CHAPTER III
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3. Business Ethics

3.1. Meaning of Business

To understand the concept of business ethics, let us understand the meaning of business. Business can be defined as a primary economic institution through which people in modern society carry on the task of producing and distributing goods and services.

A business can be defined as an organization that provides goods and services to others who need or want them. When many people think of business careers, they often think of jobs in large wealthy corporations.\(^69\)

3.2. Meaning of Ethics

The word ‘ethics’\(^70\) is derived from the Latin word ‘ethicus’ and the Greek word ‘ethikos’ meaning character or manners. This meaning can also be extended to imply systematizing, defending and recommending concepts of right and wrong behaviour, Ethics is thus said to be the science of moral, moral principles and recognized rules of conduct.

It is also called as ‘A set of principles of right conduct’.\(^71\)

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\(^69\) [http://www.class.umn.edu/business_and_cla_degrees/what_is_business.html](http://www.class.umn.edu/business_and_cla_degrees/what_is_business.html)


Let us understand the nature of moral and immoral behavior. The character of a man is expressed in the terms of his conduct or actions. These actions can be ‘good’ or ‘bad’, ‘right’ or ‘wrong’ ‘moral’ or ‘immoral’. However, they may be amoral as well, which means that they are beyond the sphere of morality. For instances, a petrol pump owner engaged in selling both petrol and diesel to the customers for a profit is an example of moral conduct of business. But, if the owner indulges in mixing petrol with kerosene and sells it to customers, then his act is said to be immoral. Thus, ‘right’ ‘wrong’ moral standards by which one judges human conduct. Ethics can thus be defined as ‘the science of character of a person expressed as right or wrong conduct of action.”

Philosophers viewed ethics as a system of moral principles and the methods for applying them. It deals with values relating to human conduct with respect to the right and wrong of certain actions and to the goodness and badness of the motives and ends of such actions. While others consider emerging ethical beliefs to be “State of Act’ legal matters i.e. what is an ethical guidance today is often translated to a law or regulation.

Ethics is not definable, is not implementable, because it is not conscious; it involves not only our thinking, but also our feeling, said Valdemar W. Setter. "Ethics is in origin the art of recommending to others the sacrifices required for cooperation with oneself - Bertrand Russell."

Ethical behaviour is doing what is best in enhancing the trust and confidence between two entities so that both the entities feel energized and enthused to work towards the betterment of the common good.

"Dr. Stephen Covey who has written a book on ethics in organizations says that interdependence is a higher value than independence. These entities that can potentially work together could be individuals, institutions, states or even nations. Generally, what is ethical in one society may be legal in another."

As a society becomes more developed, more and more norms of behaviour move from ethical to legal. For instance, before Securities and Exchange Board of India (SEBI) was established, insider trading norms were merely ethical issues in India while they were already legal issues in the US.
Similarly, what is considered ethical now may become legal later on. Thus, ethics go beyond the domain of legality. It is about decent behaviour, it is about desirable behaviour. It is about putting the interest of the community ahead of oneself.

There are no policemen who can arrest us-nor are there any courts that will try you for not being ethical. We will be judged only in the court of the almighty Lord. The need of the day is to remove poverty. This requires that we place the interest of the community above one's own. It is also about making sacrifices to ensure that the next generation is better off.

If India is what it is today, it is because of the low ethical behaviour of our corporate leaders, politicians and bureaucrats. Unless we can change this, there is no hope.

3.3. Meaning of Business Ethics

Business ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and business organizations as a whole. Applied ethics is a field of ethics that deals with ethical questions in many fields such as medical, technical, legal and business ethics.

Ethics refers to the application of ethical judgment to business activities. Though various thinkers view this concept differently, broadly speaking, business ethics concerns itself with what is right or wrong in the workplace. Some philosophers have defined business ethics as 'the normative study of moral standards as they apply to business policies, institutions and human behavior. Others regard business ethics an 'ethical analysis of business practices'.

Business ethics explains that business can generate substantial profits if it follows ethical practices. This idea was being contradicted till last decade. Due to expansion of business, the application of ethical practices and its implication has created a need for practicing business. Today, more and more importance is being given to the application of ethical practices in business dealings and the ethical implications of business decisions.

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73 http://en.wikipedia.org/wiki/Business_ethics
Humans beings have the ability to choose. When a choice is provided between right and wrong or good and bad, an individual chooses one of the alternatives by distinguishing between the options available. This concept applies to the business, since businesses are operated by human beings, they should be able to distinguish between right or wrong decision in the business. Thus, business also has choices or alternatives, such as to maximize profits, increase sales volume, and provide employee benefits and concern for society.

However, at times profits and societal responsibility cannot coexist. This is because, while earning profits entrepreneurs may neglect social responsibility. For instances, some chemical firm driven by profit motive may postpone its investment in social welfare projects like Effluent treatment plant (ETP), although the industrial waste left into the environment is hazardous to public health. Thus it becomes difficult to maximize both profits and social responsibilities. Thus it becomes difficult to maximize both profits and social responsibilities. This situation results in managerial dilemma, where manager have to choose between profits for the organization and social consideration towards the community.

At times, business finds it difficult to explain its actions on ethical grounds. For instance, banks decision to computerize its activities to provide spontaneous quality service to meet customer requirements may result in redundancy in clerical jobs. The ethical solution lies in job reassignment or restraining for alternative job assignments.

Any business, if it wants to survive and grow in the long-run must strike a balance between its social obligations and economic objectives. These obligations may be complex and costly to discharge. But if the organization wants to be ethical, it has to discharge its social obligations towards the society.
3. 4. Nature of Ethics

- Ethics is subject that deals with human beings. Humans by their nature are capable of judging between right or wrong, good and bad behavior\textsuperscript{74}. Thus, the questions of ethics arises, s the humans beings are associated with values and morals.

- There was an argument ethics is science or art. Because it is systematic knowledge about moral behavior and conduct of human beings.

- Ethics is normative science. The term normative implies guide or control of action: so, normative ethics tells us what we ought to do.

- Finally, ethics deals with human conduct that is voluntary and not forced by any persons or circumstances.

3. 5. Stages of Ethical Consciousness in Business

Ethical standards vary between cultures and countries. These variations are more evident among entrepreneurs or corporation in a given nation\textsuperscript{75}. One can better understand these variations if the different levels of ethical consciousness in business are well – defined. It has been found that moral (ethical) development follows a specific sequence of stages, irrespective of cultures and countries. In the business context, the stages of ethical consciousness are as follows :

(i) Law of the jungle
(ii) Anything for profit
(iii) Profit maximizing in the short – term
(iv) Profit maximizing in the long – term
(v) Stakeholder concept
(vi) Corporate citizenship

\textsuperscript{74} Barry, Norman. Business Ethics. Mcmillian Press Ltd.

3. 5. (i). Law of Jungle

In the first stage, business were run on brute strength; business decisions were driven by the philosophy of “might makes right”. Business ills like price fixing etc are common in the stage.

3. 5. (ii). Anything for profit

In the second stage of “Anything for profit”, business was ready to do any thing to make a profit. Businesses at this stage had only one goal i.e profit. To generate profits, business resort o false representation of products, bribery of government officials, tax evasion etc. Business in this stage of ethical consciousness strongly believe that “ anything goes as long as one get caught by the law or by the customers.

3. 5. (iii). Profit maximizing in the short – term

In the third stage, maximizing profits in the short-term, business operated on the socially and generally accepted business practices. In this stage, business believed that ‘good business is good ethics”. The performance of business was measured based on short-term growth in sales and profits. The performance of business was measured based on short term growth in sales and profits. The main aim of business in this stage was to maximize profits within the constraints of the law.

3. 5. (iv). Profit maximizing in the long – term

The fourth stage, maximizing profits in the long-term, saw a shift in focus from ‘business’ to ‘ethics’. In this level of ethical consciousness, business acknowledge that “ sound ethics is good business’ in the long run. Although the interest of the shareholders remain primary concern of business, there was equal concern to be profitable over the longer term, even if other alternatives might produce greater short-term profits. At this stage of consciousness’, firms created the post of an ‘ethic officers’ to supervise the ethical aspect of the business.

3. 5. (v). Stakeholder concept

In the fifth stage, “stakeholders concept” companies concentrated on profits to have a social as well as economic mission. In this stage business objective included profit sharing, development of community service projects, and philanthropy. The driving
assumption of this concept is, business wanted to strike a balance between providing service to stakeholders and working towards the good of society. The focus at this stage is on building and maintaining mutually enabling relationships, which in turn create value for others and justified the firms’ profit. Success was measured not just in financial terms but also in terms of contribution to society. Some companies have gone so far as to publish regular annual social reports similar to their annual financial reports.

KPMG’s 1999 Business Ethics Report (representing 800 top Indian Companies)

The report states that only 14% of Indian companies presently have an ombudsman on their rolls and merely 40% operates a grievance cell for employees (compared to 30% and 65% respectively in the US). The ethical violations that came up in the KPMG survey are as follows:

Table: 3.1 Area of Ethical Violations

<table>
<thead>
<tr>
<th>Areas</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misuse of confidential information</td>
<td>71%</td>
</tr>
<tr>
<td>Poor quality of goods and services rendered</td>
<td>55%</td>
</tr>
<tr>
<td>Insider trading</td>
<td>48%</td>
</tr>
<tr>
<td>Receiving gifts or favors from suppliers</td>
<td>48%</td>
</tr>
<tr>
<td>Promoting conflicting self-business interests</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: KPMG’s 1999 Business Ethics Report

3.5. (vi). Corporate citizenship

The sixth stage, “Corporate Citizenship” proposes a higher level of ethical consciousness and redefine the mission of business in society. The World Business Academy and Business for Social Responsibility, both associations and networks of business leaders, are among the principal proponents of this higher level of ethical consciousness. This ‘social responsibility’ school of thought also present in Stage Five, but to a lesser degree, maintains that business has a major responsibility to contribute to the necessary transformation of what they consider to be very unhealthy

http://www.scu.edu/ethics/practicing/focusareas/business-gopalakrishnan.html
society today. Their belief is based on the premise that a business can be healthy, only if social around it is healthy and that no other institution in society, including governments and religious institution, has the resources or the credibility to bring about this transformation. Entrepreneurs operating on this level would seek to achieve certain social objectives such as promoting community health, participating in job creation, employing handicapped people, and self-realization of employees as well as financial success of the company.

3. 6. Objectives of Ethics

- Ethics deals with human behavior. It assesses whether a particular ct or decision taken by an individual is moral or not.

- To establish moral standards and norms of the behavior.

- To judge human behavior based on these standards and norms.

- To assess human behavior and express n opinion or attitude about the behavior.

- To set a standard or code for the moral behavior and make recommendations about the desired behavior.

3. 7. Nature of Business Ethics

Most business encounter two types of ethical problems known as Overt and Covert ethical problems.

An overt ethical problem deals with bribery, theft, collusion, etc. They are clear (transparent) and reprehensive. Where as Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment etc. They are complex, clear, and have deft ethical solutions.

3. 7. (i). An ideal ethical decision comprises of following virtues.

- Right – Morally correct

- Equitable – Just and equal

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• Good – Highest good for all concerned
• Proper – Appropriate and acceptable
• Fair – Honestly
• Just – Action

Obligations are outcome of ethical decisions. If these obligations benefits a single persons, then they do not form a part of ethical decision. In other words, the obligations or results should focus on society at large.

3.7. (ii). Subjective nature of Business Ethics

The concept of ethics is very vague, abstract and unstructured. There is no universally accepted definition of ethics because, ethics is depended on moral standards. Moral standards are dependent on value system, and value system are dependent on individual background. The background of each individual differs according to his or her experience. Hence, the ethical practices of people are different.

3.8. Characteristics of Ethical Decisions in Business

Ethical decision differ according to an individual’s perspective. Individual views the ethical decisions in his or her frame of reference or value system. Hence, ethical decisions do not have a unique solution, but a multitude of alternatives. Decisions either ethical or unethical have wide ramifications hence affects the other situations.

The consequences of most unethical decisions are ambiguous in nature. For instance, an individual seeking employment in government office bribes the officials. But the individual is uncertain whether he will be provided with the employment. Ethical or unethical decision depends upon individual actions.

Ethical decisions results from the voluntary human actions and not from situations that are beyond one’s control.

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3. 9. Business Ethics and Profits: A balancing act

Survival is the name of any business game. If a company wants to survive it has to think about its profits. Most businesses operate on the principle that profit is not linked to ethical consideration. But there are instances, which nullify the above principle. For instance, Johnson & Johnson is often recognized as a company whose ethical behavior is exemplary. The company clearly prioritizes its responsibilities in the corporate credo: First to its customers, second to its employees, third to its management, fourth to the communities in which it operates, and fifth to its stockholders, “Business must make a sound profit”, state the credo in describing fifth responsibilities, but at Johnson and Johnson that concern comes after the rest.

In 1982, the company decided to recall 31 million bottles of Tylenol from stores shelves after eight people died from cyanide-laced capsules. This recall costed Johnson & Johnson $240 million and cut in profits by $5 billion or 50 percent of its revenue. The tampering was not company’s fault, but it decided to act even before, as it had complete information on what had happened. The product containers were redesigned and new tamper-proof packaging was introduced. Johnson & Johnson’s immediate response not only saved the Tylenol brand but also won the applause of the customers.

The term ‘profit’ in business is appropriate, but ‘only profit’ is not acceptable any more. Today, every organization, whether big or small, has to justify its existence in the marketplace. It is felt that if company cannot generate profits, it has no right to exist in the marketplace. A firm that is not performing well is considered as liability and burden to the society, as it cannot discharge its responsibility to the customers – welfare to its employees, revenue to shareholders, and meet customer demands. Thus, profit today is recognized as a characteristic of the success of a business and a justification for its existence.

A sick or loss making company is bound to misuse scare resources. Such a loss making company makes huge liabilities; upsets the business, promotes inefficiency.

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and finally cannot discharge its social responsibility. Considering this situation, it may be unethical for a firm to make loss. Such firm cannot exist in market place as they force their employees into economic insecurity.

3. 10. Relationship between business and ethics

The question arises what is the basic relationship between business and ethics. As people are under the notion that business and ethics are incompatible, it is not easy to establish a relationship.

Classical thinkers like Adam Smith were of the opinion that the objective of any business was to generate profits only, and business had no relationship with ethics. While other thinkers expressed that neither the business was an extension of morality and ethics, nor can business keep itself faraway from ethical practices of the society where it exists and operate.

Later economics like Milton Freidman and Talcott expressed different views about the relationship between ethics and business. The result was Unitarian view of ethics, Separatist view of ethics and Integration view of ethics.

3. 10. (i) The Unitarian View of Ethics

According to the Unitarian view, business is a part of moral structure and moral ethics. If businesses want to exist, survive and flourish in the long-run, morality and ethics cannot be separated from the operation of the business.

This view also emphasizes, that business should concentrate on society and it has a major role to play in serving the society and ushering in society welfare.

3. 10. (ii) The Separatist View of Ethics

Classical economist like Adam Smith and Milton Friedman proposed the separatist view. They were of the opinion that business in order to flourish should concentrate

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on its goal – profit maximization. Morality and ethics, they argued has no role in business.

Milton was of the opinion that business should concentrate on production and distribution of goods and services. Social problems are to be tackled by the government and concerned individuals, but not by the firms or business. In short the only aim of business is to generate profits.

According to Adam Smith, business is a distinct entity and does not include ethics and morality. If ethics were introduced in business, it would lead to imbalance of market dynamics. This views lays emphasis on business concerns like reducing production costs, optimizing labor etc. These concerns are relevant to the marketplace, not to ethical and moral issues.

Many intellectuals believe that if ethics and morality were given an opportunity to enter into business arena, then there is a danger of social values dominating over business values And this replacement may ruin the efficiency of the business.

These intellectuals also believe that business should concentrate on profits, and managers should manage or concentrate on the interest of the shareholders. Shareholders should be given the opportunity in deciding about the effective utilization of resources. In other words, business should focus on achieving its economics objectives.

3.10. (iii) The Integration View of Ethics

Talcott Parsons proposed a view called the integration view. He was of the opinion that ethical behavior and business should be integrated or combined in a new area called ‘business ethics’. He argued that business being economic entity, has the right to make profits, but at the same time it should discharge the social obligations.

According to this view, business and morality are inter-grated and are guided by external factors like government, market system, law, and society The Government and the market system are related to business i.e. rules laid down by the government

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directly or indirectly affect the business, and may thus affect the market system. Similarly, laws will guide business, and decide what is right or wrong in the business.

3.11. Need For Business Ethics

3.11. (i). Social Obligation

All business exist and operate within society and therefore they should contribute to welfare of society. To survive in the market, business should gain loyal customers and perform social responsibility. According to George A. Steiner, “the managers of the biggest companies know as business gets larger, the public takes more interest in it because it has a greater impact on the community. The antennae of these managers are tuned to public opinion and they react to it. They seek to maintain a proper image of their company in the public mind. This leads to the assumption of greater social responsibilities”

Thus, business, either big or small, must operate on ethical grounds and discharge their social obligation to survive in the long-run.

3.11. (ii). Criticism

The criticism about business ethics is, business being economics entity should have nothing to do with ethics or morals. Some experts were of the opinion that the purpose of business is to produce goods and services and maximize profits for the shareholders. They argued that business being economics entities are guided by principles to determine the performances.

3.11. (iii). Views of Philosopher

Eminent philosopher like Milton Freidman were of the view that the aim of the business is to earn profits by utilizing the resources and engaging in open and free competition, without deception or fraud. They were of the opinion that, if business ethics were allowed to form a part of corporate culture, the consumer would have to bear the extra cost. He expressed that social responsibility of business is contrary to the basic business function. And a manager need not know, about the public interest, at it is the concern of organisation individuals and the state.
Another philosopher Theodore Levilt was of the view that social values would dominate business values if business concerned themselves with ethics. In the mid 1950's and 1960's different views about business ethics were put forward by philosophers. People at that time feared that any ethical conduct or embracing of any moral philosophies would lead to sacrifice of efficiency and productivity: and the competitiveness of the marketplace would fade away. Lately this misconception about the business ethics has changed, as business believe that being ethical and moral would provide them loyal customers. Today, more and more businesses are accepting 'business ethics' as a part of business conduct.

Conclusion: Many philosophers have expressed different views about ethics. But they all agree that, in essence deals with what is right or wrong. Similarly the term business is defined as a primary economics institution through which people in modern societies carry on the task of producing and distributing goods and services. Thus, business ethics is nothing but an application of ethical judgment to believe activities.

There was an argument whether ethics should form a part of business or not. This resulted in three different views: Unitarian view, Separatist view and Integration view. Unitarian view argues that morality and ethics are related to business.

The Separatist view expressed that, business should concentrate on profits and ethics and morality do not form a part of business. The Integration view defined a new area called business ethics, where ethical behavior and business are integrated. The external forces like government, market system, law and services will guide the ethical behavior and business.

3. 12. Ethical behavior of a Corporation

Over the years, let me share some of my thoughts on ethical behavior of the corporation Out of experience earned. The framework for ethical behaviour of the corporation is predicted on the ethical behaviour of its owners, managers, employees

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and directors towards its stakeholders—customers, investors, employees, vendor —
partners, government of the land and the society. To me, ethical behavior is putting
the interest of the company above that of one's own personal interest in all
transactions.

- It is about fairness to all stakeholders.
- It is about transparency.
- It is about raising that trust and confidence of stakeholders in the way the
  company is run-
- It is about understanding and discharging societal responsibilities.
- It is about long term thinking
- It is about overcoming greed, insecurity and lack of self confidence
- It is about following every law of the land even when the law enforcers may
  not be able to detect your violation.

The measure of a man's real character is what he would do if he knew he would never
be found out, said Lord T.B. Macaulay. While most people believe that Corporate
Governance (CG) principles provide the legal and procedural framework for ensuring
proper conduct of a corporation, I believe that it is an issue of ethical behavior of the
owner-managers of the corporation.

Here are some examples of unethical behavior,
- The chairman, CEO and CFO of a well known corporation sell shares with $ 150
  million knowing that their corporation is shaky, and then tell employee whose
  savings are in the company stock that all is well. Nearer home, I have seen
directors of several family owned companies calling their homes guesthouses, and
booking all their expenses to the company. There are sick companies but no sick
industrialists!
- For instance, the median return of 256 companies for 1990-98, studies by Prof.
  Bala of IIMB, is 1 percent. Unfortunately, the CEOs of these companies have not
  suffered one bit in their lifestyle. The entrepreneur comes in a ramshackle
  ambassador when he makes the loan application. But, allows himself the luxuries
  of a Mercedes when he comes for restructuring the loan.
• A computer company ships a lower capacity machine to an uniformed customer and charges the price for a higher capacity machine. A female sales employee of a company agrees to sleep with the prospective customer if he purchases her company's products.

3. 13. How to improve Ethics in a Corporation?\textsuperscript{82}

The most powerful lessons about ethics and morality do not come from school discussions or classes in character building. They come from family life where people treat one another with respect, consideration, and love.

Thus, good behaviour is a result of one's culture, one's upbringing and the company one keeps. It is a matter of the heart and not the mind. The solution is to develop such a culture. The behaviour of a corporation is generally shaped by behaviour of its CEO and other leaders. This is particularly so in a feudal society like India.

Leadership is a potent combination of strategy and character. But if you must be without one, be without the strategy ~ Gen. H. Norman Schwartzkopf. We need CEOs who are men and women of integrity - people who will walk the talk in demonstrating their commitment to a value system.

A value system can be summed up as: "The softest pillow is a clear conscience". As Nobel laureate Jane Addams has said: Action indeed .is the sole medium of expression for ethics. Without this, no Corporate Governance will ever work. The CEOs should realize that the bestride of success of a corporation is its longevity. The long term success of a corporation is predicted on maintaining harmonious relations with employees, customers, vendor-partners, the government and the society. This is predicted on trust and confidence.

We should believe in simple rules. They are easy to understand, easy to follow, and easy to communicate. Above all, you cannot cheat with simple rules. CEOs should

\textsuperscript{82} Friedman, Milton. "The Social Responsibility of Business is to Increase its Profits", The New York Times Magazine, September 13, 1970
concentrate on simple business rules. If they want to implement complex rules, they should first understand them" and translate them to a set of simple rules. Building trust and confidence requires an environment where there is premium on transparency, openness, lack of fear, fairness and justice. CEOs should encourage this.

We have to create a climate of opinion which says, respect is more important than wealth. Wealth stays with us a little moment if at all, said Euripides. We can create this climate by instituting awards for good corporate behaviour and giving these awardees better exposure at international for like WEF.

Everybody-in the company should accept meritocracy, for meritocracy forces ethical behaviour. Every employee should become transaction based. That is they should not carry prejudices from previous transactions. Respect for elders and God generally helps in practicing ethical behaviour. "Only morality in our actions can give beauty and dignity to-life-Albert Einstein. Finally, pride in oneself one's company, and one's nation is likely to inspire ethical behaviour.

3.14. Ethical Guidelines

Ethical guidelines\textsuperscript{83} are crucial in any business establishment. Business professionals are responsible for making decisions based upon ethical principles. The issue of business ethics and good governance in transitional economies is of major importance to overall development. Ethics deal with moral duty and obligations. It gives rise to a set of values, which in turn are used to judge the appropriateness of a particular conduct or behaviour.

Countries with strong business associations experience reduced levels of administrative corruption. Besides, a commitment to international business ethics standards by the regional private sector provides strong support to the improvement of the investment environment.

\textsuperscript{83} www.legalpundit.com
The majority of the companies have a Code of Conduct that guides their workplace behaviour. This Code of Conduct is a set of rules that are to be followed by the employees in the company. If employees follow the rules of the Code of Conduct, they succeed in their jobs; if employees violate the Code of Conduct, they may lose their jobs.

The code is based on the broad principles of truth, honesty, justice, trustworthiness, respect and the safeguard of human life and welfare, competence and accountability, which constitutes the values every Corporate Member must recognize and uphold.

Business Ethics is emerging as one of the greatest requirements in business and Government today. No other element in business life can yield so great a profit with such a small investment. In fact, the lack of a framework of such ethics can cost business very dearly. Business Ethics enhance bottom line values by identifying potential ethical hazards and promoting healthy ethical practices.

Dr. Wolf, a Business Ethics Consultant, brings all of his academic experience and his business 'blood' to bear on each consultation. Wolf understands the importance of the cybernetic revolution, yet, is committed to the quality of being human. This Balance Philosophy is based upon the insight that ethical balance, though difficult to obtain, ultimately possesses the greatest value. Flexible pay schedules allow The Balance to address business needs both great and small.

3.15. Need for Code of Ethics

It is imperative that any organization, whether a corporation or a Government body, has a set of guidelines, which moderates the behaviour of its employees, as well as regulates the practices of such an organization. A Code of Ethics is necessary as it fulfills the following:-

- Provides a definition of acceptable behaviours;

- Promotes high standards of practice;

- Provides a benchmark for members to use for self evaluation;

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· Establishes a framework for professional behaviour and responsibilities;

· Promotes an occupational identity for each employee;

An underlying advantage of such a Code is that they make our social and business relationships mutually pleasant and productive. A professional society is a voluntary, cooperative organization, and those who must conform to its rules are also those who benefit from the conformity of others. Each has a stake in maintaining general compliance.

**Business ethics can provide:**

· a framework for improving decision making within organizations;

· strategies and techniques to tackle dilemmas, transcending individual organizations;

· a holistic as well as strategic orientation in business planning.

According to Donaldson, societies can and do have the right to expect business to function, ethically. People all over the world make an agreement with business to carry out the necessary work to provide goods and services to society:

"All productive organizations can be viewed as engaging in an implied contract with society. Corporations must have bestowed upon them, by society,... authority to own and use land and natural resources. In return, society has the right to expect that productive organizations will enhance the general interests of consumers and employees. Society may also expect that corporations honor existing rights and limit their activities to accord with the bounds of justice"

Therefore, it is necessary to understand fully the scope of such a "social contract, including the relevant rules, minimal duties of businessmen and the need for an international code of business ethics.

More and more companies conduct international transactions as a part of their daily operations. International situations are particularly prone to "gray areas" because norms and practices that guide ethical behaviors vary across cultures. The ethical decision about what to do in some international business situations is not always clear.
Most experts in international business ethics agree that an international code of ethical practice, and not a code based on each individual culture's unique norms and practices, is essential for global economic survival in the 21st century.

Experts have created a list of principles that should guide the development of International Business Ethics. The salient points are outlined below.

3.16. Steps for Implementing a Code of Business Ethics

- **Incorporation:** Produce a strategy for incorporating the code into the running of the business at the time that it is issued.
- **Endorsement:** Make sure that the code is endorsed by the Chairman and CEO.
- **Circulation:** The code to be circulated to all employees in a readable and portable form.
- **Breachs:** An employee can react if he or she is faced with a potential breach of the code or, is in doubt about a course of action involving an ethical choice.
- **Interaction:** Staff should be given an opportunity to interact to the content of the code.
- **Announcement:** A process for managers and supervisors regularly to state that they and their staff understand and apply the provisions of the code and, raise matters, not covered by it.
- **Standard Appraisals:** A system for the regular appraisals and updating of the code.
- **Training:** Company training programmes at all levels to include issues, raised by the code, in their programmes.
- **Translation:** The code to be translated for use in overseas subsidiaries or other places where English is not the principal language.
- **Annual Report:** A copy of the code in the Annual Report to be placed so that shareholders and a wider public know about the company's position on ethical matter.

Consumers, investors, activist groups, and the media are paying close attention to the ethical behavior of companies and their employees. Companies also realize the

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benefits they can reap when a Code of Ethics is in place. It is the values of an organization which are converted to form a relevant code of business practices or principles.

In fact, codes of ethics and business principles play an important part in enhancing brand name and reputation, creating a cohesive corporate culture, avoiding litigation and fines, and helping to stabilize volatile markets. Ethics codes also help create globally consistent "fixed reference points" for employees. Ethical decision-making procedures, spelled out in an ethics code, arm employees with the information needed to act in accordance with the values that are at the core of a company. Increasingly, companies are also seeing the value of sharing their codes with suppliers, business partners, shareholders, and other stakeholders. In short, the code serves as a set of concrete statements about how the companies conduct business.

3.17. The Importance of Code of Ethics in Business

- **Enhance Corporate Reputation/Brand Image**: Establishing a code is an effective way to communicate the value a company places on good business practices, internally and externally.

- **Improve Risk and Crisis Management**: In times of crisis, having an ethics code can help make the case to shareholders, activists, and the media that a company has made a good faith commitment to ethical behavior, and that a mistake or transgression is the exception, not the rule. Also, developing and promulgating a code of ethics can help all employees be more alert to potential problems, and bring them to the attention of management before a crisis occurs.

- **Create Cohesive Corporate Culture and Make Values Come Alive**: Ethics are central to every decision an employee makes, and affect every facet of an organization's operations. A widely distributed code of ethics can help build a sense of community in the workplace.

- **Avoid fines, sanctions, and litigation**: An effective code of ethics greatly reduces the likelihood of fines, resulting from a range of illegal activities

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including fraud, conflict of interest, corruption and bribery, and insider trading.

- **Boost Development in Emerging Economies**: Global codes set an ethical standard which can be followed, despite differences in cultural and national approaches, and in laws and standards between jurisdictions.

In recent times, more and more, companies face the challenge of communicating values and ethics programs to thousands of employees in dozens of countries with many legal systems, cultures, and ethical priorities. Global company ethics codes enable managers to act in ways that are morally consistent with the values and principles of their company. According to a 1999 Conference Board Report on "Global Corporate Ethics Practices," the rapid internationalization of business and increased pressure from non-governmental organizations (NGOs) has led to more comprehensive business ethics programs on a global scale.

Intrinsic features of the times we live in are the Technology/Cyber-Ethical Dilemmas that arise in day to day life. Employees now have access to a range of new technologies - including the Internet and e-mail - that have created new ethical dilemmas and accelerated the pace at which ethical decisions must be made. In response, companies have targeted issues such as the appropriate use of office e-mail and the viewing of inappropriate websites. These have been incorporated into existing codes.

The concept of Business Ethics has been the focus of attention in recent times. This is mainly because of the corporate scams that have been well-publicized by the media. Consequently, concerned investors apprehensively examine the rise and fall of their investments. A well-defined Code of Business Ethics will serve to deter such unscrupulous activities in business. The interests of the investors will be safeguarded and their confidence in their investments will increase. This can only boost the economy of the country as there will be much greater activity on the stock exchanges.
3. 18. Conclusion and suggestions: One need to understand that Ethics should emanate and cannot be imposed\(^87\)

The impact of Satyam is so high that the entire focus is now on the safety levels of the public money invested in Listed Companies. The investments are at stake! People are afraid. Investors are annoyed and worried about their money and its future growth, lest the principal itself.

The strength of the principles of corporate governance, the disclosure norms, the periodical filings, the professional and business ethics, the social responsibility of business houses, the prescribed code of conduct, the whistle blower policy, the periodical inspection of documents, show cause notices calling for explanations and host of other ammunition with the Regulators are now posing a big question mark. How much of ‘ethics’ can such Rules, Regulations and Guidelines impose upon the business community at large and the professional fraternity in particular – is a trillion dollar question! Nothing is able to impress upon the Man to be ethical, or to prevent one from being unethical; but only used as weapons to punish the violators. The Satyam case seems to be a glaring example of the fact that in spite of apparently seeming to be compliant of all the rules and regulations, periodical filings and systematic disclosures, as required for and by the Regulators, not only SEBI and Stock Exchanges, but also NASDAQ and New York Stock Exchange, a business house can clandestinely do many things which are otherwise prohibited and still can get along with fooling many experts, until voluntarily disclosed! Satyam has been making its figures public for the past several years and different kinds of experts have been churning the numbers so violently; but no cream of truth has emerged! Various lender banks / financial institutions, equity investors obtain its CMA data and business projections and do a very detailed analysis and comparison of such projections with the actual figures achieved. The common investors get the quarterly results and annual reports very meticulously. The statutory auditors have access to all its official books of accounts, records and information. Regulators such as SEBI, Stock Exchanges, Registrar of Companies, Company Law Board and Central Government have authority to call for any explanation or any records. The Satyam has

\(^{87}\) Article by Mr. B.S. Bhaskar, Company Secretary in Chartered Secretary, March 2009 issue p 529 – journal published by ICSI
been so meticulous in filing its periodical returns and updates that it was the recipient of Corporate Governance Award.

But the mind boggling and unbelievable Satyam (Truth) is that it could misguide the so called experts and professionals across the world. It is really amazing and salute-worthy brilliance!!

What this reveals and prompts one and all to think is that: “Unless there is a deep commitment to truth and ethics, Rules and Regulations cannot alone bring about the much needed honesty”.

But, the biggest question now is not just the safety of public money in Listed Companies alone; but the money that is in business. The business gets money from the society through several channels, broadly categorized as (a) capital, (b) debt, (c) advances and (d) credits. The source may be from within the country or outside. It is the level of intelligence and expertise of the people involved in devising a ‘security instrument’ to capture money, such as loans from banks and financial institutions, public deposits, share capital, bonds and debentures, ICDs from other corporate bodies, advances from promoters, suppliers and clients, grants and subsidies from Government, duty draw back and also, of course, FDI.

Hence, a great sense of responsibility is cast upon the business owners and runners, nay, the Regulators, to safeguard and protect the public money – whether such companies are listed or unlisted. In fact, hardly 2% of the registered companies in India are listed in stock exchanges, out of which, hardly 10% of the listed companies are sizably big enough involving more investors. But, how safe is the enormous public money that is floating around in business?

Statistics below (sourced from MCA Annual Report and NSE website): 88

Approximately 8,00,000 companies have been incorporated in India, out of which about 1,00,000 are public limited companies and 7,00,000 are private limited companies. Out of the 1,00,000 public limited companies, hardly 1,250 companies are listed on NSE and / or BSE. Again, out of these 1,250 listed companies, not more than 500 companies are actively traded on any day, generally. Even if we eliminate inactive companies - both public and private - say, to the extent of 50%, still there are

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atleast 50,000 public limited companies and 4,00,000 private limited companies, which are actively doing business across the length and breadth of India. And again, as we have seen earlier, the source of funds for these companies is public money – be sourced from banks in the forms of loans or gathered from capital market through issue of securities. When a business fails, it is the public money which is lost. Thus, a lot needs to be done to regulate the businesses which operate through public funds – be it sourced from capital market or from banking sector. The following reasons could be attributed to a business failure:

1. **Over ambitious.** Successful promoters tend to be jubilant and wish to grow further and far reaching. Hence, they stretch beyond their capacities. At one point of time, they lose control on the events; and every time they convince everybody, including themselves, that they can tide over the situation – but, in vain. By the time they realize the gravity of the problems, the situation is out of control. And one can guess what happens next!

2. **Over projections.** In order to enhance their credibility or net worth, promoters tend to inflate their future projections. Based on the extrapolated numbers, they borrow beyond their repayment capacity. After some time, they fall in the vicious circle of debt trap. Revenues are not sufficient to meet the costs. The cash generated will not meet the requirements, which force them to borrow more, and the cycles drawn them down the drain and they are finished by reaching a point of no return.

3. **False prestige.** After achieving certain success and reaching certain position, promoters tend to maintain the same, in spite of problems. In the process, they create a false impression by hiding the difficulties and posing as if everything is fine. They are tempted to show that “company is shining”, but in reality, the fact is otherwise. The result is: sooner than later they reach the point of no return.

4. **Extravaganza.** Non-business expenditure such as J-class travels, Star-Hotel accommodation, ostentatious celebrations, expensive meetings, enormous publicity, expensive gifts, bribes and kickbacks, lavish spending on decorations – all of which beyond affordability is another cause of sickness. The sickening extravaganza leads to sickness.
5. **Imitation.** Because someone close or a rival has done something, we also should do it and prove that we also can. This feeling tempts many promoters to enter into new ventures, which are not their core competency. Hence, it is but natural why they should not fail.

6. **Spreading Sickness.** The first entrants into a newly developing industry are the ones who failed in their existing businesses. They want to try their luck in the upcoming industry, and without a second thought, they jump into it. Their great quality of 'not making successes' will also work here and result in failure. Ultimately, the new industry will see a natural death. If one can recapitulate the several industries that have emerged and died since 1995 are: the granite industry, the ceramics industry, the aqua culture business (growing Prawns), the mushroom growing (died because of Chinese competition), the NBFC sector, the Flora culture (cultivating flowers for making scents), the Dot com business, the IT industry and now the Realty. Thousands of companies flood the market and after less than three years, hardly a few survive.

7. **Greed and Jealousy.** Quick bucks. Success is a ladder; not an elevator! The growth should come in step by step process. But, the present "Rocket Yug" pushes everybody to make quick bucks and reach the top quickly. When one slips from a ladder, one can at least catch hold of a rung somewhere and hang on; but, when the wire of elevator gets cut, it would be a fatal fall.

8. **Free money.** Ironically, the securities premium is considered to be free money; and hence, not properly utilized for true business purposes. The end use of funds raised during the recent times through capital markets, either by way of private placements within or outside India, or through ECBs etc. seems to have been not properly and meticulously put to use.

9. **Diversions.** Success gains confidence; and confidence helps to gain more success. Assets beget liabilities, in the sense that, the assets could be pledged to raise loans. In the process of successful and confident growing from a small business into a big conglomerate, the promoters tend to pledge the assets accumulated in one business to raise finances for another business. This is a calculated risk – if one is successful one
builds an empire or else one dives into abysmal of failures! The diversion of funds into sister concerns, brother concerns and group concerns is a classic commonality in the Indian industry. The optimistic entrepreneur thinks that he can tide over the situation quickly – but, an unexpected development or twist throws him into disaster.

10. Yes Boss Attitude. Now, when we look at the professionals – be they employees or consultants, they always want to please their bosses. In the process, whatever proposals Ethics Should Emanate – Cannot be Imposed come to them, they always tend to say “Yes, it can be done”; instead of taking the pains to explain why it cannot be done. This leads to building up of documents and cooking a story to justify their false impressions. Bending the law to suit business requirement, finding loopholes in rules, making everything possible are the order of the day. If only one can do that one can be a successful entrepreneur or a good professional.

11. Cost components: One of the most unfortunate truth and an open secret is that the ‘percentage cost’ has reached an alarming 15%. The percentage share offered to and demanded by various intermediaries, from top to bottom, especially in infrastructure development projects, is added to the costs, thereby resulting in the vagaries of cost escalations and cutting margins and even uncertain revenues. Hence, having experienced mammoth financial scandals, which are proved to be possible in spite of a host of regulations, we should strive to inculcate the sense of responsibility, the truthfulness and ethics from the core. It should be natural rather than imposed.

A few suggestions in this direction are:

A. Avoidance The promoters are advised to conscientiously avoid the above enlisted weaknesses.

B. Professionalism A tremendous responsibility is cast upon the professionals to advise and guide the entrepreneurs to adhere to ethical business practices. They -- both professionals and entrepreneurs – should strive to safeguard the public money.
C. Cash Flows  A careful monitoring of the cash flows will reflect the financial strength of a business. An unbiased and truthful cash flow statement should be revealed to all stakeholders on quarterly basis.

D. Auditors  The Statutory Auditors should be changed at least once in every three years.

E. Directors  The independent directors on Boards should have a term of say, five years. This should be applied to all companies, not only listed companies. This will curtail the obligations of independent directors to obey to the whims and fancies of promoter directors.

F. Approvals  Any major business decision, such as venturing into new areas, expansions, restructuring, capital investments etc. should be approved by the stakeholders – be they lenders or equity participants. Of course, this condition is routinely included in sanction letters of banks; but, its implementation is observed by none.

G. Publicity  Mind-set of entrepreneurs and professionals should be changed. Lord Macaulay who wonderfully used the education system to change the mindset of Indians long back, which ultimately converted them loyal to British Rulers, should be effectively used in our Modern India too. Thus, teach Business Ethics, Professional Conviction, Principles of Code of Conduct and Corporate Governance, Social Responsibility, Sense of Devotion and Trust, Truthfulness and Sincerity through syllabi and curriculum. It is proven that imbibing values into the minds of nourishing minds will have a greater impact and long lasting results to transform them permanently. Thus, ethics should emanate from within; but cannot be imposed by force. Hence, we should strive towards achieving the real perfection; but not just to expose the law breakers and punish them.

H. Stringent Punishment  The guilty should be punished severely. This will, to a very great extent, help to put the violators on the right track. The wealth amassed by those who do so by cheating stakeholders should be recorded from them and they should be stripped off their personal properties – whether in their names or in benami
names. It should rightfully belong to the Society. Such people cannot lead a lavish life at the cost of languishing lot. When the Parliament established the three Professional Bodies, viz., the ICAI, the ICWAI and the ICSI, through enactments, the purpose originally contemplated and the real expectations, as recorded in the Preambles, were that the experts who emerge from those Institutions, after being trained in respective fields, would help and support the Government in implementing the innumerable Acts, Rules and Regulations suggested by the Government. The Members of those three Institutions are supposed to strengthen the Government Machinery. But, ironically, the exact reverse has happened – the Professionals have taken the side of entrepreneurs and helping them to dupe the innocent stakeholders. Professionals’ should uphold the values and guide the business community as well as the co-professionals, to be ethical!

3.19. Corporate Social Responsibility (CSR)

3.19. (i) Introduction

Corporate Social Responsibilty\(^8^9\) is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on all the stakeholders including the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large.

3.19. (ii). Meaning and Definition of Corporate Social Responsibility

The World Business Council for Sustainable Development in its publication "Making Good Business Sense" by Lord Holme and Richard Watts, used the following definition “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world.

\(^8^9\) http://en.wikipedia.org
Definitions as different as "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" from Ghana, through to "CSR is about business giving back to society" from the Philippines.

There is no single, commonly accepted definition of Corporate Social Responsibility. But following the US – UK tradition, it can be defined as follows:

“Corporate Social Responsibility is operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that a society has from business.”

Corporate social responsibility (CSR, also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity) is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large.

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; still others argue that it is an attempt to preempt the role of governments as a watchdog over powerful multinational corporations.

3. 19. (iii). Importance of study of Corporate Social Responsibility

3. 19. (iii). (a) Role of Corporate Social Responsibility

The role of business in society has been debated in economic literature for a long time. By the term ‘Corporate Social Responsibility’ (CSR), what is generally understood is that business has an obligation to society that extends beyond its narrow
obligation to its owners or shareholders. This idea has been discussed throughout the twentieth century, but it was Howard R. Bowen’s book on “Social Responsibilities of Businessman” published in 1953, which was the origin of the modern debate on the subject. Bowen reasoned that there would be general social and economic benefits that would accrue to society, if business recognized broader social goals in its decisions.

Corporate Social Responsibility is nothing but what an organization does to positively influence the society in which it exists. It could take the form of community relationship, volunteer assistance programmes, healthcare initiatives, special education / training programmes and scholarships, preservation of cultural heritage and beautification of cities. The philosophy is, basically to give back to the society, what it (business) has taken from it, in the course of its quest for creation of wealth.


The debate, on whether responsibility of a business enterprise is only to its shareholders (owners) or to all stakeholders, including environment and the society at large, is an on going one and continues. In received literature “Stakeholder”, as an expression is fairly recent in origin, reportedly appearing first in an internal memorandum of the Stanford Research Institute in the year 1963.

According to a definition given by Edward Freeman “A stakeholder is any group or individual who can affect, or is affected by the activities and achievements of an organisation.” Friedrich Neubauer and Ada Demb in “The Legitimate Corporation” identify six groups of distinguishable stakeholders (not necessarily in this order) as follows –

- a) Providers of funds
- b) Employees
- c) General public
- d) Government
- e) Customers and
- f) Suppliers
On the one hand experts have argued that shareholders put their risk capital in a Joint Stock Company (or business) and therefore, companies should be managed in the interest of the owners or the shareholders. This primacy of treatment given to the shareholders is being justified on the grounds of ownership and shareholding. It is felt that maximisation of profits or the bottom line should be the ultimate objective of the management. On the other hand, a number of experts will not agree with this position. For example, in Japan employees are treated as family. It is felt that an employee who devotes his or her life to the company has a bigger stake in it as compared to a shareholder. Germany is another nation where stakeholder recognition is high. Prominent among the experts who has taken a broader view is Minks who has argued that any company with a short term in view, only maximising profits for the shareholders, will destroy value in the medium to long run. It is felt that the moot point here is the time frame. And that in the long run, the sustainability of the enterprise will be of paramount importance. In the long run, interests of both the stakeholders and the shareholders are not only likely to converge, but also have to be balanced.

In the tradition of Hobbes, Locke & Jean Jacque Russeau (writing in year 1762), society and corporations must co-exist and contribute to the well being of each other. There is a contract, which is at once explicit and implicit, that governs the operation of business within a given community.

Benjamin Franklin has also expressed a similar sentiment when he says that “Doing good is not a private act between a bountiful giver and a grateful receiver, it is a prudent social act.”

The objective of the present study is to understand, document and review the Corporate Social Responsibility Initiatives of relatively large companies in India, with a view to understand their current thinking on the subject and draw lessons for future. The study, we hope, would help other small and medium sized companies, to actualize their CSR interventions.

The study is divided into six sections: After giving a genesis and background of the subject, the second section gives a review of literature covering various facets and
areas, which are touched upon by corporate social responsibility, including the arguments put forward both for and against CSR. The third section deals with the methodology adopted for the study. The fourth section talks about the Indian experience in the area. The fifth section presents the main findings of the study, collected through the questionnaires sent to all the companies and collated by the research team. The sixth section is a documentation of the case studies, specifically five detailed case studies from among the sample companies. The last section enumerates the concluding observation and lessons for future.

3.19. (iii). (c) Need for Corporate Social Responsibility

David Wheeler and Maria Sillanpa in “The Stakeholder Corporation” state that by 1998, 51 out of the 100 largest economies were not nation states, but corporations. According to Wheeler & Sillanpa, in 1998, General Motors was bigger than Denmark; Toyota was bigger than South Africa. Yet at the beginning of the 21st century, the gap between the world's rich and poor is wider than ever before.

In 1999, The United Nations reported that the world's then three richest people - Bill Gates of Microsoft, the Sultan of Brunei and the Walton family of the Wall Mart retail chain - were worth more than the combined gross domestic product of the world's 34 poorest nations. Thus, the modern day large corporations are often larger than nation states. Rich individuals own and command resources that are so large, often larger as compared to smaller/poorer nations. With great power (and size), comes great responsibility.

The second important development in the late 20th century has been the rolling back of the State. It is increasing being realised that the State cannot and should not perform all functions it was performing in the earlier periods. In many countries, national and local governments have taken a "hands off" approach to regulating business, both due to

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3.19. (iii). (c). (1). Globalisation of trade & commerce - Most experts are averse to legal interventions. Internationally self-regulation linked to openness, transparency & accountability seems to generate by far, the maximum response. In response to liberalisation, role of state is shrinking.

3.19. (iii). (c). (2). Shrinking of resources - Most of the governments at the national and local levels are experiencing shortage of funds and a shrinking resource base.

Over the past decades, a growing number of companies have recognised the business benefits of CSR policies and practices. Their experiences have been bolstered by a growing body of empirical studies, which demonstrate that CSR has a positive impact on business economic performance and it not harmful to shareholder value. Companies have also been encouraged to adopt and / or expand CSR efforts as a result of pressures from customers, suppliers, employees, communities, investors, activist organisation and other stakeholders. As a result CSR has grown dramatically in recent years with companies of all sizes and sectors developing innovative strategies.

3.20. Arguments for Corporate Social Responsibility:

Corporates have experienced a range of bottom line benefits, which include –

3.20. (i). Improved financial performance: A recent longitudinal Harvard University study has found that "stakeholder balanced" companies showed four times the growth rate and eight times employment growth when compared to companies that focussed only on shareholders and profit maximisation.

3.20. (ii). Enhanced brand image & reputation: A company considered socially responsible can benefit - both by its enhanced reputation with the public, as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. For example, a 1997 study by two Boston College management professors found that excellent employee, customer and community relations are more important than strong shareholder returns in earning corporations a place an Fortune magazine's annual "Most Admired Companies" list.
3. 20. (iii). Increased sales and customer loyalty: A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers' key buying criteria - such as price, quality, appearance, taste, availability, safety and convenience. Studies also show a growing desire to buy based on other value-based criteria, such as "sweatshop-free" and "child labour-free" clothing, products with smaller environmental impact, and absence of genetically modified materials or ingredients.

3. 20. (iv). Increased ability to attract and retain employees: Companies perceived to have strong CSR commitments often find it easier to recruit employees, particularly in tight labour markets. Retention levels may be higher too, resulting in a reduction in turnover and associated recruitment and training costs. Tight labour markets as well the trend toward multiple jobs for shorter periods of time are challenging companies to develop ways to generate a return on the consideration resources invested in recruiting, hiring, and training.

3. 20. (v). Reduced regulatory oversight: Companies that demonstrate that they are engaging in practices that satisfy and go beyond regulatory compliance requirements are being given less scrutiny and more free reign by both national and local government entities. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of governmental permission.

3. 20. (vi). Easier access to capital: The Social Investment Forum reports that, in the U.S. in 1999, there is more than $2 trillion in assets under management in portfolios that use screens linked to ethics, the environment, and corporate social responsibility. It is clear that companies addressing ethical, social, and environmental responsibilities have rapidly growing access to capital that might not otherwise have been available.

3. 21. Arguments against Corporate Social Responsibility:

If the arguments against a socially responsible approach were widely accepted, nobody would even be talking CSR. But those of us who spend our time marshalling
the case for would do well to spend a little time hearing the case against, and considering what should be the response. The following are some of the arguments advanced against corporate social responsibility –

3.21. (i) **Reduction in economic returns to stakeholders of the Company**

Businesses are owned by their shareholders - any money they spend on so-called social responsibility is effectively theft from those shareholders - who can, after all, decide for themselves if they want to give to charity. This is the voice of the laissez-faire in the 1980s, still being given powerful voice by advocates such as Elaine Sternberg, in US. Sternberg argues that there is a human rights case against CSR, which is that a stakeholder approach to management deprives shareholders of their property rights. She states that the objectives sought by conventional views of social responsibility are absurd. Not all aspects of CSR are guilty of this, however, Sternberg states that ordinary decency, honesty and fairness should be expected of any corporation.

In the first instance, this case strongly depends on the model of social responsibility adopted by the business being a philanthropic one. The starting point assumption is that, through CSR, corporations simply get to "give away" money which rightfully belongs to other people. If CSR is seen as a process by which the business manages its relationships with a variety of influential stakeholders who can have a real influence on its license to operate, the business case becomes immediately apparent. CSR is about building relationships with customers, about attracting and retaining talented staff, about managing risk, and about assuring reputation. The market capitalization of a company often far exceeds the "property" value of the company. For instance, in many knowledge based industries "intangibles" - account for a large percentage of capitalisation - a major part of which rests on the reputation of the company. No company would like to or should risk the reputation of the company.

In any case, if shareholders are to be accorded full property rights one would expect to see the balancing feature of responsibility for the actions taken by the enterprises they often fleetingly own. Since most shareholders remain completely unaware of any such responsibility, it can only fall to the management - the "controlling mind" of the company, to take that responsibility on.
3. 21. (ii). Business is an economic activity as against a social responsibility

The second argument being advanced is that the leading companies who report on their social responsibility are basket cases - the most effective business leaders don't waste time with this stuff. Look at the recent "Most Respected Companies" survey by the Financial Times. Who are the most respected companies and business leaders at the current time? Rather predictably, they are Jack Welch and General Electric, and Bill Gates and Microsoft. Neither has achieved their world class status through playing nice. Welch is still remembered for the brutal downsizing that he led his business through, and for the environmental pollution incidents and prosecutions. Microsoft has had one of the highest profile cases of bullying market dominance of recent times - and Gates has been able to achieve the financial status where he can choose to give lots of money away by being ruthless in business.

Here again the argument is against short termism (profit maximisation) and "building to last". Sustainability of enterprise over a long period pre-supposes co-option of stakeholders on the agenda.

3. 21. (iii). Dilutes concentration of businessmen on business related activities

The third argument against CSR, runs some what like this - Our company is too busy surviving hard times to do this. We can't afford to take our eye off the ball - we have to focus on core business. It's all very well for the very big companies with lots of resources at their disposal. For those fighting for survival, it's a very different picture. You can't go spending money on unnecessary frills when you're laying people off and morale is rock bottom. And the odd bit of employee volunteering won't make any difference to our people when they feel cynical and negative about how the company operates.

Corporate social responsibility is often presented as an extra cost, an added burden born by the corporation already struggling to be profitable in a difficult economic phase. But in some situations, the opportunity to improve its business ethics also offers the company extra ordinary marketing and branding possibilities.
It is argued that high values are a luxury, which only wealthy and successful companies can afford. We need to pin out that companies known for their ethics adopted these values not when they had become big and prosperous, but when they were small outfits. And it is precisely their values that gave them the backing of the public in difficult times, which enabled them to grow to their present giant size.


It is argued that CSR is the responsibility of the politicians. It's not business’s role to get involved. Business has traditionally been beyond morality and public policy. We expect governments to provide the legal framework that says what society will put up with. There's no point, for instance, allowing smoking to remain legal - even making large tax receipt from it – and then acting as though tobacco companies are all immediately beyond the pale. If you think it's so dreadful, you should make it illegal. If not, then let us get on with the job of meeting the demand out there of adults who can choose for themselves.

Whether or not business should undertake CSR and the forms that responsibility should take depends upon the economic perspective of the firm that is adopted. Those who adopt the neoclassical view of the firm would believe that the only social responsibility of business is provision of employment and payment of taxes. An alternative view of the firm following the behavioral theorists might view CSR activities from a standpoint that examines political and non-economical influences on managerial behavior.

3. 22. FUSION OF CSR AND CORPORATE GOVERNANCE

In the earlier section we discussed on CSR and Corporate Governance issues, now let us understand what the fusion between these issues shall result into.

3. 22. (i). Purpose of Business

Ever since the evolution of the company form of business, the shareholders were considered the only stakeholders. Business, after all, was supposed to be run on their behalf and for their benefit. Milton Friedman’s celebrated statement ‘Business of
business is business’ typically represented this thinking. However, as companies grew in size and clout and played an ever increasing role in society, there started a clamour for redefining the stakeholders. This led to the birth of new concepts and terms. Gradually, the social responsibilities of business became a topic of discussion and debate. It was felt that society at large; customers, vendors, employees etc. are as much stakeholders in business, as shareholders are. Simultaneously, the issues of sustainability were actively discussed by various governments, international bodies and other important constituents of society.

The ‘Earth Summit’ held in Rio de Janeiro in 1992, was the first major conference on sustainable development, wherein delegations from 180 countries participated. The summit produced the Rio Declaration on Environment and Development which sets out 27 principles supporting sustainable development. The summit also recommended that all countries should produce national sustainable development strategies.

The Earth Summit led to the establishment of various UN bodies like the UN Commission on Sustainable Development, the Framework Convention on Climate Change and the Convention on Biological Diversity.

Various subsequent conferences and protocols addressed the issues of sustainable development, environmental improvement, climate change, ethical governance and corporate social responsibility. In many of these, role of corporate sector was emphasized.

**Millennium Development Goals of UN**

The Millennium Development Goals (MDGs) are eight goals to be achieved by 2015 that are contained in the Millennium Declaration adopted by 189 nations and signed by 147 heads of States and Governments during the UN Millennium Summit in September 2000. The 8 MDGs are:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8: Develop a Global Partnership for Development

These goals have been divided into 18 targets to be achieved by the governments of various countries. However, the last two targets specifically talk of involving private sector in their achievement. Many companies are making voluntary efforts towards achieving these MDGs.

UN Global Compact

The United Nations Global Compact was launched in July 2000 in order to bring companies together with UN agencies, labour and civil society to support ten universal principles in the areas of human rights, labour, environment and anti-corruption so as to create a more equitable global order. This initiative is known as Global Compact. Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be a part of the solution to the challenges of globalization. It seeks to make a bridge between traditional policy-makers (UN, Governments) and business sector in order to facilitate more sustainable and efficient world order.

The Global Compact is not a regulatory or controlling mechanism. Participation is purely voluntary. It is designed to stimulate change and to promote good corporate citizenship and encourage innovative solutions and partnerships.

The Global Compact offers a policy framework for organizing and developing corporate sustainability strategies while offering a platform - based on universal principles - to encourage innovative initiatives and partnerships with civil society, governments and other stakeholders.

All organizations that believe in transparency, accountability and which believe in furthering the ten principles, can become members of Global Compact. The constituents of Global Compact are companies, governments, labour, social organizations and The United Nations.

92 Article by Mr. Lalit Jain, Company Secretary in Chartered Secretary, April 2008 issue page number 403 – journal published by ICSI
The ten principles of Global Compact span the areas of human rights, labour standards, environment and anti-corruption:

**Human Rights**

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

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

**Labour Standards**

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:
Effective abolition of child labour.

Principle 6:
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. Global Compact is open to any company that is serious about its commitment to work towards implementation of the Global Compact principles throughout its operations and sphere of influence, and to communicate on its progress. To participate in the Global Compact, a company:
• has to send a letter from the Chief Executive Officer (endorsed by the board) to the Secretary-General of the United Nations expressing support for the Global Compact and its principles;
• has to set in motion changes to business operations so that the Global Compact and its principles become part of strategy, culture and day-to-day operations;
• is expected to publicly advocate the Global Compact and its principles through its communications such as press releases, speeches, etc. and
• is expected to publish in its annual report or similar public corporate report (e.g. sustainability report) a description of the ways ("Communication on Progress") in which it is supporting the Global Compact and its principles.

The Global Compact provides networking opportunities to companies through:
• Global Compact Leaders Summit - a triennial gathering of top executives of all participants and other stakeholders to discuss the Global Compact and corporate citizenship issues.
• Local Networks - There are presently more than 50 Local Networks around the world. These essentially are groups of participants who join for furthering the Global Compact principles in a particular area.
• Annual Local Networks Forum is annual meeting point for Local Networks from around the world. It helps them share views and experiences and adopt best practices. The Global Compact movement has gained momentum over the last few years. Today it is the world’s largest, global corporate citizenship initiative with more than 4000 stakeholders in 116 countries.

**Triple Bottom Line Approach**
The term ‘Triple Bottom Line’ was coined by famous author John Elkington in his book ‘Cannibals with Forks: The Triple Bottom Line of 21st Century Business,’ published in 1997. He espouses seven dimensions of revolutions leading to a sustainable future:

Markets- increasing competition
Values - shift from “hard” commercial values to “softer” triple bottom line values
Transparency – business is finding its activities under increasing scrutiny
Life Cycle Performance - Emphasis on entire Life Cycle performance of the product
Partnerships - compulsion to align with others in synchronization with triple bottom line principles
Time - Growing importance of working on real time basis
Corporate Governance-need to satisfy all stakeholders

He propounds that the three prongs of the fork constituting triple bottom line are:

- economic prosperity
- environmental preservation
- social justice

In order to evaluate a business, apart from economic results - which are normally made available, we should also evaluate the contribution made towards environment and society.

**Sustainability Reporting**

The World Commission on Environment and Development defines sustainable development as “Development which meets the needs of the present without compromising the ability of future generations to meet their own needs”. Sustainability may be said to be the destination while sustainable development is the path to reach that destination. A sustainability report usually comprises information on how a company’s activities impact the environment and society.

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. ‘Sustainability reporting’ is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions.

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93 www.businessethics.ca
Sustainability Reporting has become a common practice today. It is reported that of the 250 largest global companies, over 65% are today publishing sustainability reports. Overall, more than 3,000 companies across the globe are coming out with reports.

**GRI and Sustainability Reporting**

Global Reporting Initiative (GRI) is an organization that provides a framework for sustainability reporting that can be used by all types of organizations. Its Guidelines on sustainability reporting are widely used.

The GRI was formed by the United States based non-profits Coalition for Environmentally Responsible Economies (CERES) and Tellus Institute, with the support of the United Nations Environment Programme (UNEP) in 1997. It has its Secretariat in Amsterdam. Although the GRI is independent, it remains a collaborating centre of UNEP and works in cooperation with the United Nations Global Compact.

Sustainability reporting is the action where an organization publicly communicates their economic, environmental, and social performance. The GRI’s mission is to make sustainability reporting by all organizations as routine and comparable as financial reporting. The GRI Guidelines are the most common framework used in the world for reporting. More than 1000 organizations from 60 countries use the Guidelines to produce their sustainability reports. All sorts of organizations report using the GRI Guidelines, such as corporate businesses, public agencies, smaller enterprises, NGOs, industry groups and others.

**Typical Stakeholders in Business**

- Communities;
- Customers;
- Shareholders and providers of capital;
- Suppliers; and
- Employees, other workers and their trade unions.
The Report should explain the basis for identification and selection of stakeholders with whom to engage. It should also cover approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles. It should also cover key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to these.

**Environment**

Disclosure on following Environmental Aspects is required

- Materials;
- Energy;
- Water;
- Biodiversity;
- Emissions, Effluents, and Waste;
- Products and Services;
- Compliance;
- Transport; and
- Overall

**Human Rights**

Human Rights Performance Indicators require organizations to report on the extent to which human rights are considered in investment and supplier/contractor selection practices. These indicators are:

- Investment and Procurement Practices;
- Non-discrimination;
- Freedom of Association and Collective Bargaining;
- Abolition of Child Labor;
- Prevention of Forced and Compulsory Labor;
- Complaints and Grievance Practices;
- Security Practices;
• Indigenous Rights.

Sustainability Reporting leads to improved sustainable development outcomes because it allows organizations to measure, track, and improve their performance on specific issues.

Organizations are much more likely to effectively manage an issue that they can measure.

Apart from helping organizations manage their impacts, sustainability reporting promotes transparency and accountability. This is because an organization discloses information in the public domain. In doing so, stakeholders (people affected by or interested in an organization’s operations) can track an organization’s performance on broad themes – such as environmental performance - or a particular issue - such as labor conditions in factories. Performance can be monitored year on year, or can be compared to other similar organizations.

3. 23. Instances of CSR practices by Corporate

A few examples of CSR activities undertaken by some large companies are given in the following paragraphs:

Shell

Oil major Shell spent approximately $140 million in 2006, on social investment activities. The largest programs were in Nigeria and the USA. This amount is separate from the activities of the independent Shell Foundation which is an independent charity, established in 2000 with an endowment of $250 million from Shell. The Foundation aims to find and develop sustainable solutions to poverty, energy and environment-related problems.

Its important recent activities have been:

• Giving seed-capital for computers and training, to a Ugandan dried fruit company and help it get financing from a local bank to build a new factory. In 2 years, hundreds of jobs were created and the company is selling its fruit in more than 700 supermarket stores in the UK.

94 www.shell.com
• Working to reduce the traffic congestion and pollution in mega-cities such as Istanbul, Hanoi and Shanghai. In Mexico City, it helped implement Metrobus – an innovative route served by 97 high-capacity buses. Metrobus carried its 100 millionth passenger after only 18 months in operation. It replaced 350 smaller buses, cut journey times in half and reduced pollution.

• Planning to supply 20 million cooking stoves for substitution of cooking on wood, dung and other biomass that result in dangerous fumes and kill an estimated 1.6 million people a year.

Toyota

Toyota spent about 18.8 billion yen towards various initiatives. Some of these initiatives have been:

• Tree Afforestation activities in Fengning Man Autonomous County, Hebei Province began in April 2001. Over the six years of the first and second terms of the initiative, trees were planted on approximately 2,500 hectares of land.

• Grants amounting to a total of approximately 1.24 billion yen to projects in different countries contributing to Environment Revitalization and Conservation.

• It has established Toyota Foundation that works to support activities for the benefit of society in the following areas:
  • Human and natural environments
  • Social welfare
  • Education and culture

Grants are provided for research and projects consistent with these interests. At the end of FY 2005-06, the total endowment was approximately 35 billion yen.

Coca Cola

The Coca-Cola Company has created Coca-Cola Foundation to support initiatives focused on:

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95 www.toyotabharat.com
96 www.coca-colaindia.com
• Water Stewardship (Conservation/Clean Water/ Sanitation)
• Fitness and Active Lifestyles (Physical Fitness/Nutrition Education)
• Sustainable Packaging (Community Recycling/Research & Innovation)
• Education (via the Foundation’s two Signature Programs namely, The Coca-Cola Valued Youth Program and The Coca-Cola First Generation Scholarship Program)
• Student scholarships and other educational programs and initiatives.
• HIV/AIDS prevention and awareness programs

In 2006, the Foundation contributed $ 70 million in global endeavours.

**Vodafone**

Vodafone has created Vodafone Group that currently receives £24 million per annum from the Vodafone Group Plc, which it distributes between projects globally and a network of 22 Local Foundations and social investment projects established by Vodafone operating companies around the world.

• It is working with Oxfam to support a global rapid response team of aid workers and fund the UK’s biggest warehouse of emergency supplies. This is the first time Oxfam has ever had such a substantial and strategic involvement with corporate donors that will help save lives in the world’s worst humanitarian crises.

• It is also working with The United Nations Foundation to provide emergency telecoms services in disaster areas.

**Pfizer**

Pfizer’s CSR activities include

• Support to international NGO WaterAid that helps world’s poorest people gain access to safe water, sanitation and hygiene education—basic human rights that are the first, essential steps in overcoming poverty. The support was in the form of deputing Pfizer executives in different fields for six months at a time.

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97 [www.vodafone.in](http://www.vodafone.in)
98 [www.pfizerindia.com](http://www.pfizerindia.com)
• Integrating EHS criteria into purchasing decisions. As an example, 68% of the printer and copier paper it purchased in the US in 2005 was recycled paper leading to saving of over 8,000 trees and over 1.6 million kilowatt hours of energy.

• Support by way of grants, technical assistance and networking resources to various organizations serving communities that are disproportionately affected by HIV/AIDS.

• Providing grants to community health centers that provide treatment to patients who otherwise cannot afford it.

Jubilant Organosys

Jubilant Organosys, India, has taken various CSR initiatives. Some of these are

• Vigorously implements pulse polio vaccination program. Over last 6 years, more than half a million children have been immunized through Jubilant's efforts.

• Has helped formation of 38 Self Help Groups of women so as to increase their earnings & to make them financially independent. The combined funds mobilized so far are over Rs. 1 million.

• Utilization of Biogas, generated from effluent treatment in boilers and furnaces. This saves over 73000 tones of coal per annum, thus reducing greenhouse gas emissions.

• For HIV/AIDS, Jubilant has set up a unique structure in collaboration with International Labour Organisation, whereunder 35 persons have been trained as Master Trainers, who will in turn train 350 Peer Educators and who will in turn train 3500 persons.

• Jubilant Medical Centre at Gajraula has been selected as the only private sector DOTS centre for Tuberculosis by Govt. of India & World Health Organisation and is being upgraded to TU Centre to supervise 4 - 5 DOTS Centres in the region.

99 www.jubl.com
• Promoting primary education by providing infrastructural support like construction of class rooms, general maintenance of school buildings and class room support material such as computers. Training sessions for school children on general environment and safety issues.

• Various other development activities in partnership with communities such as:
  • Installation of Hand pumps
  • Construction of Toilets
  • Construction of Culverts
  • Mobile Dispensary,
  • Rehabilitation of physically handicapped persons,
  • Emergency Medical help and Trauma Centre for Highway accidents
  • Infant immunizations and family planning operations
  • Farmers Educational Tours
  • Cattle Health Camps
  • Rainwater harvesting

Jubilant’s efforts have been recognized internationally. Jubilant is one of the four companies selected globally to feature in International Finance Corporation’s case study publication. The Community development activities of the company were showcased in a film screened at Davos during World Economic Forum meeting in February 2007. It is one of the few companies globally to voluntarily support Millennium Development Goals and report its contribution to these goals in its Corporate Sustainability Report.

3. 24. Paradigm shift in Business Thinking

Gradually, but surely, over the years, the thinking of business towards social and environmental issues has been undergoing a change. The world has come a long way from Friedman’s thinking.

At the Global Compact summit held in Geneva in July, 2007, Global as well as local initiatives were launched. Top executives of corporations such as Coca-Cola, Petrobras, Fuji Xerox, China Ocean Shipping Group, Tata Steel, L M Ericsson and


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Banco Bilbao Vizcaya Argentaria adopted the 21-point Geneva Declaration, which spells out concrete actions for business, governments and United Nations Global Compact participants. The Geneva Declaration expresses the belief that “globalization, if rooted in universal principles, has the power to improve our world fundamentally — delivering economic and social benefits to people, communities and markets everywhere”.

It further states “The need for action is urgent. Poverty, income inequality, protectionism and the absence of decent work opportunities pose serious threats to world peace and markets”.

“Business, as a key agent of globalization, can be an enormous force for good. Companies, by committing themselves to corporate citizenship, can create and deliver value in the widest possible terms. Globalization can thus act as an accelerator for spreading universal principles”.

The following excerpts from the speech of Mr. E. Neville Isdell, Chairman and CEO of The Coca-Cola Company very succinctly represent the new thinking of business leaders:

“As we meet here today, global business faces one of the most important questions of our time. Are we a barrier to sustainability? Or are we the greatest hope? The climate is changing. Our supply of drinkable water is stressed. The planet’s biodiversity is threatened. Conflict over resources is costing lives. The global population is growing... mainly in places least able to support millions of additional inhabitants.

The divide between the world’s richest and poorest is a potential case of increased global conflict. The time for abstract debate and hopeful assumption is gone. Business must become agents of transformation. We have the resources. We have the talents. And let’s be clear here, we have the self-interest. Real transformation brings to the table three non-negotiable demands.

Speak up Step up And scale up. Some very determined and eloquent voices have spoken up... clearly... and persuasively. Business has stepped up... with both promises and programs. But if we add up all the great progress to date... it’s only a mildly
encouraging start. It's time to scale up. It's time to leverage our efforts through concerted, coordinated, cooperative global action. That is why The Coca-Cola Company signed."

3. 25. CSR – A challenge for Corporate

In the last decade the concept of social responsibility in most of the companies was limited to giving a donation to any organisation engaged in various philanthropic activities. Even the Companies Act recognises the said concept in section 293 (1) (e) which places restriction on the amount of contribution that can be made by a company to any charitable organisation. The companies were thus satisfied in giving a part of their profits to any such organisation of their choice which many times did not have any relevance to nature of business carried out by them.

Some of the companies went a little further and did some social work in the area surrounding their factories. This work mainly related to the upliftment of the villages in the area. A classic example of such activities is the work done by a large petrochemical company in the village situated in the vicinity of its factory. The company constructed and financially supported an 80 bed hospital in the village which was equipped with two air conditioned operation theatres and facilities for conducting all types of investigations at a very nominal charge. Similar activities such as providing drinking water to the villagers, construction of common latrines and paving of roads etc. were being carried out from time to time. However even though these activities were very much appreciated by the local population none of these activities had any relation to the main business activity of the company.

Over the last few years this concept of meeting the social obligations by the corporate sector has undergone a sea change and is now more popularly known world wide as "Corporate Social Responsibility" or "CSR". It denotes the way the companies integrate the general social, environmental and economic concerns of the society into

\[101\] Article by Mr. Uday Karnik – published in Chartered Secretary published by ICSI, page number 737 June 2009 issue
their own values, strategies and operations in a transparent and accountable manner and thereby contribute to the creation of wealth and improvement in the standard of living of the society at large. CSR is generally understood to be the way in which a company achieves a balance of economic, environmental and social imperatives while at the same time addressing the expectations of the shareholders and the stakeholders. The latter can include employees, customers, communities, suppliers, government and non-government organisations, international organisations and others affected by the activities of the company. It often involves the commitment of the private sector beyond mere compliance with the laws of the land. The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development and includes commitment and activities pertaining to the following topics:

- Health and safety
- Environmental concerns
- Community development
- Human rights in relation to labour
- Customer satisfaction and fair competition
- Accountability and transparency in financial reporting
- Maintaining relationship with suppliers

In the present context of liberalisation and globalisation of Indian economy there is an increased attention of the international community to the CSR practices being adopted by the Indian companies. In recognition of this most of the industries associations, investors, and other stakeholders have started insisting on enhanced transparency and disclosure in financial and non-financial reporting and more rigorous standards of corporate governance. Various aspects of financial reporting are being taken care of by the several Accounting Standards prescribed by the Institute of Chartered Accountants of India and the companies and their auditors are meticulously following the same. However it is a well recognized fact that the financial health of a company is much more than its assets and profit in the balance sheet. The reputation of a company also influences its financial health. A strong reputation has the power to create value for the company including the ability to attract customers, employees and investments and to differentiate the company from its competitors. A company can
enhance its reputation many fold by resorting to non financial reporting and give an overview of environmental, social and economical impact of its activities.

The Reserve Bank of India has recognised this concept of nonfinancial reporting in its circular dated 20th December 007 issued to the banks in which it states that NFR is basically a system of reporting by organisations on their activities as regards the triple bottom line that is environmental, social and economical accounting. This concept of triple bottom line is equally relevant in the reporting by the corporate sector. It is now becoming more and more important for the companies to adopt the concept of nonfinancial reporting in their annual reports and give a detailed account of the various activities undertaken by them towards the sustainable economic development of the society.

The reputation of each company will depend on its commitment towards the CSR activities as highlighted in the annual report.

Ed Zander, Chairman and Chief Executive of Motorola states that “strong economic performance and good social and environmental performance are not mutually exclusive. In fact, I believe that good corporate citizenship improves our bottom line. It is not surprising that many analysts and investors are paying closer attention to a company’s corporate citizenship efforts for purely fiduciary reasons. Firms with social citizenship record and a real commitment to corporate responsibility are arguably more sustainable, better managed and therefore better long term investments.”

Similarly, Peter Drucker has rightly stated that “the proper social responsibility is to turn social problem into economic opportunity, into productive capacity, into human competence, into well paid jobs and into wealth”. He further states that “Social responsibility objectives need to be built into corporate strategy of business rather than merely be statements of good intentions.”

There are a number of common objectives which express the expectations of a large company. Some of these can be stated as follows:

- Rebuilding of public trust and confidence by increased transparency in its financial as well as non-financial reporting and thereby increasing the shareholder value.
• Establishing strong Corporate Governance practices to enhance the brand reputation of the company.

• Giving adequate support to the health, safety and environment protection policies of the company both within the manufacturing operations as well as while dealing with outsiders.

• Making substantial improvement in its relationship with the labour force thereby showing its concern for human rights and making it known as an ideal employer.

• Contributing to the development of the region and the society around its area of operation.

• Addressing the concerns of its various stakeholders in a balanced way so as to maintaining a strong market position.

However before these objectives can be successfully achieved by a company it has to face many challenges in future.

One of the greatest challenges that have emerged recently relates to environmental issues such as the threat of climate change due to global warming. The emphasis in future on the businesses will centre on the need to develop strategies to reduce carbon emissions. In the present context it has become imperative for all the companies to organise their manufacturing operations in such a way that the carbon emissions are considerably reduced. More and more companies have now taken this very seriously and are taking effective steps towards reducing of carbon emissions from their factories. Of course the incentive to undertake such work lies in the carbon credits being offered by the developed countries under the Kyoto Protocol. Several other environmental issues have also become important such as alternate fuel technology, waste management, water preservation and prevention of water contamination by liquid effluents.

The next important issue relates to the company’s employment practices. Over the years managements have come to recognize the force of labour and their association with increased productivity. A happy and contended labour always contributes to positive results both in the financial as well as non financial matters. The companies have acknowledged that the workers have fundamental rights and must be treated with respect rather than as a mere factor of production. Some important matters such as
provision of decent working atmosphere, recognition of women’s rights and giving due attention to the care of the workers children are being considered as matters of priority by many companies.

Till recently companies used to impress their stakeholders with glossy annual reports which concealed more than they disclosed. A window dressing of a balance sheet that only reveal the good things was the practice followed by many companies and no one was wiser about the true state of affairs in the company. An increased emphasis on transparency so as to reveal both the positive and the negative aspects of the business is going to be the order of the day. As stated earlier a disclosure on environmental and social issues being pursued by a company is going to be an important aspect of the annual reports as the financial reporting. The stakeholders of a company are now more concerned about how the company is meeting its social obligations and what steps it is taking towards the protection of environment. In recognition of these expectations of the stakeholders the Listing Agreement of the Stock Exchanges requires every listed company to give a detailed overview of its business under Management Discussion and Analysis in the Annual Reports. Of course many of the reputed companies have gone a step forward and started devoting a number of pages in the Annual Report to give a detailed account of their various activities relating to financial as well as non-financial matters. Thus a more onerous responsibility is being cast upon the managements to satisfy the expectations of their stakeholders by making a complete and transparent disclosure in their annual reports.

Another important aspect is to take into consideration the views of the stakeholders in the decision making process. It means developing sophisticated means of communications with a broad range of stakeholders and incorporating their views in the governance of the organisation. The Government of India in recognition of this need has introduced a proviso to section 252 of the Companies Act 1956 under which a company having share capital of more than Rs. 5 crores or more than 1000 shareholders may have a director elected by small shareholders so that their views can be taken up at the Board meetings. Similarly there is a move to introduce workers participation in management by allowing the recognised unions to nominate a director on the board. Thus the management will be able to find out the opinion of the
stakeholders on the various policies of the company and mould their decisions accordingly so as to benefit the company as well as the stakeholders.

Recruitment and retention of skilled manpower is going to be a major challenge for the corporate sector. It is a well known fact that the students of IIM decide which company will have the first right to interview and select them. They decide this order on the basis of the reputation of the companies both in terms of their financials as well as in terms of the transparency in their reporting methods. It is becoming difficult to find the best talent which will be able to deliver quality work unless you have a good reputation in terms of sound Corporate Governance practices.

The new generation of MBAs are no more interested in a traditional career and a 9 to 5 job but are always looking for challenges in their assignments. They are likely to get frustrated in a short time and move ahead to a new job which offers them a broader perspective and helps them in getting richer experience rather than continue in doing the same job day in and day out. The managements have to evolve new strategies for retaining such candidates in their employment. The next important challenge is going to be an effective community development work. Mere giving of donations to NGOs and charitable institutions are not going to be sufficient.

The companies will have to make strategic investments in communities that have a direct impact on the business. Companies will have to encourage the local population to participate in the business so that it can prosper as well as result in benefits to the company. Encouraging some of the local entrepreneurs to put up ancillary units around the factory and selling of scrap to local parties will achieve both the purposes of saving of transportation costs for the company as well as help the local population to redeem itself in an honorable way. These are a few of such examples whereby the company can lend a helping hand to enterprising youth and meet its social obligations.

Hereto before the involvement of most of the companies with their suppliers was limited to a first tier audit to ensure that the raw materials and components required by them meet with their quality standards. However in future the relationship of the companies with their suppliers will be based on trust rather than mere inspection of the manufacturing operations. The companies will be more concerned with products
that are safe and healthy rather than the processes by which they are made. Environmental issues and human relationships are also going to be important criteria for selection of suppliers. In short, companies would prefer to maintain relationship with suppliers who have similar CSR values rather than those companies who find it difficult to comply with the laws.

The corporate sector will have to integrate the concepts of Corporate Social Responsibility and Sustainability with their business strategy. This can be achieved by making certain commitments such as:-

- By making a quantum shift in their vision statement from profit maximisation to social, environmental and economic sustainability.
- By adopting sound Corporate Governance practices both in letter as well as in spirit.
- By minimising the socially and environmentally detrimental impact of their operations.
- By creating a conducive atmosphere for the working class and accepting the human rights of the labour force.
- By showing a greater degree of transparency in its reporting of both financial as well as non-financial matters.
- By establishing a chain of suppliers having similar CSR values.

These commitments when followed in practice will greatly enhance the reputation of the company and enable it to boldly face all the challenges thus making it an ideal corporate entity.

Analysis and conclusion

There are definite and positive trends among companies in their efforts to care for the society and environment in different ways. This may involve steps taken by the company in its operations to conserve environment, reduce energy consumption etc. It may also involve contributions by way of money, organizational support, managerial skills etc. in solving various problems of the society. Companies have been contributing to education, health, drinking water, employment generation, income enhancement, women empowerment, entertainment etc. There is also an increasing
transparency with more and more companies coming out with exhaustive sustainability reports. Today, for any large company, sustainability reporting is something that the investors and society definitely expect. Good companies are setting standards and benchmarks which the others are compelled to emulate. Triple bottom line reporting has become an integral part of sustainability reporting. Many companies are voluntarily contributing to attainment of Millennium Development Goals.

A growing number of companies are becoming members of Global Compact and pledging allegiance to the Compact Principles. In any case, the sustainability reports cover how their actions gel with the Global Compact principles or with Millennium Development Goals.

The trickle is gradually becoming a torrent. Corporate Governance is being redefined so as to include newer stakeholders. Corporate Social Responsibility is gradually getting fused into companies’ Corporate Governance practices. Along with Governments and other organizations, private sector is playing an ever increasing role in building a fair, equitable and sustainable world. This bodes well for humanity’s future.