CHAPTER NO.1

INTRODUCTION OF THE STUDY

1.1 History of CSR

*Corporate social responsibility in 50’s and 60’s*

H R Bowen has discussed about CSR in his book” Social Responsibilities of the Businessmen”. He has emphasized that business man have the responsibility to match expectations, aims, and values of a society. According to him managers should act according to the expectations of public beyond seeking for meeting the expectations. Then he laid out the basic arguments for social responsibility: 1) it is the ethical duty of managers to make decisions considering the broad social impacts of it; 2) corporate are collection of skills and energy for improving life of people; 3) Authenticity of businesses will be lost if they use power without considering broad social contract; 4) it is in the self interest of business to improve society than only it will also prosper; 5) Negative public opinion and undesirable regulations could be commence by voluntary action.

*CSR after 1960*

The era was that businesses first responsibility is to earn profit. Investors invest their money in business to get good amount of money; and if the business managers spend the same amount on social programs it will be a cost which is not good for business. So economic aspects of business should be considered first and than one should take up the projects for social development.

*CSR during 70’s*

Management guru Peter Drucker argues that “the proper ‘Social Responsibility’ of business is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth.” It has been argued that, “it will not be too long before we can begin to assert that the business of
business is the creation of sustainable value - economic, social and ecological - converting social problems to economic opportunity.”

In 1971 the Committee for Economic Development, a group of corporate leaders, published a report boldly stating the case for expansive social responsibility. Society, said the report, has broadened its expectations outward over “three concentric circles of responsibilities.”

![Figure 1: Three concentric circles of responsibilities](image_url)

Figure 1 Three concentric circles of responsibilities


Other influential thought leaders: George Steiner (Business and society -1971), Preston and Post, Eels and Walton and S.Prakash Sethi who distinguished between Social obligation (prospective approach), social responsibility (Prescriptive approach and social responsibility (Social responsiveness).
Caroll’s during 1979


Caroll’s CSR Pyramid

According to Caroll’s (1979), “corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent”. And the different layers in the pyramid help managers see the different types of obligations that society expects of businesses.

Caroll’s contribution would be marked as the beginning of CSR research since it provided framework for effective classification of responsibilities of a business.

It has given substantial contribution to the development of the research area.
Few social movements during the period gave rise to the development of CSR

- Anti-slavery and discrimination among the race led towards social movements in America
- Discrepancy in wealth: it was found that there was inequality in income which led to movements to convert this discrepancy into support for social change in 1960s.

**CSR during 80’s**

1980’s gave rise to “Stakeholder Theory” by R. Edward Freeman, These theories help to explain and guide the organization’s practice with relation to the natural environment. It was found that CSR is related with impacts on organizational development and strategy and impact on manufacturing strategy.

There was lot of corporate scandals during 1980’s which give a serious thought towards CSR. Some of them were Union Carbide Bhopal, Infant formula controversy, etc.

Thomas M. Jones emphasized CSR is voluntary and business social obligation is beyond shareholders and extends to stakeholders.

Frank and Barry linked CSR with Maslow’s theory of motivation.

**CSR during 90’s**

In this time period various codes were developed:

**ISO 14001 for Environment (1996):** ISO 14001 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance.

**GRI Sustainability Guidelines (1997):** The GRI Standards are the first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts.

**Social Accountability International (SAI): SA 8000 Standard (1998)**

This is one of the world’s first auditable social certification standard. It is based on ILO, UN and national law conventions, and adopts a management system approach in order to ensure that companies that adopt this approach also comply with it. This standard ensures the protection of basic human rights of workers.

**Institute of Social and Ethical Accountability: Account Ability’s AA1000 series of standards**
This is a series of standards which enable organisations to become accountable, responsible and sustainable. It consists of the (i) AA1000 accountability principles (AP) standard (ii) AA1000 assurance standard (AS) (iii) AA1000 stakeholder engagement (SE) standard. Since these standards have been formulated through a multi-stakeholder consultation process, they ensure that those impacted (that is, enterprises, governments and civil societies) stand to gain.

**UNGC (1999) - code for CSR devised by Kofi Anan**

UNGC is world’s largest corporate citizenship initiative with the objective to mainstream the adoption of sustainable and socially responsible policies by businesses around the world. The 10 principles of the UN Global Compact have been derived from various UN conventions such as the Universal Declaration of Human Rights, ILO’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on environment and development, and the UN Convention against Corruption. These principles cover four broad areas:

1. Human rights (support and respect the protection of international human rights and ensure that business is not complicit with human rights abuses)

2. Labour rights (uphold the freedom of association and effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labour, effective abolition of child labour and elimination of description in respect of employment and occupation)

3. Environment (support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development of environmental friendly technology)

4. Governance (work against corruption in all forms, including bribery and extortion).

**1.2 General Principles of Corporate Social Responsibility as was drafted by National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG).**
The national voluntary guidelines consist of 9 core principles, namely:

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

(Source: http://www.sustainabilityoutlook.in/content/national-voluntary-guidelines-india-inc-csr-responsible-business)

1.3 CSR in India

CSR in India has traditionally been a voluntary activity and keeping this in mind an activity that was performed was not measured. As a result there is limited documentation on specific activities related to this concept. However it has been observed that practice of CSR in India still remains within the philanthropic space but has moved from institution building (education to community development through various projects). Nowadays due to internal and external pressure many companies has started reporting CSR activities undertaken by them in their annual reports, sustainability reports and on their official websites.

Before the implementation of the companies’ act 2013, majority of the corporate does CSR as philanthropic activities.

On 1st April, 2014, the section 25 companies Act, 2013, has been implemented. (Wikipedia, 2015). According to this act CSR was made mandatory for the companies
having turnover of Rs 500 crore or more should spend 2% of their profit on CSR. The Sectors were also defined for doing CSR activities.

According to schedule 7 of section 135 of companies Act, CSR community activities should be addressing the below mentioned challenges:

1) Eradicating hunger, poverty, malnutrition, promoting preventive health care and sanitation providing safe drinking water.

2) Promoting education, special education, employment enhancing vocational skills in children, elderly, women and differently abled and livelihood enhancement skills.

3) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans, setting up old age homes, day care centers and other such facilities for senior citizens and measure to reducing inequalities faced by socially and economically backward groups.

4) Ensuring environmental stability, ecological balance, protecting flora and fauna, animal welfare, agro forestry, conversation of natural resources and maintaining quality of soil, water and air.

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

6) Measures for benefit of armed forces, veterans, war widows and their dependents.

7) Training to promote national sports, rural sports, Paralympics sports, Olympic sports.

8) Contribution to PMs Relief Funds or any other fund set up by central government for socio-economic development and relief and welfare of SC, ST, other backward classes, Women and Minorities.

9) Contribution of funds provided to technology incubators located within academic institutions which are approved by Central Government.

10) Rural development project.

11) Swach Bharat Abhiyan (PWC, 2014)

1.4 Implementation of CSR
1.4.1 Legitimate requirement
Companies may implement these activities by considering the local conditions where they operate after taking board approval.

The company can implement its CSR activities through the following methods:

- By firms itself.
- Through its own non-profit foundation set-up so as to facilitate this initiative.
- Through independently registered non-profit organizations that have a record of at least three years in similar such related activities.
- Collaborating or pooling their resources with other companies.
- Only CSR activities undertaken in India will be taken into consideration.
- Activities meant exclusively for employees and their families will not qualify.

Firms have to present the report in the prescribed format before the Boards for spending 2% of the average net profits of the previous three years on CSR, a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter, and in spirit. This has to be signed by either the CEO or the MD or a director of the company. (PWC, 2014).

1.4.2 Forces creating pressure for undertaking CSR
There is no limit to the expectations that stakeholders have on businesses, which creates pressures on firm to undertake CSR. Some of them are as shown below:
1.4.3 The key elements for Implementation of CSR

Every organization has its own way of implementing CSR; some of them have it temporary, informal and reactive way while some organization has an institutionalized approach towards implementation of CSR. Implementation varies with many factors which include the type of industry, the current business environment, the CEO’s opinion towards CSR, and other factors.

Following are some of the Key elements affecting implementation of CSR:

- **CEO (Leader of the company)** Top management of the company sets a tendency towards social response. Commitment at the top, or lack of it, determines the extent of a wide range of organizational responses. When the top management or CEO of the organization has a strong social responsibility philosophy, it is penetrated through out the organization.

- **Mission and Vision Statements**: A vision and mission statement plays an important role in implementation of CSR. It is the vision statement, which provides the directions in which a firm is proceeding or will move. Mission is related to what a firm should do to achieve its vision.
• **Size of the company**: Size of the company does affect the implementation of CSR. Mostly large scale companies are more organized and well documented in implementation of CSR, where as small scale companies may not be organized or have structured CSR implementation.

• **Finance (Liquidity)**: Profitability and cash flow has an influence on implementation of social programs by companies.

• **Issues Management**: Various issues which are happening near to the company where it is operating drive them to undertake social responsibility. For example the problem of fresh water in Jamnagar is a major issue, whereby Reliance Industries have tried to solve it by making desalination of sea water, the water could be used for various purposes after processing. So issue management is a critical factor to be addressed by corporate tactfully for implementation of SR.

• **Expectations of society**: the implementation of the CSR is based on the expectations of the society from the companies. Firms have to identify the need of the society in which it operates. Sometimes society needs donation, education, health building, employments, etc. which should be taken care by the corporate.

• **Penetration of CSR**: the structure of the organization should be such that CSR should be penetrated in the organization from the top to bottom level, than only institutionalized CSR could be effectively implemented. Social goals of the organization should be aligned with the vision and mission statement of the company, otherwise it will be slighted. CSR could be penetrated by forming a separate department, or committees to implement CSR.

1.5 Standards for CSR reporting

Table 1 Standards for CSR reporting

Following are some of the standards which provides some guidelines for CSR reporting by organization:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Organisation initiative or tool</th>
<th>Industries</th>
<th>Core areas of CSR covered</th>
</tr>
</thead>
</table>
| 1      | Global Reporting Initiative (GRI): Released in 2013. Performance indicators are | All companies | i) Environment  
|        |                                 |            | ii) Community involvement and development |
organized into the following three dimensions: economic, environmental and social.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Financial services, pharmaceuticals, energy and extractives, telecommunications, consumer goods and food and beverages</td>
<td>i) Environment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii) Community involvement and development</td>
<td>iii) Organizational governance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv) Human rights</td>
<td>v) Labour practices</td>
<td></td>
</tr>
<tr>
<td></td>
<td>vi) Fair operating practices</td>
<td>vii) Consumer issues</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Carbon Disclosure Project (CDP) Tool and framework: it promotes the integration of information regarding climate change into companies’ financial reports with their global framework.</th>
<th>All industries</th>
<th>Environment</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>United Nations Global Compact (UNGC): it consists of 10 principles regarding human rights, labour, environment, and anti-corruption.</th>
<th>All industries</th>
<th>i) Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ii) Human rights</td>
<td>iii) Corruption fighting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv) Consumer issues</td>
<td>v) Labour practices</td>
<td></td>
</tr>
<tr>
<td></td>
<td>vi) Community involvement and development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>WBCSD and world resources institute (WRI): it is a tools/standards for the GHG protocol accounting and government to quantify, manage, and report on greenhouse gas emissions.</th>
<th>All industries</th>
<th>Environment</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>International integrated reporting council (IIRC)</th>
<th>All types of organization.</th>
<th>i) Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ii) Community involvement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Introduction**

<table>
<thead>
<tr>
<th>Release on December 2013: is having an objective to communicate a more comprehensive picture of an organizations value by considering the environmental, social and governance dimensions along with financial performance. The framework will provide a consistent and comparable way for companies to develop integrated reports.</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD: it is a tool used by multinational companies in weak governance zones focuses on the risks and ethical issues that corporations doing business in such areas right encounter. These include a higher level of care when managing investments and speaking out regarding wrong doings.</td>
</tr>
<tr>
<td>7</td>
</tr>
<tr>
<td>Multinationals firms, professionals associations, trade unions, civil society institutions, and international financial institutions</td>
</tr>
<tr>
<td>Multinationals firms, professionals associations, trade unions, civil society institutions, and international financial institutions</td>
</tr>
<tr>
<td>i) Environment</td>
</tr>
<tr>
<td>ii) Community involvement and development</td>
</tr>
<tr>
<td>iii) Organizational governance</td>
</tr>
<tr>
<td>iv) Human rights</td>
</tr>
<tr>
<td>v) Labour practices</td>
</tr>
<tr>
<td>vi) Fair operating practices</td>
</tr>
<tr>
<td>vii) Consumer issues</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>ii) Community involvement and development</td>
</tr>
<tr>
<td>iii) Organizational governance</td>
</tr>
<tr>
<td>iv) Human rights</td>
</tr>
<tr>
<td>v) Labour practices</td>
</tr>
<tr>
<td>vi) Fair operating practices</td>
</tr>
<tr>
<td>vii) Consumer issues</td>
</tr>
</tbody>
</table>