the Act.

   d) "CSR Policy" relates to activities to be undertaken by the company as specified in Schedule VII of the Act and the expenditure thereon, excluding activities undertaken in the normal course of business of a company.

   e) "Net Profit" means the net profit of a company as per its financial statement prepared in accordance with applicable provisions of the Act.

   f) Words and expressions used and not defined in these rules but defined in the Act shall have the same meanings respectively assigned in the Act.

3) **Corporate Social Responsibility:** defines the conditions under which companies fall in the ambit of provisions under Section 135 of the Act.

   a) Every company including its holding or subsidiary, and a foreign company defined under clause (42) of Section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in Sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act

   b) Every company which ceases to be a company covered under Sub-section (1) of section 135 of the Act for three consecutive financial years shall not be required to constitute a CSR committee and comply with the provisions contained in Sub-section 2 to 5 of the said section.

4) **CSR Activities:** describes the nature, type and scope of activities to be undertaken by companies practicing CSR:

a) The CSR activities shall be undertaken by the company as per its stated CSR policy excluding activities undertaken in pursuance of its normal course of business

b) The board of a company may decide to undertake its CSR activities approved by the CSR committee through a registered society or a company established by the company or its holding or subsidiary or associate company under Section 8 of the Act or otherwise provided that

i) if such trust or society or company is not established by the company or its holding or subsidiary or associate company, it shall have an established track record of three years in undertaking similar projects or programs

ii) the company has specified the project or programme to be undertaken through these entitites, modalities of utilization of funds on such projects and programmes and the monitoring and reporting mechanisms

c) A company may also collaborate with other companies for undertaking projects or programmes or CSR activities in such a manner that the CSR committees of respective companies are in a position to report separately on such projects or programmes in accordance with these rules

d) Subject to provisions of section 135 of the Act, the CSR projects or programmes or activities undertaken in India shall only be counted as CSR expenditure

e) The CSR projects or programmes or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with Section 135 of the Act.

f) Companies may build CSR capacities of their own personnel as well as those of their implementing agencies through institutions with established track records of at least three financial years but such expenditure shall not exceed five percent of total CSR expenditure of the company in one financial year.

g) Contribution of any amount directly or indirectly to any political party under section 182 of the Act shall not be considered as CSR activity.

5) **CSR Committees:** The companies mentioned in Rule 3 are required to constitute CSR committees as under:

a) an unlisted public company or private company covered under Sub-section 1 of section 135 which is not required to appoint an independent director pursuant to Sub-section 4 of Section 149 of the Act shall have its CSR committee without such director

b) a private company having only two directors on its board shall constitute its CSR committee with two such directors

c) with respect to a foreign company covered under these rules, the CSR committee shall comprise of at least two people of which one person shall be specified under clause (d) of Sub-section 1 of Section 380 of the Act and another person shall be nominated by the foreign company

d) the CSR committee shall create a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

6) CSR Policy:

a) The CSR Policy of the company shall include the following:

i) a list of CSR projects or programmes which a company plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programmes and corresponding implementation schedules.

ii) monitoring process of such projects or programmes

b) The CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programmes or activities shall not form part of the business profit of a company.

7) CSR Expenditure: CSR expenditure shall include all expenditure including contribution to corpus, for projects or programmes relating to CSR activities approved by the Board on the recommendation of its CSR committee but does not include any expenditure on an item not in conformity or not in line with activites which fall within the purview of schedule VII of the Act.

8) CSR Reporting: The Board's report of a company covered under these rules pertaining to a financial year post the issuance of these rules shall include an annual report on CSR containing particulars specified in the annexure. In case of a foreign company, the balance sheet filed under sub clause (b) of Sub-section (1) of section 381 shall contain an annexure detailing the report on CSR.

9) Display of CSR activities on its website: The Board of Directors of the company after taking into account recommendations of the CSR Committee, approve the CSR policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website" (Ministry of Corporate Affairs, 2014).

There have been several amendments, notifications and clarifications to the Act and the Rules. The important ones related to CSR have been listed below. You may look at these on MCA website (www.mca.gov.in).

1) GSR 129 (E) dt 27.02.2014
2) General circular no 21/2014 dt 18.06.2014
3) General circular no 01/2016 dt 12.01.2016
4) GSR 540 (E) dt 23.05.2016

5) The Company (Amendment) Act, 2017, no 1 of 2018 dt 03.01.2018
6) General circular no 06/2018 dt 28.05.2018
7) GSR 895 (E) dt 19.09.2018
8) GSR 390 (E) dt 30.05.2019
9) The Company (Amendment) Act, 2019, no 22 of 2019 dt 31.07.2019
10) GSR 776 (E) dt 11.10.2019
11) General Circular no 10/2020 dt 23.03.2020
12) Clarification on PM cares dt 28.03.20
13) General circular no 15/2020 dt 10.04.2020
14) GSR 313 (E) dt 26.05.2020
15) GSR 399 (E) dt 23.06.2020

Check Your Progress - 4

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Briefly describe the activities included under the Schedule VII of the Companies Act of 2013.

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2) What are the CSR Rules and when were they ratified?

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2.6 LET US SUM UP

The Companies Act of 2013 is a milestone in the revamp of the Companies Act of 1956. A landmark inclusion in the Act is Section 135 which makes way for Corporate Social Responsibility, a clause binding companies registering net profit of more than INR five crores to invest 2% of their net profits in activities, programmes and projects targeting larger social good. Several related sections of the Act support the interpretation and execution of provisions under Section 135. The refurbished Act of 2013 includes seven schedules of which Schedule VII outlines activities that can be undertaken by companies under CSR compliance. These activities are interpreted as subjects mandated to bring in larger social good. With the purpose of simplifying the interpretation of the Act with respect to CSR, the Ministry of Corporate Affairs released a set of nine rules which were effected from April 1, 2014 and have proved to be helpful for companies in adhering to the provisions laid out for CSR and its practice.

2.7 KEYWORDS

Companies Act : An Act regulating the operations of companies in India with necessary compliances in place.

Corporate Social Responsibility : An obligation of businesses to invest for social good in the societies in which they operate and earn their profits.

CSR Policy : A provision by virtue of which CSR investments by a profit making company is governed for necessary compliances.

CSR Activities : A list of activities, projects or programmes as outlined in the Companies Act under Schedule VII defining the scope in which companies need to plan their CSR practice.

CSR Rules : A set of rules ratified by the Ministry of Corporate Affairs, Government of India to simplify the interpretation and adherance to the provisions of CSR under Companies Act of 2013.

2.8 BIBLIOGRAPHY AND SELECTED READINGS

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2.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress-1

Answer 1: The first ever legislation in India related to the constitution and functioning of companies was enacted by the parliament of India in the year 1956. The purpose of the Companies Act of 1956 was to consolidate and amend the law relating to companies and certain other associations.

Answer 2: The Companies Act was revised and became an Act in the year 2013. The revised Companies Act of 2013 is divided into 29 chapters containing 470 sections as against 26 chapters containing 658 sections in the Companies Act of 1956. It also has seven schedules.

Answer 3: The new Act has introduced new concepts and definitions. The concept of a one-person company finds place in the Companies Act 2013. The maximum number of members permitted for a private limited company is increased from 50 to 200. It also accords more power to the shareholders. The concept of 'dormant companies' has been introduced which declares any company not engaged in business for two consecutive years as dormant. Women have been given importance in the 2013 Act with stipulating appointment of at least a woman director on the Board for a certain class of companies. Besides these, a landmark provision is listed as Section 135 which mandates companies to undertake 'Corporate Social Responsibility' (CSR).

Check Your Progress-2

Answer 1: Section 135 mandates companies to undertake Corporate Social Responsibility (CSR) by creating a CSR committee which should consist of at least three directors, including an independent director. Besides constituting a CSR committee, the company is supposed to spend at least 2% of its average net profit for immediately preceding three financial years on corporate social responsibility activities.

Answer 2: Section 134 prescribes that details of the policy developed and implemented by the company on CSR initiatives taken during the year needs to be put as a part of the financial statement and the board's report which has to be approved by the board of directors before it is signed by the chairperson of the company on behalf of the board.

Answer 3: Section 172 of the act prescribes the terms of punishment for corporates not adhering to the provisions mandated under the Act. If a company does not comply with any of the provisions of the Chapter from Section 149 to 171 of the Act and for which no specific punishment is provided therein, the company and every officer of the company who is in default shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees.

Check Your Progress-3

Answer 1: From the perspective of CSR, section 188 assumes relevance while engaging an external agency to implement activities devised under the CSR policy. Contracting or sub contracting an entity for CSR investment also calls for transparency and accountability and similar restrictions need to be observed thereof.

Answer 2: Sections 134, 171, 172, 188, 198, 443 and 450 under the Companies Act of 2013 facilitate understanding and adherance to provisions under the Act for CSR practice.

Check Your Progress-4

Answer 1: Schedule VII activities include eradicating extreme hunger, poverty and malnutrition, promoting health care, promoting education, including special education and employment enhancing vocation skills, promoting gender equality, ensuring environmental sustainability, protection of national heritage, art and culture, measures for the benefit of armed force veterans, training to promote sports, contribution to the Prime Minister's Relief Fund, contribution to incubators funded by Central Government or State Government, rural development projects, slum area development, disaster management, including relief, rehabilitation and reconstruction activities.

Answer 2: CSR rules are a set of nine rules that were ratified on April 1, 2014 and were devised to simplify the understanding and interpretation of provisions of the Companies Act of 2013 dealing with CSR practice.

UNIT 3 CSR POLICY GUIDELINES

Structure

3.1 INTRODUCTION

In the previous unit, you read about the Companies Act of 2013 and its various sections that provide guidelines for effective implementation of Section 135 which stipulates corporate social responsibility practice for companies. As addendums to the Act, several rules and guidelines have been issued by the government in due course to facilitate interpretation of the provisions in the Act as well as streamline implementation. As is understood from previous chapters, Corporate Social Responsibility (CSR) is a company's commitment towards all involved stakeholders to invest for social, economic and environmental good. Over time, as CSR has taken center stage, companies increasingly realize the competitive advantages of a responsible business. Thus, there has been more interest drawn towards investing into CSR activities and seeking returns in terms of social impact and brand image. The question however remains that what guidelines are there to support planning, implementation and assessment of CSR practice? Besides private companies, how are public sector enterprises implementing CSR? Are there any guidelines to steer the CSR practice of public sector enterprises? How do the guidelines ensure that the goals of CSR are met? Answers to these questions lie in understanding in greater detail, guidelines that have been issued by the government to steer CSR practice among public sector enterprises, their modalities and transformation over time.

After studying this unit, you should be able to

- Discuss the guidelines issued by the government to promote CSR practice by public sector enterprises.
- Elaborate on the evolution of the guidelines and specific dimensions included/ excluded to make them more holistic and socially responsive.

3.2 GLOBAL GUIDELINES TO PROMOTE CSR PRACTICES

The global impetus that CSR has received in recent years has oriented companies to invest socially and evolve a profit-oriented welfare approach. Besides the legal provisions that bind companies, several initiatives reflect how companies are investing responsibly to improve their brand image alongside addressing the prevailing socio-economic issues in the societal milieu in which they are operating. A comprehensive guidance for companies pertaining to CSR is available in the form of several globally recognized guidelines, frameworks, principles and tools. Most of these guidelines relate to the larger concept of sustainability or business responsibility, in keeping with the fact that these concepts are closely aligned globally with the notion of CSR (CII, 2013). The United Nations guiding principles on business and human rights are grounded in recognition of the states' existing obligations to fulfill human rights and fundamental freedoms, role of business enterprises in a society to perform specialized functions and the need for rights and obligations to be matched to appropriate and effective remedies when breached (United Nations, 2011). These guiding principles apply to all states and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure. These guiding principles are to be understood as a coherent whole and should be read, individually and collectively, in terms of their objective of enhancing standards and practices with regard to business and human rights so as to achieve tangible results for affected individuals and communities, and thereby also contributing to a socially sustainable globalization.

United Nations Global Compact (UNGC) is the world's largest corporate citizenship initiative with the objective to mainstream adoption of sustainable and socially responsible policies by businesses around the world. UNGC outlines 10 principles derived from various UN conventions covering four broad areas, namely: human rights, environmental protection, labour rights and anti-corruption.

The International Labour Organization (ILO, 2017), provides direct guidance to enterprises (multinational and national) on social policy and inclusive, responsible and sustainable workplace practices. This is known as ILO's tripartite declaration of principles on multinational enterprises and social policy. This is majorly applicable to multinational organizations.

The Organization for Economic Co-operation and Development (OECD) established a set of guidelines for multinational enterprises in 1976, and was thus a pioneer in developing the concept of CSR (OECD Guidelines for Multinational Enterprises, 2008). The purpose of these guidelines was to improve the investment climate and encourage the positive contribution multinational enterprises can make to economic and social progress. In addition to the OECD's 30 member countries, 11 observer countries have endorsed the guidelines. Similarly, the Institute for Social and Ethical Accountability has set a series of standards which enable organizations to become accountable, responsible and sustainable. Another such tool includes OECD's CSR policy tool which aims to help companies gain insight into their current CSR activities, assess its value and determine other CSR activities that can be employed. Social Value UK international has created a framework based on Social Generally Accepted Accounting Principles (SGAAP) that can be used to help manage and understand the social, economic and environmental outcomes created by an organization or a person.

Transparency is noted to be a crucial factor to enhance the economic, social and environmentally responsible focus while conducting any business. Incentives to encourage CSR reporting such as employee benefits have been focused on to encourage CSR reporting and measures such as mandatory CSR reporting have been undertaken to ensure the provision is put into practice. For instance, in

2007, the Malaysian government passed a regulation to mandate all publicly listed companies to publish their CSR initiatives in their annual reports on a “comply or explain” basis. Accordingly, all public listed companies (PLCs) in Malaysia have to either publish CSR information or need to provide an explanation as to why they should be exempted. In another example, in 2009, the Denmark government enforced mandatory CSR reporting, asking all state-owned companies and companies with total assets of more than €19 million, revenues more than €38 million and more than 250 employees, to report their social initiatives in their annual financial reports. For the purposes of enforcing transparency in businesses with regard to environment, social and governance, France passed a law called Grenelle II, which mandates integrated sustainability and financial reporting for all companies listed on the French Stock exchanges, including subsidiaries of foreign companies located in France and unlisted companies with sales revenue of more than €400 million and more than 2,000 employees.

On similar lines in India, over the last decade, CSR has rapidly picked up pace with some companies focusing on strategic CSR initiatives to contribute towards nation building. Gradually, Indian companies have shifted their focus to need-based initiatives aligned with the national priorities such as public health, education, livelihoods, water conservation and natural resource management. The potential role and responsibility of the business and corporate sector in contributing towards societal betterment have been intensively deliberated across the country. In the last five years, the Government of India has been focusing on persuading companies to participate in addressing social and developmental issues, not only as a part of their social responsibility but also their business practices (EY Global CSR Summit, 2013). In order to set a common standard for companies to better their CSR efforts, voluntary CSR guidelines regarding sustainability are vital. An adoption and practice of a common set of standards will hold companies accountable to meet these guidelines while also creating a peer pressure on other companies for them to comply with the guidelines. In this regard, the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business, have been laid down by the Ministry of Corporate Affairs in order to provide companies with guidance in dealing with the expectations of inclusive growth and imperatives of climate change, while working closely within the framework of national aspirations and policies. These are applicable to all businesses irrespective of size, sector or location (Ministry of Corporate Affairs, 2018). These NVGs were designed with the intent of assisting enterprises to become responsible entities whereby they formulate their financial or business objectives while considering the impact on various diverse stakeholders including society and environment at large.

Historically, the Indian government has taken several steps even before CSR became a legal binding on corporates and PSUs alike highlighting that every public sector enterprise (PSE) being part of the ‘state’ has its “moral responsibility to play an active role in discharging social obligations endowed on a welfare state, subject to the financial health of the enterprise” (CAG, 2015). One such example is the Department of Public Enterprises (DPE) issuing guidelines on corporate social responsibility for central public sector enterprises in the year 2010. Over time, these guidelines have been reworked and have evolved to include several other dimensions such as sustainability. The next section will take you through the evolution of these guidelines over time.

Activity 1

Go through the above section and write down the key points of the global guidelines to promote CSR practices.

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Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the United Nations Guiding Principles on business and human rights?

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2) What are National Voluntary Guidelines issued by the Government of India?

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3.3 GUIDELINES FOR PUBLIC SECTOR ENTERPRISES

Setting an example for the private sector, guidelines regarding expenditure on CSR activities for Central Public Sector Enterprises were issued by the Department of Public Enterprises. According to these "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises (CPSE)" revised by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises every year, each CPSE shall with the approval of its Board of Directors make a budgetary allocation for CSR and Sustainability activities or projects for the year. These guidelines came into effect from 1st April 2013 and are a revised version of the previous comprehensive 'Guidelines on Corporate Social Responsibility for Central Public Sector

Enterprises' issued by The Department of Public Enterprises (DPE), in April 2010. The earlier guidelines focused mainly on CSR activities for external stakeholders whereas the revised guidelines by the DPE also take internal stakeholders, particularly employees, into account.

3.3.1 Guidelines on CSR for CPSEs, 2010

The Committee on Public Undertakings (COPU) recommended the social obligation of every public sector enterprise. Resultantly, based on these recommendations, DPE issued a general set of guidelines in 1994. These guidelines rendered discretion to the Board of Directors of the PSEs to create socially responsible business practices in line with their Article of Association under the aegis of their respective department. It was in the year 2010 that DPE issued a new set of guidelines which called for integration of the business plan under CSR with social and environmental concerns related to the CPSE (Ibid, 2015). The guidelines were in the form of specific actionables divided based on the steps of a project lifecycle:

a) Concept

The guidelines introduce the term 'triple bottom line' specifying that corporate performance be measured on parameters of economic, social and environmental impact thereby prompting public corporations to reorient the yardsticks to measure business performance. They state that "Corporate Social Responsibility is a concept whereby organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations." The guidelines link the concept of CSR with Sustainable Development highlighting the underlying dimension of integration of social and business goals.

b) Planning

The guidelines specify that CSR planning should be done in a way that it is relevant for the targeted population, reaches the smallest unit depending on resource availability and capability, and should match with the long-term business plan. The ideal scenario for a CSR project is to be located in the periphery of the place where the company carries out its activities. However, it can be anywhere in the country if the former is not possible. Specifying the components of an ideal plan, the guidelines state that a CSR plan should include requirements relating to baseline survey, activities to be undertaken, budgets allocated, timelines prescribed, responsibilities and authorities defined and major results expected. The plan should also detail out the implementation guidelines and the modalities of monitoring and evaluation.

c) Implementation

For the purpose of implementation, the guidelines direct that implementation should be done through specialized agencies and not by CPSE staff. Such agencies can range from community-based organizations, NGOs, Trusts, Village Panchayats, SHGs, consultancy organizations to contracted agencies for civil works and should be verified on their track record. Even though the guidelines separate implementation, they direct all CPSEs to generate awareness among all staff members about the CSR activities being undertaken. To avoid duplication of effort, the guidelines state that CSR projects should be dovetailed with other governmental initiatives instead of creating duplicity. For selecting activities/ projects, attention should be paid to creating community good will, social impact and a positive change and also create a positive image for the company. The implementation component specifically highlights that the project should align with the millennium development goals and also suggests that the activities should fall in the ambit of 3 UN Global Compact Principles pertaining to environmental businesses entailing supporting precautionary approach to environmental challenges, undertaking initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies.

d) Research, Documentation, Advocacy, Promotion and Development

The guidelines provision for creating a CSR Hub which will work on compiling nationwide initiatives leading to a database, conducting research and advocacy, preparing panels of implementing, monitoring and validation agencies, conduct conferences, seminars, workshops and acting as a think tank. The CSR hub is provisioned to be supported by DPE alongside making it eligible to receive funding from State PSEs, UN agencies, national and state bodies, government departments, trusts, philanthropic missions of national and international repute.

e) Funding

In 2010, the guidelines provisioned for calculation of the CSR budget using net profit as the parameter. However, the guidelines only gave a percentage range for a different range of net profit unlike the current provision of 2%. For companies having a net profit of less than 100 crores in the previous year, the expenditure range for CSR in a financial year is specified to be 3-5%, for companies with a net profit of 100-500 crore, the CSR range is 2-3% and for companies earning a net profit of 500 crore or more, the specified CSR expenditure range is kept at 0.5-2%. For companies that are making losses, there is no compulsion to earmark CSR funding. For companies having different profit centers like factories or plants, there can be different allocated CSR budgets. In the event of an unspent CSR fund, the guidelines provision for creating a CSR fund which will accumulate unspent CSR funds and be known as the *non-lapsable-pool* for the North East.

f) Clarifications

The guidelines clarify that they override any other direction in this regard by any other ministry or department as they are coherent with the draft guidelines for corporates issued by the Ministry of Corporate Affairs. Detailing the illegibility of CSR spends, the guidelines specify that any grant made to an agency not implementing CSR projects, any activity related to staff benefits will not count as CSR. They also make provisions for any amendments to the guidelines by DPE in the future.

g) Baseline Survey and Documentation

Conducting a baseline survey before the start of every project is mandatory. This is done to ensure that the impact of the CSR activities is quantified. Documentation of all CSR processes, activities, expenses, etc., is also emphasized upon and open access in the public domain is provisioned in the guidelines.

h) Monitoring

Monitoring is stated to be an important aspect of CSR practice and is specified to be conducted on a periodic basis. For the purpose of monitoring, the guidelines provision for creating a CSR committee or a social audit committee and evaluation by an independent external agency is also mandated for. To ensure that CSR practice is resulting in impact, the guidelines specify that the concerned ministry/department should measure a CPSEs performance with reference to its CSR activities to the extent that from 2010-11, 5 marks are specified for CSR activities and 5 marks for sustainable development initiatives.

These guidelines witnessed minor amendments such as one dated 4th February, 2011 which directed CPSEs to include contribution to the National CSR Hub located in the Tata Institute of Social Sciences as CSR spend (DPE, 2011) and another dated 21st June, 2011 which directed CPSEs to include fee of any CSR training or workshop as CSR spend.

In totality, the guidelines issued by DPE in 2010 were a precursor to the revised guidelines issued in 2013 followed by 2014. The revisions thus made in 2014 were largely taking into consideration the CSR Act of 2013 and therefore, the revised guidelines clearly state that they do not override the provisions of the Act and are drafted to supplement the CSR provisions in the Act and the Schedule VII rules.

Activity 2

Go through the above section and write down the key points of the guidelines for public sector enterprises.

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Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Which year was the first set of guidelines issued by the Government of India to govern the social conduct of businesses?

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2) What are the key components of guidelines on CSR for CPSEs issued by DPE in 2010?

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3.4 GUIDELINES ON CSR FOR CPSEs, 2013 ONWARDS

3.4.1 Revision of Guidelines on CSR for CPSEs, 2010

The Department of Public Enterprises revised the CSR guidelines of 2010 which became effective from 1st April, 2013. The guidelines propose to infuse policy content in a large measure. CPSEs are directed to constitute CSR policy in a way to include sustainability measures as an equally important component. The following are the key features of the guidelines:

a) CPSEs take up at least one major project for development of a backward district

b) CPSEs to earmark 5% of their annual budget for CSR and sustainability activities to meet the emergency needs which may include relief work undertaken during natural calamities/ disasters/ contribution towards Prime Minister's/ Chief Minister's Relief Funds or to the National Disaster Management Authority

c) CPSEs to conduct business in a manner that is socially responsible and mutually beneficial for the business and the society

d) CPSEs to constitute a two tier structure, viz., a board level committee and a group of officials headed by a senior executive not less than one rank below the board level to steer the CSR and sustainability agenda of the company

e) CPSEs to disclose reasons for unspent CSR and sustainability budget. The revised guidelines however provide for the unspent budget being spent within the next two financial years, failing which, it will be transferred to a 'Sustainability Fund' to be created separately for CSR and Sustainability activities.

f) Unlike the previous guidelines that focused on number of projects, the revised guidelines advise CPSEs to focus on scalability of CSR and sustainability projects

g) CPSEs to allow usage of the infrastructural facilities created from CSR and sustainability budget by employees which should however not exceed 25% of the total number of beneficiaries

h) Monitoring of the CSR and sustainability activities should be conducted by an external agency. In case of projects being implemented by an external agency, monitoring of the project must be conducted by the CPSEs through the team of officials specially designated for the task.

3.4.2 Guidelines on CSR for CPSEs, 2014

Enactment of the Companies Act of 2013 brought all companies including CPSEs in the ambit of Section 135 and Schedule VII of the Act. As you have studied in the previous unit, the aforementioned Section and the Schedule lay down the modalities for any company including public sector enterprises to undertake and implement CSR. Prior to the CSR rules, the DPE guidelines on sustainability issued in December, 2012 were applicable to CPSE from April, 2013. In these guidelines, CSR and sustainable development were treated complementary wherein CSR was seen as a constituent of the overarching framework of sustainability. The revised guidelines of 2014 are also based on the same principle reaffirming the need to look at sustainable development as the larger parameter alongside which business conduct and CSR agenda should be devised. The guidelines clarify that they do not supersede the CSR provisions of the Act and the Schedule VII and any contradiction arising in practice, provisions of the Act will prevail. Other provisions in the guidelines are as follows:

a) The term sustainability is used in conjunction with CSR with the vision that provisions in the Act coupled with sustainability initiatives will facilitate achievement of Sustainable Development Goals. Thus, the guidelines emphasize the need to take sustainability initiatives in addition to CSR compliance thereby making it mandatory for CPSEs to ensure CSR compliance in conjunction with the provisions in the guidelines.

b) Besides the CSR policy that is to be drafted under the Act, the guidelines mandate CPSEs to have a vision and mission statement detailing how the CPSE proposes to comply with the guidelines along with description of its sustainability initiatives. Thus, the guidelines propose the CSR policy to be named as 'CSR and Sustainability' Policy which by no means indicate any digression from the provisions under the Act but instead reiterate the commitment of a CPSE towards addressing social, economic and environmental concerns which may be beyond the ambit of the CSR Act.

c) The CSR and Sustainability Policy must be in accordance with the provisions of the Act, Schedule VII of the Act, CSR rules and guidelines, and the policy directions issued by the government from time to time.

d) If there is a need to add new CSR activities that do not fall in the ambit of the current policy, it can be done with the approval of the board and will be considered as an amendment to the policy.

e) The guidelines make it mandatory for all CPSEs making profits in the preceding year to undertake CSR activities even if the net profits do not fall in the threshold specified in Section 135 (1) of the Act. Specifying that such CPSEs will be expected to spend at least 2% of the profit made in the preceding year on CSR activities.

f) In the event of unspent CSR budget, the CPSE will have to specify the reason for not spending the designated amount. However, the unspent CSR budget will not lapse and will be carried forward to the next year for utilisation for the purpose for which it was allocated.

g) The activities listed under CSR for any CPSE should align with the national priorities such as safe drinking water for all, provision of toilets, health and sanitation, etc. The overarching focus should be sustainable development and inclusive growth.

h) In line with the emphasis on sustainability, the guidelines recommend that besides CSR, every CPSE should focus on aligning its business activities with the social, economic and environmental responsibilities. However, it is specified that the amount spent on sustainability initiatives in the pursuit of sustainable development while conducting routine business activities would not be counted in the 2% CSR spend.

i) Sustainability initiatives by the CPSE should focus on producing goods and services which are safe and healthy for consumers and the environment, resource efficient, consumer friendly and environmentally sustainable through the production life cycle. Alongside, the initiatives should include steps to promote the welfare of employees, physically challenged, deprived caste groups in the form of providing conducive work environment. However, these steps will not be counted for in the CSR spends.

j) The sustainability and inclusive approach adopted by the CPSE should be extended to the supply and market chain such that vendors, service providers, clients and partners align with the commitments on growth and development. The guidelines term this phenomenon as a CPSE being able to 'green' the supply chain.

k) In terms of locating the CSR activities, the first preference should be given to the 'local area' for CSR activities. This 'local area' can be in proximity to the location of the CPSE or any of its plants or factories. However, if this is not feasible, a CPSE can undertake CSR activities anywhere in the country.

l) The CPSE needs to devise an effective communication strategy in order to create a continuous dialogue with key stakeholders to obtain their feedback on the CSR activities by the company. The ultimate decision on CSR activities however lies with the board.

m) The annual CSR report as stipulated by the Act should also include a section on the actions taken to implement the provisions listed in the guidelines such that the stakeholders are informed of not only the CSR activities but also the actions taken by the CPSE towards sustainable development. The guidelines further advise the CPSE to release an 'Annual Sustainability Report' to render greater transparency and accountability to the company's operations.

n) For the purpose of ascertaining the impact of CSR and sustainability initiatives, the guidelines advise the CPSEs to undertake a needs assessment survey before selecting CSR activities. Furthermore, the CPSEs should get an impact assessment study done by an external agency. The expenditure incurred on needs assessment survey and impact assessment must be within the overall limit of 5% of administrative overheads of CSR spend.

o) The guidelines clarify that CPSEs which are statutory corporations should comply with the provisions of the Act, CSR rules and the Guidelines (DPE, 2014).

3.4.3 Recent Amendments

The guidelines issued in the year 2014 have undergone amendments. The first amendment was issued on 20th November, 2014 which aimed at including select national priorities under CSR carried out by CPSEs. In the directive, it was specified that

a) Contributions to *Swachh Bharat Kosh* set up by the Central Government for promotion of sanitation and Clean Ganga Fund set up by the Central Government for the rejuvenation of river Ganga will be considered as expenditure under CSR.

b) Contributions to Prime Minister's Relief Fund (PMRF) will not be accepted if they flow out of budgetary resources, profits or from balance sheets of PSEs. PMRF will only accept voluntary contributions by individuals and institutions (DPE, 2014).

The second amendment dated 1st August, 2016 was done to promote observance of transparency and due diligence in the selection and implementation of CSR activities by CPSEs. The amendment clarifies that all CPSEs crossing the specified threshold under Section 135 of the Companies Act, 2013 are mandated to allocate 2% of their average net profits of three preceding years for CSR activities. The guidelines direct the ministries and departments to advise the CPSEs in their jurisdiction to:

a) ensure that the CSR activities selected for implementation fall within the list of activities stated under Schedule VII of the Act

b) ensure that the engagement with stakeholders are in line with the needs of people

c) upload the CSR policy in the public domain on their website along with the details of the CSR activities being undertaken and the respective fund allocation

d) observe transparency and due diligence in the selection and implementation of activities under CSR

e) establish an institutionalized mechanism for monitoring, reporting and evaluation

f) make efforts to fully utilize the allocated CSR funds for the year (DPE, 2016)

The third amendment to the 2014 guidelines was issued on 10th December, 2018 which was an outcome of the CPSEs conclave in April 2018. A key outcome of the conclave was the felt need to implement CSR with a theme-based approach contributing towards national priorities. Followed by the need, the DPE underwent deliberations with select CPSEs, departments, ministries, NITI *Aayog* and proposed the following course of action for the CPSEs:

a) CPSEs to identify a common theme for each year for undertaking CSR

b) For the year 2018-19, school education and health care are themes for focused intervention by CPSEs

c) 60% of the annual CSR expenditure should be towards the thematic programme

d) Aspirational districts to be given preference

e) The annual theme for the next year will be decided by the competent authority.

The third amendment specifies that the specification of directing 33% CSR funds towards sanitation and *Swachh Bharat Mission* activities as specified in the first amendment is superseded. Making NITI *Aayog* responsible for piloting the amendment, the second amendment specifies directions for a CPSE implementing a CSR activity in an Aspirational district:

a) The CPSE is supposed to designate a senior functionary as nodal officer to liaise with the district administration of concerned district

b) furnish the details of the nodal officer along with the name of the Aspirational district to NITI *Aayog*, the concerned department of the CPSE and DPE

c) furnish details of the projects funded by CPSE under CSR in an Aspirational district to NITI *Aayog*, the concerned department of the CPSE and DPE

d) Brief the concerned *Prabhari* officer of Aspirational district about the CSR project being funded by CPSE (DPE, 2018).

Activity 3

Go through the above section and write down the key points of the guidelines for CPSEs.

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Check Your Progress - 3

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) How are the guidelines issued by DPE for CPSEs on CSR in the year 2014 different from the earlier versions?

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2) What is meant by 'greening' the supply chain?

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3) What are the essential components of a CSR and Sustainability policy?

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3.5 LET US SUM UP

Since 1994 the Government of India has been taking steps to orient public sector enterprises on the social and environmental responsibility they carry while operating in the larger human ecosystem. While there are several sets of guidelines that were issued by the Department of Public Enterprises for Central Public Sector Enterprises, a major thrust was observed with the implementation of the Companies Act of 2013. At the same time, to further the enforcement of provisions of CSR and Schedule VII and extend the efforts of CPSEs to the tangent of sustainability, the DPE issued guidelines that resonate with the CSR provisions of the Companies Act. The guidelines serve as a guiding document for CPSEs to practice CSR and Sustainability in complementarity. In doing so, the guidelines suggest measures that facilitate CSR practice among CPSEs extending the impact to all involved stakeholders.

3.6 KEYWORDS

Department of Public Enterprises : Department of Public Enterprises is a part of the Ministry of Heavy Industries and Public Enterprises. It is the nodal department for all Central Public Sector Enterprises and formulates policy pertaining to CPSEs.

Central Public Sector Enterprises : Central Public Sector Enterprises are those companies in which the direct holding of the Central Government or other CPSEs is 51% or more.

Sustainability : The process of bringing about change which is lasting and becomes constant.

Local Area : The surroundings in proximity to a company's operational site/ factory or plant.

Needs Assessment : The study of nature and extent of needs of a population group with respect to the gap between the current situation and the desired situation.

Social Impact : A substantial, positive and sustainable change that addresses a pressing social problem.

Responsible Business Practices : The process of running a business which is socially, economically and environmentally responsive and positively impactful for all stakeholders.

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3.8 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress-1

Answer 1: The United Nations guiding principles on business and human rights are grounded in recognition of the states' existing obligations to fulfill human rights and fundamental freedoms, role of business enterprises in a society to perform specialized functions and the need for rights and obligations to be matched to appropriate and effective remedies when breached. These guiding Principles apply to all states and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure.

Answer 2: The National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business were laid down by the Ministry of Corporate Affairs in order to provide companies with guidance in dealing with the expectations of inclusive growth and imperatives of climate change, while working closely within the framework of national aspirations and policies. These are applicable to all businesses irrespective of size, sector or location. These NVGs were designed with the intention of assisting enterprises to become responsible entities whereby they formulate their financial or business objectives while considering the impact on various diverse stakeholders including society and environment at large.

Check Your Progress - 2

Answer 1: DPE issued a general set of guidelines in 1994 based on the recommendations of the Committee on Public Undertakings (COPU) that recommended that every public sector enterprise has a social obligation. These guidelines rendered discretion to the Board of Directors of the PSEs to create socially responsible business practices in line with their Article of Association under the aegis of their respective department.

Answer 2: The guidelines on CSR for CPSEs released by DPE in 2010 emphasize on the triple bottom line for every company highlighting that performance should also be measured in terms of the social, economic and environmental impact of a company. The key components of the guidelines include direction on planning, implementation, research, documentation, advocacy, promotion development, funding, baseline survey, and documentation and monitoring.

Check Your Progress - 3

Answer 1: The guidelines of the year 2014 are in line with the provisions of Section 135 (1) of the Companies Act and the Schedule VII clearly specifying that the provisions do not supersede the provisions of the Act. From the previous versions, the guidelines of 2014 include aspects of internal and external stakeholders mentioning how the entire business ecosystem needs to undergo a change to become socially, economically and environmentally more responsible and responsive. The new guidelines advise CPSEs to also release annual sustainability report in addition to the annual CSR report to highlight its sustainability initiatives, improve transparency and brand image.

Answer 2: The guidelines issued by DPE in the year 2014 recommend that a CPSE, besides incorporating a CSR and Sustainability approach in its business internally should also ensure that suppliers, vendors, service providers, clients and partners are also committed to the same principles and standards of CSR and sustainability. The measures thus taken will facilitate 'greening' of the supply chain.

Answer 3: The CSR and Sustainability Policy of a CPSE should be in line with the provisions of the Act, Schedule VII and the Guidelines issued by DPE in 2014. The policy should capture the spirit and philosophy of CSR and Sustainability and should serve as the referral document for planning CSR activities accordingly.

UNIT 4 RELATED RULES AND GUIDELINES

Structure

4.1 INTRODUCTION

From your readings of the previous units, you have understood that Section 135 of the Companies Act of 2013 enacted by the Government of India in August 2013 deals with the subject of Corporate Social Responsibility (CSR). The Section under reference lays down the qualifying criteria based on net worth, turnover, and net profit for companies which are required to undertake CSR activities and, among other things, specifies the broad modalities of selection, implementation and monitoring of the CSR activities by the Boards of Directors of companies. The activities which may be included by companies in their CSR policies are listed in Schedule VII of the Act. The provisions of Section 135 of the Act and Schedule VII of the Act apply to all companies.

However, in addition to the CSR provisions of the Act and the CSR Rules, various sector specific guidelines have also been formulated. For instance, as you read in the previous unit, the Department of Public Enterprises (DPE) has formulated Guidelines on CSR and Sustainability which are applicable to Central Public Sector Enterprises (CPSEs). In the Guidelines the need for taking sustainability initiatives is emphasised in addition to the requirement of mandatory compliance with the CSR Rules. It is suggested that it may be referred to as 'CSR and Sustainability' policy. Likewise, different sectors such as mining, pharma, information technology and different types of companies like CPSEs, MNCs, and industry associations such as FICCI, CII have developed their own set of guidelines for CSR practice. How do these guidelines differ as the nature of company or the sector changes? What are the underlying principles on which these guidelines are constituted? Is there conflict of interest between the provisions on CSR in the Act and the guidelines? In this unit, we aim to answer such questions.

After studying this unit, you should be able to

- Discuss sectoral differences in the guidelines issued for furthering CSR practice
- Describe the constituents of sector specific guidelines
- Analyze the resonance with the provisions on CSR in the Companies Act

4.2 SECTOR SPECIFIC GUIDELINES

Different sectors operating in the profit ecosystem have different social, economic and environmental impacts on their stakeholders both, internal and external. Given these idiosyncrasies, different sectors have developed different set of guidelines which are essentially in consonance with the provisions of the Act.

4.2.1 Mining

Mining companies operating in tribal areas and otherwise are obliged under Corporate Social Responsibility (CSR). In the mining sector, CSR refers to a company's voluntary actions to either reduce the negative impacts of mining (economic, social, and environmental) or to improve the living conditions of the local communities where they operate. These actions are ideally to go beyond legal obligations and binding contracts. Thus, agreements between communities and companies cannot be considered part of a company's CSR programme because these agreements are similar to binding contracts (Das and Ram, 2012).

Section 9B of Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 (Amended in 2015) provides for establishment of District Mineral Foundation/ Jila Khanij Pratishthan (DMF) in each district affected by mining related operations. The DMF is funded by statutory contributions from holders of mining lease. The Pradhan Mantri Khanij Kshetra Kalyan Yojana (PMKKKY) provides implementation framework for schemes to be undertaken for welfare and development of mining affected areas and people through the funds collected under DMFs. Directions in this regard have been issued under section 20A of MMDR Act, 1957 on 16.09.2015 to all the States Governments to incorporate the PMKKKY into the rules framed by them for the DMF. PMKKKY provides for utilization of at least 60% of the funds for high priority areas like: (i) drinking water supply; (ii) environment preservation and pollution control measures; (iii) health care; (iv) education; (v) welfare of women and children; (vi) welfare of aged and disabled people; (vii) skill development; and (viii) sanitation. The rest of the funds will be utilized for (i) physical infrastructure; (ii) irrigation; (iii) energy and watershed development; and (iv) any other measures for enhancing environmental quality in mining district. The details of implementation or non-implementation of welfare schemes/programmes as well as activities carried out by Mining Companies under CSR is not maintained by Ministry of Mines.

In the recent past, several models of Sustainable Development Framework (SDF) which was developed by the Ministry of Mines, Government of India, customized plans for specific mineral bearing areas have been designed and adopted by mining companies (Panigrahi, 2017). SDF in mining sector is modeled on five factors which are safety, efficiency, economy, environment and community. Based on the precautionary principle, SDF incorporates not only regulatory requirements, but also best practices to address the challenges to sustainability in a holistic manner. It guides through participatory means for a productive and continuous relationship between mining industries, government and stakeholders including communities, civil society bodies and NGOs. Sustainable development can be realized in the mining sector only if investment in projects is financially viable, technically suitable, environmentally sensible and socially responsible. A set of eight principles have been developed under the SDF which are: (Ministry of Mines, 2010)

1) Incorporating environmental and social sensitivities in decisions on leases: The underlying principle is to categorise mineral bearing areas based on an environmental and social analysis taking a risk-based approach such that high risk and low risk areas can be categorised and business decisions be taken accordingly.

2) Strategic assessment in key mining regions: The principle proposes to undertake a strategic assessment of regional and cumulative impacts and develop a Regional Mineral Development Plan.

3) Managing impacts at the mine level impact: This is to be done through sound management systems undertaking impact assessment of key environmental, social, health and safety issues such that performance on social and environmental parameters can be disclosed to external stakeholders.

4) Addressing land, resettlement and other social impacts: The principle demands assessment of all impacts and the measures taken to mitigate those impacts.

5) Community engagement, benefit sharing and contribution to socio-economic development: The principle expects constant engagement with communities and sharing of project benefits with affected families. Dovetailed with the social impact management of projects under CSR, this principle works to mitigate impacts in a holistic way.

6) Mine closure and post closure mining: The principle calls for having an elaborate scoped out plan for company closure and measures to ensure commitments with stakeholders are honoured.

7) Ethical functioning and responsible business practices: The principle underlines the need for ethical business practices and a strong sense of CSR among mining companies.

8) Assurance and reporting: The principle provisions for all mining companies to report performance in a Sustainable Development Report which is supposed to be in the public domain.

The Sustainable Development Framework acts as an additional guiding framework to the CSR provisions to ensure sustainability of initiatives. Taking the example of a few mining companies, National Aluminum Company (NALCO), in order to pursue CSR in a focused manner registered the NALCO CSR Foundation in July, 2010. The foundation's work is primarily located in the plant locations in Angul and Koraput in Odisha. The Government of Odisha set up the Rehabilitation and Peripheral Development Advisory Committee (RPDAC) which now decides the projects to be executed by NALCO (Ibid, 2019).

Sustainable Mining Initiative

Realizing the need to mainstream sustainability in the mining sector and to counter the negative perception of mining, FIMI, launched Sustainable Mining Initiative (SMI) in 2009. The overarching aim of SMI is to promote the tangible and measurable concepts of sustainable mining, assist the mining sector to inculcate sustainable practices in mining operations and tackle the industry-wide challenges of environmental management and socio-economic development.

SMI engages with all stakeholders including government, industry, communities, civil societies, academia etc. to positively influence Indian policy and regulations to promote sustainable mining. The SMI Code of Conduct is a set of 10 sustainable mining principles for voluntary adoption by companies to become SMI members; and is also the first step towards sustainable mining in India. Moreover, SMI has also been entrusted with high level engagements in mining sector both by the Government and the industry. (http://www.fedmin.com/smi/home)

Activity 1

Go through the literature on CSR in Indian mining industry. Write in brief on the CSR activity of any one of the mining company in India.

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4.2.2 Cement

India's cement industry is the second largest in the world in terms of cement production (Vani and Krishna, 2015). Growth in the industry is related to growth of the country's economy and therefore, it is imperative to understand the nature of CSR practice by companies in this sector and if there are any sector specific guidelines that are in place to further this practice. A look into the available data yields that there are no sector specific guidelines on CSR practice for cement companies. However, big players in the industry are adhering to the provisions listed in the Act. Following are few industry examples on current CSR practice:

1) ACC Ltd.

The Company is committed to act as a responsible partner with all its stakeholders, to contribute effectively to improve the quality of life of the employees, their families and the communities around its operations as well as in conducting business consistent with Sustainability Development Goals in their own operations and in its relations with suppliers and customers. Their CSR Policy, related directives and recommendations supports this commitment, serves as guidance for their decisions and actions.

The major thrust areas of CSR projects are: livelihood, employability and income generation, improving the quality and reach of education, enhancing health and sanitation, community environment sustainability and promotion of sports, arts and culture (ACC Ltd., 2017).

2) Ultra Tech Cement Ltd.

The objective of Ultra Tech Cement's CSR practice is to actively contribute to the social and economic development of communities in which it operates. In doing so, build a better, sustainable way of life for the weaker sections of society and raise the country's human development index. All projects are identified in consultation with the community in a participatory manner, sitting with them and gauging their basic needs. Subsequently, based on a consensus and in discussion with the village panchayats, and other stakeholders, projects are conceptualised and prioritized. Arising from this exercise, the focus areas that have emerged are Education, Health care, Sustainable livelihood, Infrastructure development, and espousing social causes (UltraTech Cement Ltd., 2013).

3) Ambuja Cement Ltd.

Corporate Social Responsibility wing of Ambuja Cements Ltd. has been modeled in the form of Ambuja Cement Foundation that works with the rural communities surrounding Ambuja's manufacturing sites. The Foundation is engaged in a variety of people-centric, integrated rural development projects. Since inception, the Foundation has expanded its reach and diversified its programmes to include as many members of its stakeholder group as possible. While working with the participation of the people, ACF has held its mission statement central to all its operations. The Foundation has presence in twelve states across the country and is engaged in programmes like Natural Resource Management, Agro based and skill-based livelihoods and improvement of health status, educational support and economic enhancement (Ambuja Cements Ltd., 2014).

4.2.3 Pharma

CSR is a concept whereby pharmaceutical companies not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, employees, shareholders, customers, suppliers, and civil society represented by NGOs. Pharmaceuticals' CSR programs primarily focus on health and healthy living. Examples of such work include serving in tribal villages, providing medical check-up and treatment, health camps and health awareness programs. Pharmaceutical companies also provide money, medicines and equipment to non-profit organizations that work towards improving health and education in underserved communities. As compared to other major industrial sectors, the pharmaceutical industry is under constant scrutiny regarding the way it operates. Since there is an ever-continuing rise in interest by the media and the public in the type of healthcare service being offered, pharmaceutical companies are always in the limelight (Nair, 2016). Following are some CSR practice examples by leading pharmaceutical companies in the country:

1) Sun Pharma Laboratories Ltd.

Drawing from the CSR vision and mission statement of Sun Pharma Laboratories Limited, the CSR policy has been formulated with the following objectives: serving the community, focus on quality, ensuring sustainability and leveraging resources. Sun Pharma Laboratories Limited is committed to ensuring the implementation of the proposed CSR programmes in order to bring meaningful and sustainable development of underserved communities (Sun Pharma Laboratories Ltd., 2017).

2) Cipla

The corporate responsibility vision of Cipla is to achieve the distinction of being acknowledged as an admirable and trusted company. Sustainable development and creating value for stakeholders are two missions that drive the company to realize its corporate responsibility vision which is built on four strategic pillars of the corporate responsibility framework – 'safe & quality products at affordable cost', 'valuing our people', 'helping the environment & sustainability' and 'empowering our communities' (Cipla, 2013).

3) Lupin Ltd.

The core of Lupin's CSR programme is not limited to eradication of poverty; they are focused on building sustainable models for enhancement in Human Development Indices (HDI). This is envisioned to be replicated widely through collaborations and partnerships. The programme design of the CSR work of the Company is guided by the Millennium Development Goals (MDGs), which offers an appropriate framework for the action. Lupin follows a project-based accountability approach to stress on the long term sustainability of CSR projects (Lupin Ltd., 2015).

4.2.4 Chemicals

The chemical industry is considered to be one of the most polluting industries in India. With the fast-paced economic growth across the country, it is imperative that chemical industries operate in a socially and environmentally responsible manner and mitigate the impact of their operations. There are no sector specific guidelines available for the chemical industry and a few of the leading companies in the sector have devised their own CSR policy in line with the provisions in the Companies Act. Some of the examples are listed below for your reading:

1) Himadri Chemicals & Industries Limited

The CSR policy highlights the need to engage in responsible practices which is driven by an intense desire to contribute positively towards the three pillars of sustainability and CSR – Social, Economic and Environmental. The operation document reiterates that Himadri runs its business and designs its policies in line with the three pillars outlined previously. The policy indicates that Himadri is committed to act responsibly and ethically to maintain the trust of its customers, its employees and other stakeholders.

2) Pidilite

Pidilite's community initiatives are linked to sustainability. Decisions related to CSR and sustainability are taken based on the social and environmental consequences. The policy document reinforces the intent of making a positive difference to society. It highlights that every year, the company dedicates hundreds of man-hours to identify the needs of the communities around the periphery of their business, and helps fill in gaps with their efforts. The company creates employment opportunities for the locals around its manufacturing facility, and also takes steps to improve their health and lifestyle through several initiatives in medical aid, agriculture, horticulture, water management, animal husbandry and education (Pidilite, 2016).

3) Jay Chemical

Jay Chemical's CSR Policy intends to strive for economic development that positively impacts the society at large with minimal resource footprint. It embraces responsibility for the company's actions and proposes to bring in a positive impact through its activities on hunger, poverty, malnutrition, education, environment, communities, stakeholders and the society.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What guidelines do mining companies follow while practicing CSR?

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2) What are the major domains on which cement companies focus their CSR interventions?

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3) What have the chemical industries been doing to mitigate the environmental impact of their work?

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4.2.5 Oil and Gas

The oil and gas sector in India have contributed to the development of the nation, yet simultaneously causing hazards both socially and environmentally. Oil and gas production imposes significant costs on society, the cost includes air pollution, oil spills, injuries and deaths. It is also sometimes associated with a second order cost that includes social dislocation and conflict. Thus, societies look to oil and gas companies to self-regulate to do more to guard against risks to societies than merely comply with the law. The public expects more CSR from oil and gas companies. There are numerous issues closely connected to the output of the production process of oil and gas companies. The long term impact on marine environment can be a result of volumes of hazardous and chemical materials disposed in water bodies. The production process also is increasing the surrounding temperature due to flares, release of dust fumes, gas, mist, odour, smoke and vapours all of which cause harm to the existence of nature. Most oil and gas companies support activities such as CO_2 emission reductions, community development projects and transparency of revenues paid to governments (Mishra, et al. 2013). Even though, there are no sector specific guidelines, following are a few examples of the current CSR practice of select oil and gas companies:

1) Bharat Petroleum Corporation Limited (BPCL)

BPCL is running a rainwater harvesting project called Boond in association with Oil Industries Development Board for transforming select draught stricken villages to turn them from water scarce to water positive. Other social programmes of BPCL include adoption of villages, prevention and care for HIV/AIDS and rural health care (Bhutani, 2014).

2) Indian Oil Corporation (IOC)

The IOC runs the Indian Oil Foundation (IOF), a non-profit trust. The foundation works for the preservation and promotion of the country's heritage. IOCL offers 150 sports scholarships every year to promising youngsters. Some other projects include clean drinking water, education, hospitals and health care (Ibid, 2014).

3) Oil and Natural Gas Corporation (ONGC)

ONGC offers community based health care services in rural areas through 30 Mobile Medicare Units (MMUs). ONGC also supports a deer conservation project in Kaziranga National Park in Assam, and projects on education and women's empowerment (Ibid, 2014).

4.2.6 Information Technology

An analysis of CSR practice by Indian IT companies suggests that a majority have CSR initiatives in the areas of education, environment, health and community development. CSR disclosures of IT companies significantly differ across the company itself and on a year wise basis (Charumathi and Gaddam, 2015). There are no sector specific guidelines available for the IT sector. Following are examples of CSR practice by few leading IT companies in India:

1) Infosys Ltd.

Infosys implements its CSR through the Infosys Foundation. The foundation aims at providing a dedicated approach to community development and also to fulfill the company's CSR commitment. It works towards removing malnutrition, improving health care infrastructure, supporting primary education, rehabilitating abandoned women and children, and preserving Indian art and culture. Infosys foundation partners with NGOs to make a difference among local communities. The company's focus is to contribute to the sustainable development of the society and environment and to make the planet a better place for future generation (Infosys Ltd., 2015).

2) Accenture

Accenture actively seeks opportunities that will deliver results by partnering with organizations (non-profits, clients, vendors, other foundations) with whom they share their vision and CSR focus. Investments are directed towards non-profits working towards skilling and livelihood enhancement with communities across urban, semi-urban and rural India. Company sources and qualifies new opportunities that create new market-relevant skill offerings, bring new technology capabilities into the portfolio to optimize delivery and achieve scale and engage multiple locations to help ensure broad-based impact and create long-term sustainability of outcomes delivered.

3) Tata Consultancy Services (TCS)

TCS's commitment to CSR stems from Tata Group's abiding concern for society and environment. A concern captured in the words of the Founder, Jamsetji Tata: "In a free enterprise, the community is not just another stakeholder in our business, but it is in fact, the very purpose of its existence." At TCS, CSR programmes seek to create sustainable well-being. The guiding principle is "Impact through Empowerment", where outcomes and measurable impacts are delivered through a long term sustained effort.

4.2.7 Steel

As per the DPE's CSR guidelines, most steel industries formulate their policy documents suiting their needs. For example, the Vizag Steel plant's CSR policy document details its vision and objectives in its pursuit towards CSR activities in congruence with DPE's CSR guidelines (Vizag Steel, 2018). Steel companies undertake socially and environmentally responsible projects to reduce and recycle waste, improve yields and productivity, identify opportunities for reducing energy consumption, and improve efficiency in water consumption and gradually achieving zero discharge, improving ambient air quality in and around its area of operations and so on. An example of CSR practice of such steel companies is provided below:

1) Jindal Steel and Power Limited (JSPL)

JSPL carries out its social outreach programmes as per the written CSR policy and guidelines given in section 135 of Companies Act, 2013. JSPL is committed to social welfare and environmental sustainability through its CSR initiatives. The company has made substantial efforts in various social fields including health improvement, infrastructure development, education, livelihood of rural women, sports, arts and culture and environmental conservation. JSPL is a leading manufacturer in Indian industry. The CSR description of the company claims that it has made several efforts for overall social and economic development of the poor. All its CSR activities are not merely to satisfy the statuary requirements as per Companies Act but is also committed to the society for its betterment. Many people are directly or indirectly benefitted by company's CSR initiatives (Ibid, 2015).

2) Tata Steel Limited

The CSR policy of Tata Steel is based on its founder's philosophy that business enterprises are drivers of social upliftment. The company runs community-centric initiatives which emphasise the spread of quality education, healthcare and sustainable livelihood opportunities in all Tata Steel's plants locations. The company aims to empower communities through agriculture development and market linkages, develop skills among youth, promote entrepreneurship and preserve ethnicity and culture of indigenous communities.

4.2.8 Paper

The Indian paper industry is the 15th largest industry in the world and provides employment to around 1.3 million people and contributes around INR 25 billion to the government. The paper industry finds special interest in the north-east due to the availability of a variety of forest products thus creating a lot of employment opportunities and also furthering economic development of the region (Bhattacharjee, 2015). However, its utilization of natural resources causes environmental and social impacts. How do the paper mills mitigate these impacts? There are no sector specific guidelines for paper industries but leading paper mills do have elaborate CSR policy documents to guide their CSR practice. Some of the examples are listed below for your reading:

1) Hindustan Paper Corporation Limited (HPC)

Blending passion for corporate performance with compassion for communities is central to HPC's corporate philosophy of peripheral area development and community development. Preparing, empowering and inspiring communities in the locational periphery of mills for attaining long term sustenance through voluntary social actions covering micro-enterprises, self-help groups, etc., and regarding the community as a major stakeholder and accordingly identifying their needs and addressing their concern areas is the mandate of HPC's CSR practice. The CSR report claims that HPC has been playing a dominant role in the socioeconomic development of the north-east region and recognizes that, its business activities have direct and indirect impact on the society. The company strives to integrate its business values and operations in an ethical manner to demonstrate its commitment to sustainable development.

2) South India Paper Mills Limited

The Company is consistently taking up various community welfare initiatives for the benefit of people living in the neighbouring villages. The Company's CSR activity mainly covers areas situated around the factory premises. The CSR Policy aims to promote economic, social, environmental and cultural growth of the community at large in an equitable and suitable manner.

3) Emami Paper Mills Limited

The Company endeavours to make its CSR policy a key business process and constantly strives to ensure strong corporate culture which emphasizes on integrating CSR values with business objectives. As a corporate entity, the company is committed towards sustainability. The company initiates dialogues with shareholders with the objective that each business decision takes into account it's social and environmental impacts and plans. The main objective of the CSR policy is to establish the basic principles and the general framework of action for the management to undertake and fulfill its corporate social responsibility and undertake proactive engagement with stakeholders to actively contribute to the socio-economic development of the periphery / community in which it operates.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the impacts of oil and gas industry operations and what is their corresponding CSR focus?

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2) What CSR interventions do steel and paper industries have in India?

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4.3 MNCs, SEBI AND INDUSTRIAL ASSOCIATIONS

4.3.1 Multinational Companies (MNCs)

Tan (2009) suggests that as businesses rapidly transcend national borders and bring in added complexity, multinational corporations are being increasingly held accountable for greater transparency and social responsibility. Through time, MNCs have been largely under the scanner out of concerns that profit maximisation may be ensured at the cost of vulnerable workforces, the environment and other aspects (Edwards et. al., 2007). In the Indian context, provisions under Section 135 (1) of the Companies Act, 2013 are applicable to all MNCs operating in India. Thus, MNCs are legally mandated to devise a CSR policy and undertake CSR activities and projects in India if they fall in the profit threshold specified in the Act. There are no separate guidelines to govern CSR practice of MNCs. Bringing an international perspective however, the MNCs can play a pivotal role in transforming the CSR climate of the country and accelerate development.

4.3.2 Securities and Exchange Board of India (SEBI) and Listed Companies

A little before the Companies Act came up with Section 135 (1) on CSR, the Ministry of Corporate Affairs released the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business in 2011. Based on these guidelines, SEBI in August, 2012 mandated the inclusion of a Business

Responsibility Report (BRR) as part of company's annual report for top 100 listed companies at the Bombay Stock Exchange and National Stock Exchange (SEBI, 2012). SEBI has provided the reporting framework for BRR which includes their financials, turnover, spending on CSR, etc. The guidelines also elaborate on the underlying principles to assess compliance with environmental, social and governance norms. These are as follows (Securities and Exchange Board of India, 2012):

1) Businesses should conduct and govern themselves with ethics, transparency and accountability
2) Business should provide goods and services that are safe and contribute to sustainability throughout their life cycle
3) Businesses should promote the wellbeing of all employees
4) Businesses should respect the interest of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised
5) Businesses should respect and promote human rights
6) Businesses should respect, protect, and make efforts to restore the environment
7) Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
8) Businesses should support inclusive growth and equitable development
9) Businesses should engage with and provide value to their customers and consumers in a responsible manner.

All listed companies report their CSR activities in their annual CSR report and the Business Responsibility Report acts as a supplement to the former highlighting how companies effectively contribute to the economic and social betterment of communities and the environment (The CSR Practice, 2015).

4.3.3 Industry Associations

Industry associations proliferated in the country as economic growth intensified. They form an important component of the profit making domain and therefore, it is important to understand the CSR practice by these associations. There seem to be no sector specific guidelines for these associations.

1) Confederation of Indian Industry (CII)

CII, as part of its social development agenda has envisioned initiating a National Movement for Mainstreaming CSR for Sustained Inclusiveness. CII has a National Committee on Corporate Social Responsibility & Community Development which was constituted in 2001 to make CSR an actionable business agenda. This committee is responsible for developing CSR guidelines and promoting sharing of CSR experiences and best practices. CII also organizes an annual CSR Summit to enable the stakeholders to review and strengthen the CSR Movement (Confederation of Indian Industry, 2020).

Over the last eight years, CII Foundation has undertaken various projects with corporate sector support in the areas of skill development, child development and maternal health, water conservation, etc. The Foundation is primarily focusing on Early Childhood Education, Women's Empowerment, and Climate Change Resilience while continuing its various Disaster Relief and Rehabilitation efforts. CII will work towards inclusive development by providing a meaningful bridge between marginalised communities and donors, specially the Corporate Sector (Confederation of Indian Industry, 2013).

2) Federation of Indian Chambers of Commerce and Industry (FICCI)

FICCI, through its two arms: FICCI Aditya Birla CSR Centre for Excellence (CSRCFE) and FICCI Socio Economic Development Foundation (SEDF), has a long-standing practice in designing and implementing CSR Programmes, in partnership with Corporate Houses and development organisations, as well as directly with the communities. CSRCFE works towards advocacy and capacity building for both Corporates and NGOs and awards Companies for exemplary CSR practices through annual FICCI CSR Awards. SEDF provides end-to-end CSR project implementation solution and helps its members in project partnerships through CSR Hub.

3) The Associated Chambers of Commerce and Industry (ASSOCHAM)

The CSR policy for Associated Chambers of Commerce and Industry of India (ASSOCHAM) has been prepared keeping in mind the Association's business ethics and to comply with the requirements of Companies Act, 2013 and the CSR Rules 2014 as notified by the Ministry of Corporate Affairs. This policy is developed to apply to all CSR initiatives and activities taken up at the various work centres and locations of the association for the benefit of different segments of the society, specifically the deprived, under privileged, marginalized youth, differently-abled persons, women and children (ASSOCHAM, 2014).This policy sets out the Association's commitment & approach towards Corporate Social Responsibility based on the association's legacy of 'Giving back to society'.

Activity 2

Go through the literature on CSR by industry associations and write in brief about any one CSR activity taken up by any of the industry associations.

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Check Your Progress - 3

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is the Business Responsibility Reporting prescribed by SEBI?

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2) What CSR guidelines are followed by industry associations?

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4.4 LET US SUM UP

While there are no stringent sector or industry specific CSR rules or guidelines, many leading industries formulate their CSR guidelines based on the needs, requirements and the risks associated with their particular industry. Frameworks and guidelines that are recognized and acclaimed are utilized for drafting CSR policies which are followed by all small and medium sized industries depending on feasibility and resource factors. Provisions listed in Section 135 (1) and Schedule VII of the Companies Act of 2013 are considered to be the yardstick for defining CSR policy and streamlining CSR practice of any profit making entity, irrespective of the nature of its constitution. Thus, all guidelines or reporting frameworks are considered to further the vision of the Act and act in complementarity.

4.5 KEYWORDS

Sustainability Reporting : The process of reporting on the company's initiatives on ensuring sustainability of its development interventions.

Industry Association : An association that is created as a consortium of companies of a particular industry which will become the voice of that consortium/ sector type.

SEBI Listed Company : A SEBI listed company means a company which has any of its securities offered through an offer document listed on a recognized stock exchange.

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4.7 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress - 1

Answer 1: Mining companies also follow the provisions listed under the Companies Act. However, there is a sustainable development framework (SDF) proposed by the Ministry of Mines, Government of India based on which the mining companies can design their CSR and sustainability initiatives. The eight underlying principles of SDF are: incorporating environmental and social sensitivities in decisions on leases, strategic assessment in key mining regions, managing impacts at the mine level impact, addressing land, resettlement and other social impacts, community engagement, benefit sharing and contribution to socio-economic development, mine closure and post closure mining, ethical functioning and responsible business practices, and assurance and reporting.

Answer 2: The major thrust areas for cement industries are found to be livelihood enhancement, employability and income generation, improving education, health care, and promoting community environment sustainability.

Answer 3: Chemical industries are largely found to focus on bringing about development across social, economic and environmental domains in the area of their operations.

Check Your Progress - 2

Answer 1: The oil and gas sector in India has contributed to the development of the nation, yet simultaneously causing hazards both socially and environmentally. Oil and gas production imposes significant costs on society, cost including air pollution, oil spills, injuries and deaths. It is also sometime associated with second order cost including social dislocation and conflict. There are numerous issues closely connected to the output of the production process of oil and gas companies. Long term impact on marine environment can be a result of volumes of hazardous and chemical materials disposed in water bodies. Most oil and gas companies support activities such as CO_2 emission reductions, community development projects and transparency of revenues paid to governments.

Answer 2: Steel companies undertake socially and environmentally responsible projects to reduce and recycle waste, improve yields and productivity, identify opportunities for reducing energy consumption, and improve efficiency in water consumption and gradually achieving zero discharge, improving ambient air quality in and around their area of operations. Select paper industries have special interest in the north eastern states as there is huge business potential in the region. Largely, the paper industry focuses on promoting economic, social, environmental and cultural growth of the targeted communities.

Check Your Progress - 3

Answer 1: Business Responsibility Report (BRR) has been prescribed by SEBI as a reporting framework for listed companies to declare their turnover, investment in CSR and the social and environmental initiatives that company has taken as part of their social and sustainability responsibility.

Answer 2: There are no specific CSR guidelines prescribed for industry associations. These associations follow the provisions listed under Section 135 (1) and Schedule VII of the Companies Act of 2013.

(Footnotes)

https://www.downtoearth.org.in/coverage/environment/30-years-of-bhopal-gas-tragedy-a-continuing-disaster-47634

INR= Indian National Rupee

COURSE 1: FUNDAMENTALS OF CSR (MEDS - 051)
(6 Credits)

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