CHAPTER – III

CORPORATE SOCIAL RESPONSIBILITY – A CONCEPTUAL FRAMEWORK
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3.1 INTRODUCTION

Mahatma Gandhi’s vision “wealth created from Society has to be ploughed back into society” is the simplest definition for the term Corporate Social Responsibility (CSR). It implies commitment and answerability to the society from which each one has grown from. Especially, in this age of unpredictable multiple complexities such as global competition, political and economic instability, cultural impact, environmental hazards, natural calamities, etc., it is imperative for the corporate sector to usher into sustainable and safer development as it is the first and foremost responsibility. The conceptual meaning of business has undergone a sea change with time. In early 1900’s the mission of business firms was exclusively economic. But now there is a growing realization among the corporates that they should contribute to social activities globally with a desire to improve the immediate environment where they work. So many companies are taking keen interest in such activities. The public has also grown more and more articulate and very much aware of its rights in matters of justice, fairplay, ecology and so forth.

As early as 1890, Alfred Marshal, an English economist, suggested that organizations should consider the forces outside their economic activities. He was mainly concerned with the positive factors such as the rising level of education amongst the workers and the public services provided by the government from which entrepreneurs benefited but made no contribution. In 1926, John Maynard Keynes, another British economist, commented on the “tendency of big enterprise to socialize itself”. The concept remained a theoretical abstraction until the publication of K.W.Kapp’s Social Costs of
Private Enterprise in 1950, in which he claimed that conventional accounting measures of performance were misleading since they ignored social and environmental costs. The second half of the 20th century, particularly the 70s and 80s, experienced a growing interest among the researchers and business executives all over the world, to identify the attitude of social responsibility.

3.2 EVOLUTION OF SOCIAL RESPONSIBILITY OF BUSINESS

The evolution of the concept of social responsibility of business is the result of different stages of struggle. Business began merely as an institution for the purpose of making money. Man was considered successful so long as he made money and kept himself out of jail. He felt no particular obligation and acknowledged no responsibility to the public. As an owner of his business, he thought he had a perfect right to do what he pleased with the money he earned. Social norms and attitudes had very little influence on the practice of management. Even in USA, business ventures like those of John D Rockefeller, G.F.Swift, and J.P.Morgan are noted for their flagrant disregard of society, the individual worker, and competitive business firms.¹

But by 1920’s, the position changed and the word ‘service’ became the slogan of innumerable business clubs and associations. At the same time, business leaders as a whole were becoming increasingly conscious of the fact that public was an integral part of the general business scheme. The sense of service, thus, qualified and modified the greed for profit. Economic orders came to recognize social order as their very foundation. It is now increasingly recognized that what is not for the public good is not for the good of business.

The second element that helped the evolution process was the purchasing power of the public. The demand of the public meant nothing unless backed by
purchasing power. Industry had come to understand that one of its proper functions was to manufacturing and distributing merchandise. The most important effect of this change in the attitude was a new business policy which demanded a persistent tendency towards higher wages and lower prices. Thus, the new social responsibilities of business came to be recognized.1

3.3 THE CONCEPT OF CSR

CSR 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, special scholarships, preservation of cultural heritage and beautification of cities. The philosophy is basically to return to the society what it has taken from it, in the course of its quest for creation of wealth. Every aspect of business has a social dimension. Corporate Social Responsibility means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large as well as to shareholders.

Institute of Chartered Accountants in England and Wales define CSR as “Corporate Responsibility is about ensuring that organizations manage their businesses to make a positive impact on society and the environment whilst maximizing value for their shareholders”

With the understanding that business play a key role of job and wealth creation in society, CSR is generally understood to be the way a company achieves a balance or integration of economic, environmental, and social imperatives while at the

same time addressing shareholder and stake holder expectations. CSR is generally accepted as applying to firms wherever they operate in the domestic and global economy. The way businesses engage / involve the shareholders, employees, customers, suppliers, Governments, non Governmental organizations, international organizations, and other stakeholders is usually a key feature of the concept. While business's compliance with laws and regulations on social, environmental and economic objectives set the official level of CSR performance, it is often understood as involving the private sector commitments and activities that extend beyond this foundation of compliance with laws.

The term CSR also refers to the concept of business being accountable for how it manages the impact of its processes on stakeholders and takes responsibility for producing a positive effect on society. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. The main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for the society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity.

Essentially, CSR is an inter-disciplinary subject in nature and encompasses in its fold:

1. Social, economic, ethical and moral responsibility of companies and managers
2. Compliance with legal and voluntary requirements for business and professional practice.
3. Challenges posed by needs of the economy and socially disadvantaged groups and
4. Management of corporate responsibility activities.
3.4 CORPORATE CITIZENSHIP

The term corporate citizenship implies the behavior, which would maximize a company’s positive impact and minimize the negative impact on its social and physical environment. It means moving from supply driven to more demand led strategies, keeping in mind the welfare of all stakeholders; more participatory approaches to working with communities; balancing the economic cost and benefits with the social; and finally dealing with processes rather than structures. The ultimate goal is to establish dynamic relationship between the community, business and philanthropic activities so as to complement and supplement each other.

The one major difference between the older corporate philanthropy and the newer concept of corporate citizenship is that whereas in the former it was the result of the personal interest or philosophy of the founder/owner of the corporation, in the latter it is the result of a considered decision by the Board and is a part of corporate policy and action. A second difference is that it eschews the older practice of endowing institutions in favour of programmes of direct involvement in community development, and especially human resource development.

Corporate citizenship is also somewhat different from the earlier concept of social responsibility of business in that while the latter stresses the obligation or duty of business towards society, the former emphasizes the benefits to business of such action. In short, it is not altruism alone but enlightened self-interest which is responsible for the present corporate involvement and social development. It arises from recognition that business can play a direct role in maintaining a stable and healthy local business environment, in improving the quality of social life, the effectiveness of local institutions and services and in enhancing the physical environment.
3.5 DIFFERENCE BETWEEN CSR AND PHILANTHROPY

Philanthropy means the act of donating money, goods, time or effort to support a charitable cause in regard to a defined objective. It can be equated with benevolence and charity for the poor and needy. It can be any selfless giving towards any kind of social need that is not served, underserved, or perceived as unserved or underserved. Philanthropy, derived from the Greek word ‘philein’ (to love) and ‘anthropos’ (man), means love for mankind, and has come to refer to charity which promotes general welfare and in which there is no quid pro quo, i.e., no expectation of any direct benefit from the beneficiary. It has also been defined, as the creative use of wealth for the long term benefit of society, without any expectation of a quid pro quo.

Philanthropy is a secular concept inspired by a feeling for fellow humans, in which charity is used to go beyond immediate alleviation of poverty, sickness or social disorder to investigating and removing the root causes of the problem. It implies a planned, organized and directed use of funds to bring about the desired vision of society. For example, giving a poor man fish to appease his hunger would be charity, but teaching him to fish so that he himself can take care of his hunger would be philanthropy.

Today, the definition has been broadened to cover donation not only of money, but also time, energy and skills to bring about development and progress. In Western usage, charity is specifically directed toward the poor and meeting their immediate needs. Philanthropy on the other hand includes a wider range of private giving for public purposes, such as contributions to universities, to museums and art galleries to make art available to all, as well as to hospitals, churches and parks; in sum, for all the things which increase the wellbeing of a community and which are not necessarily directed at the poor. CSR, on the other hand, is about how a company aligns their values to social causes by including and collaborating with their investors, suppliers, employees,
regulators and the society as a whole. The investment in CSR may be on people centric issues and/or planet issues. CSR initiatives of a corporate is not a selfless act of giving; companies derive long term benefits from the CSR initiatives and it is this enlightened self interest which is driving the CSR initiatives in companies.

3.6 CSR AND SUSTAINABLE DEVELOPMENT

The term sustainability and sustainable development was defined first by the Bruntland Commission of the United Nations in 1987. It is a strategy by which businesses and communities approach growth, economic development or even their daily activities in a manner that either preserves or improves their environment and/or quality of life. The World Summit on Sustainable Development (WSSD) defines sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.\(^2\)

The sine qua non for safe and sustainable developments is promotion of corporate social responsibility and accountability, strengthening of public-private-partnerships and continuous attention to improvements in corporate sector practices and processes. CSR commitments and activities typically address aspects of a firm’s behavior (including its policies and practices) with respect to such key elements as, health and safety, environmental protection, human rights, human resource management practices, corporate governance, community development, and consumer protection, labor protection, supplier relations, business ethics, and stakeholder rights. And so, CSR is treated synonymously with many concepts such as Corporate Sustainability, Corporate

\(^2\) A handbook on "Disaster Risk Management and The Role of Corporate Sector- The Indian Perspective" brought out by Government of India Ministry of Home affairs, National Disaster Management Division and Confederation of Indian Industry under the Government of India-United Nations Development Programme (UNDP) Disaster Risk Management Programme.
Accountability, Corporate Responsibility, Corporate Citizenship, Corporate Stewardship, etc.

While the common perception of sustainability focuses on the environmental aspect alone, the field of sustainable development can be conceptually broken into four constituent parts namely, environmental sustainability, economic sustainability, social sustainability and political sustainability. Worldwide business communities are recognizing the need to address the environmental and social impacts of their activities. The fundamental business objectives towards creating economic values clubbed the environmental and social value addition evolved the concept of ‘triple bottom line’ under of sustainable development.

3.7 NEED FOR CSR

As Dr. A.P.J. Abdul Kalam, former President of India, observed in the First International Summit on Corporate Social Responsibility organized by the Ministry of Corporate Affairs and ASSOCHAM “Corporate houses can make an important contribution by adopting the schools, particularly in rural areas, in their region providing infrastructure for the schools in the form of clean drinking water, toilet facilities, transportation facilities for children coming from far away distances equipping the sport complexes and providing computing facilities for technology assisted learning”. He also said that the industrial houses can take up urgent action for conservation of energy, promoting of use of renewable energy to the maximum extent in their plants and facilities. They can also work in the development of solar energy systems and wind
energy systems either on standalone mode or in partnership with multinationals for providing cost effective energy to the social community.\(^3\)

CSR claims to offer manifold benefits both internally and externally to the corporate giants involved in various projects. Externally, it creates a positive image amongst the people for its Company and earns a special respect amongst its peers. Internally, it cultivates a sense of loyalty and trust amongst the employees in the organizational ethics. More importantly, it serves as a soothing diversion from the mundane work place routine and gives one a feeling of satisfaction and a meaning to their lives.

The market forces, socio political forces, globalization and technology are pushing corporate into CSR. Ultimately, it is not just about goods and wealth for the companies, but also for the human face.

In January 2006, McKinsey & Company released a study that surveyed more than 4,000 executives in 116 countries. This survey revealed that only one in six executives thought that profit maximization should be the sole goal of corporations, while the overwhelming majority of 84 percent felt that profits needed to be balanced with greater, societal good.

British Telecom (BT) has also published official figures on the link between CSR and corporate reputation. The results of the study strongly suggest that CSR activities play a large role via image and reputation in maintaining and building market share in a competitive market. CSR accounts for over 25% of image and reputation impact on customer satisfaction. According to the Second International Corporate Social

\(^3\) Abdul Kalam in the first International Summit on Corporate Social Responsibility organized by Ministry of Corporate Affairs and ASSOCHAM, Business Line, January 30, 2008.
Responsibility Conference held in Romania in October 2007 under the auspices of United Nations Development, 70% of European consumers say that a company’s commitment to social responsibility is important when buying a product or service.

3.8 SIGNIFICANCE OF CSR TO SUSTAINABILITY OF BUSINESS

The significance of CSR to sustainability of business in its multiple dimensions can be better understood in terms of following:

(1) Reduction in Operating Costs: CSR initiatives reduce operating costs dramatically, for example, many initiatives aimed at improving environmental performance-such as reducing use of agrochemicals-also lower costs. Many recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees often save companies money through increased productivity and reduction of hiring and training costs.

(2) Boost in Brand Image and Reputation: Customers often are drawn to brands and companies with good reputations in CSR-related areas. A company considered socially responsible can benefit both from 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.

(3) 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.

(4) Higher Productivity and Quality: Company’s efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-
making often lead to increased productivity and reduced error rate. For example, companies that improve working conditions and labour practices among their suppliers often experience a decrease in merchandise that is defective or can’t be sold.

(5) Attract and Return employees: Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees resulting in a reduction in turnover and associated recruitment and training costs. Even in difficult labour markets, potential employees evaluate a company’s CSR performance to determine whether it is the right “fit”.

(6) Reduced Regulatory Oversight: Companies that demonstrably satisfy or go beyond regulatory compliance requirements are given more free reign by both national and local government entities. In USA, for example, federal and state agencies overseeing environmental and workplace regulations have formal programs that recognize and reward companies that have taken proactive measures to reduce adverse environmental, health and safety impacts. In many cases, such companies are subject to fewer inspections and paper work, and may be given preference or “fast track” treatment when applying for operating permits, zoning variances or other forms of governmental permission.

(7) Access to Capital: The companies with strong CSR performance have increased access to capital that might not otherwise have been available.

3.9 BENEFITS OF CSR

As per World Business Council on Sustainable Development (WBCSD), Corporate Sustainability (CS) is to meet the demand of the present generation without compromising the need of the future generation. Corporate Sustainability Reporting is a form of value reporting where an organization publicly communicates their performance
on sustainable development across the Economic, Environmental and Social dimensions. The benefits of developing a CSR or Sustainability Assessment Framework are discussed below:\(^4\)

i. Facilitates to understand the business risks, expectations, needs and concerns of impacted stakeholders.

ii. Facilitates in adopting action plans and accordingly communicating the same, thereby preventing amplification of negative publicity, if any.

iii. Facilitates in Development of Detailed MIS resulting in capture of information and Mechanism to Measure, Monitor and Improve Performance across all relevant Performance Indicators of the triple bottom line of the industry, i.e. across the economic, social and environmental dimensions.

iv. Results in Assessment of Sustainability Index, Monetary Savings, Brand/Reputation Enhanced and Degree of Improvement across all Performance Indicators Facilitates in Development of a Corporate Sustainability Policy.

v. Enables the top management to understand where it stands in terms of the above/Performance across all Indicators, at the click of a button, at any point of time in a year.

vi. Enables to be at edge as compared to competitors and facilitates relevant stakeholders in their decision making process.

**3.10 APPROACHES TO CSR:**

Following are some of the approaches of Corporate Social Responsibility which are generally followed by companies.

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\(^4\) A compendium of second International Summit on Corporate Social Responsibility, released by Ministry of Corporate Affairs and ASSOCHAM, New Delhi, July 15 2010, p.5.
3.10.1 COMMUNITY BASED DEVELOPMENT APPROACH

In this approach, corporations work with local communities to better themselves. For example, the Shell Foundation’s involvement in the Flower Valley, South Africa by setting up an Early Learning Centre to help educate the community’s children as well as develop new skills for the adults is a community-based approach. Also, Dabur India Limited’s Plant for Life Programme for school children is an attempt in creating an environmental awareness amongst young minds.

3.10.2 PHILANTHROPY APPROACH

This includes monetary donations and aid given to impoverished communities in developing countries. Donations given to charitable institutions or to the affected people in disasters like tsunami, earthquake, floods etc. come under this approach. But this does not help in building the skills of the concerned people as it is giving just immediate relief which is quite temporary in nature.

3.10.3 BUSINESS STRATEGY APPROACH

As per this approach CSR will become the part of business values and strategies. So, the commitment of a company towards the society becomes a part of its strategy. For example, Hindustan Lever Ltd. has been endeavoring to reduce its energy consumption and CO (green house gases) per unit of production since 2004.

3.10.4 CREATING SHARED VALUE APPROACH

The CSV or shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income,
wealth, tax revenues, and opportunities for philanthropy. It focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

**3.10.5 TRIPLE BOTTOM LINE APPROACH**

Within the broader concept of Corporate Social Responsibility, the concept of Triple Bottom Line (TBL) is gaining significance and becoming popular amongst Corporates. Triple bottom line accounting means expanding the traditional reporting framework to take into account environmental and social performance in addition to financial performance. The phrase was coined by John Elkington⁵ in 1997. It was later expanded and articulated in the year 1998 in his book “Cannibals with Forks: the Triple Bottom Line of 21st Century Business.” The concept of TBL demands that a company’s responsibility be to ‘Stakeholders’ rather than shareholders. In this case, ‘stakeholders’ refers to anyone who is influenced, either directly or indirectly, by the actions of the firm. According to the stakeholder theory, the business entity should be used as a vehicle for coordinating stakeholders’ interest instead of maximizing shareholder (owner) profit.

“People, Planet and Profit” is used to succinctly describe the triple bottom lines. “People” (Human Capital) pertains to the fair and beneficial business practices toward labour and the community and region in which a Corporation conducts its business. “Planet” (Natural Capital) refers to sustainable environmental practices. A TBL company endeavors to benefit the natural order as much as possible or at the least do no harm and curtail environmental impact. It does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy

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metals for example. “Profit” is the bottom line shared by all commerce. In the original concept, within a sustainability framework, the ‘profit’ aspect needs to be seen as the economic benefit enjoyed by the host society. It is the lasting economic impact the organization has on its economic environment.

The **people** issues faced by the organization includes –

- Health
- Safety
- Diversity
- Ethnicity
- Education and literacy
- Prevention of child labour
- Differently-abled

The **planet** concerns include

- Climate Change
- Energy
- Water
- Biodiversity and land use
- Chemicals, toxics and heavy metals
- Air pollution
- Waste management
- Ozone layer depletion
- Ocean and fisheries
- Afforestation

The **profit** aspect is the reflection of economic impact the organization has on its business activities and that too after meeting all social and environmental cost. It indicates real value addition a corporate made through its various activities. In economic dimension, the corporation has to ensure the best input-output ratios in relation to the
monetary and other resources it uses, and is most commonly reflected by its profitability. According to Milton Friedman, ‘the business of business is to produce efficiently and make profits’. Creating wealth, whether in the private or the public sector is the ordained obligation of every business. Accounting for created wealth, reporting and distributing it to the rightful claimants and protecting wealth-creating assets on an ongoing basis are all the necessary functions of any enterprise. Not to do so is to be CSR-unfriendly. This leads to the final and perhaps the most important manifestation of good CSR, namely, doing business ethically.

The need to apply the concept of Triple Bottom Line is caused due to –

a) Increased consumer sensitivity to corporate social behavior
b) Growing demands for transparency from shareholders/stakeholders
c) Increased environmental regulation
d) Legal costs of compliances and defaults
e) Concerns over global warming
f) Increased social awareness
g) Awareness about and willingness for respecting human rights
h) Media’s attention to social issues
i) Growing corporate participation in social upliftment

While profitability is a pure economic bottom line, social and environmental bottom lines are semi or non economic so far as revenue generation is concerned but it has certainly a positive impact on long term value that an enterprise commands. But discharge of social responsibilities by corporates is a subjective matter because of its inability to be measured with reasonable accuracy. It is also a fact that

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shareholders and stock markets do not recognize such issues in valuation and as such these bottom lines do not form part of core economic measure for value measurement. There is, therefore, a need to establish a linkage with wealth creation to the reporting enterprise as a result of increased emphasis of corporate social reporting in annual reports. In fact, CSR should be adopted such that it can identify the actual wealth creation.

3.11 A TWELVE STEP GUIDE TO CSR

Subroto Bagchi, a co-founder and chief operating officer of MindTree Consulting has given a twelve step guide to corporate social responsibility. From his viewpoint CSR is giving back to those aspects which enable companies survive in the society, but claim no credit.

1. First thing first: CSR must be embraced after accepting the need to be a good corporate citizen in the legal sense. Particularly in India, it should be understood that there is a need to stand upright in the eyes of the law without the need for policing before one says that he is socially responsible. A corporation is a legal entity before it is a social entity. The responsibility to the government, its legal system and to the customers comes before anything else.

2. Twice removed from supply chain: CSR is not about philanthropy. It is not about visiting orphanages and giving money to the destitute. It is about building inclusion. If an inclusive view is created in a company’s supply chain, a sustainable social responsibility can be built up.

3. Corporate character, not image: Except for the cause being served, one must not have an eye on a return on investment, while looking at CSR. Having a vested

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interest kills the purpose, CSR is not about building a corporate image; it is about building corporate character.

4. CSR as core value: When CSR becomes part of the organization’s basic values and is available as an option of involvement to the employees, shareholders and suppliers, the real impact will come. That way, there is ripple effect, and a greater inclusion can be created.

5. Humility: While choosing to work in an area of concern, a very important truth must be kept in mind: capability to give is not equal to capability to receive. Also, capability to give is not equal to the capability to make an impact. A corporation, however large its resources, cannot change that basic premise. Hence, whatever is done should be done with great humility.

6. Charity begins at home: CSR involves building consistency between internal and external practices. Working for slum children but doing nothing for security guard and the drivers who work in the organization just because they come from a contract agency is not fair.

7. Being sensitive: The most important step towards CSR is creating sensitivity. Saying ‘no’ to plastic bags and building collective awareness on the subject is one such sensitive action. Any small step by an organization corrects workplace behaviour and actually gets taken to an employee’s home and has an impact beyond the immediate.

8. Share facilities: If the facilities of an organization are made available to the students and teachers, the impact would be much more than imagination. For example, the students and teachers may be allowed to visit our workplace; the conference facilities of the company may be allowed to be used by the local municipal school during our lean periods. Such actions may create great impact in
the minds of the people and hence is always far reaching and disproportionate to the size of the input.

9. Total embrace: When a corporate body embraces CSR, it should be available for active participation and guidance to everyone in the organization, irrespective of rank. Everyone should be involved in building CSR rather than stemming from the vision of one person at the top.

10. Away from limelight: CSR is serious business. It is not about propping up top management’s image. The personalities must be kept out of the activities. So, without glorifying a dead or a living chairman, let the camera be on the smallest man or woman doing the good thing.

11. Positive energy: In embracing CSR, a sense of belonging is created amongst the workers. When they involve themselves in CSR, they fulfill a basic altruistic need that is common to every human being along the desire to feel complete with one. That in itself releases unbelievable positive energy in people. It creates an upward spiral that has many positive ramifications at the workplace.

12. Never seek returns: Corporate social responsibility is not a favour being done to the society around. It is merely an acknowledgement of the fact that the companies are aware of the simple truth “Everything is connected to everything else through something”. Those many invisible “something” never claim credit. So, nothing should be expected in return for CSR.

3.12 CSR AND FRATERNITY VALUES

Fraternity values may be viewed as qualities explicit or implicit, of what an individual, group or organization regards as desirable and in terms of which a selection of means and ends of an action are made from available alternatives.
Nazareth and Waples ⁸ (1979) describe the characteristics of fraternity values as follows:

- Fraternity cultivates an esteem, respect and love for all people.
- Fraternity works for betterment of the society through striving to give equal opportunity to all people.
- Fraternity shows concern for the good of another person, loves unselfishly, works unceasingly thereby contributing indirectly to the building of the character and reputation it symbolizes.
- Fraternity expresses concern for those in distress or sorrow and takes steps to alleviate their sufferings.
- Fraternity is not satisfied with verbal sympathy with those in misery, but involves itself in active work for its eradication.
- Fraternity recognizes that all are entitled to human rights and is aware of its obligation to ensure that every person enjoys these same rights.
- Fraternity radiates peace, concord and harmony within the human family.
- Fraternity transcends all artificial barriers to attain peace, unity and love among all people.
- Fraternity does not indulge in slander, backbiting, jealousy and adverse criticism of others to build one’s own reputation at the expense of others.
- Fraternity promotes sympathy, unity and understanding among its members.

3.13 CORPORATE POLICIES BASED ON FRATERNITY VALUES

Corporate policies developed on the basis of fraternity values would take into account, the well-being of the community and society in which the firm operates. These policies would include:

- The corporation will have a philosophy of promoting overall social welfare, leading to a happy and peaceful society.
- The corporation would be willing to share its prosperity with the local community.
- The corporation will willingly and sincerely abide by all the laws and regulations of the government.
- The organization will take active steps to provide employment opportunities to local labour and market for local raw material.
- The corporation will take keen interest in training local entrepreneurs and developing ancillary industries.
- The corporation will actively participate in community development.
- The corporation will show special concern for the disadvantaged sections of the community, help them specifically and wherever possible conduct a business which would involve and benefit them.
- The organization will actively participate in promoting social welfare through rural development activities.
- The company will donate funds to social causes, promote art and cultural activities, and help during times of natural disasters.
- The corporation will cooperate with other social service agencies and help in solving social problems.
- The company will take steps to eliminate all harmful pollution, environmental and ecological degradation and take steps to prevent them even beyond all legal directives.
Society being a source of basic infrastructure for a company, it deserves to be paid back in terms of social benefits. Companies not only exploit the community’s economic resources to attain the primary goal of profit making but also help themselves with social resources. Therefore, it is essential that companies behave as trustees of society. This cannot be achieved without the management being informed about the impact of the company’s programmers and productive activities on society.¹⁹

3.14 SOCIAL AUDIT

Social auditing is a process that enables an organization to assess and demonstrate its social, economic, and environmental benefits and limitations. It is a way of measuring the extent to which an organization lives up to the shared values and objectives it has committed itself to. It provides an assessment of the impact of an organization’s non-financial objectives through systematically and regularly monitoring its performance and the views of its stakeholders. Social audits are generated by the organizations themselves and those directly involved. A person or panel of people external to the organization undertakes verification of the social audit’s accuracy and objectivity.

At the New Economic Foundation (NEF), “Social auditing is the process whereby an organization an account for its social performance, report on and improve upon that performance. It assesses the social impact and ethical behavior of an organization in relation to its aims and those of its stakeholders”.

According to Social Enterprise Partnership (UK), “Social Audit is a method for organizations to plan, manage and measure non-financial activities and to monitor both

¹⁹ Sivakumar N. and Rao U.S., ibid.
the international and external consequences of the organization’s social and commercial operations”.

It is therefore, a systematic study and valuation of an organization’s social purpose as distinguished from its economic purpose. Social audit is an audit of social costs incurred as a result of adverse factors affecting the workforce, such as occupational diseases, health hazards through pollution, depletion of nature energy resources and similar other causes. It is equally concerned with benefits arising out of industrial and economic development such as jobs to weaker sections, backward area development, and township from employees, etc. A comparative evaluation is made through social audit to assess the net benefits to the public. It is generally desired that social audits should be more, as compared to social costs. Several pressure groups such as the consumer associations, environmentalists, employees unions, legislative enactments are responsible for moulding the social objectives of corporates.

The scope of social audit extends to the identification of social responsibilities, parameters, and the disclosure of these parameters in the annual financial report in a pre-designed format. The costs and benefits of social responsibility activities are possible to be quantified by ascribing monetary values to various social activities of an enterprise, particularly with regard to service o workers or public, environmental measures to prevent pollution, product improvements and product or service contributions.

While companies may be free to decide the format of social reporting, managements in many cases take the following as common areas of reporting requirements with regard to environment, employees, products and the public or community at large:
- Environment – Pollution control of industrial process, research to reduce environmental hazards, energy conservation, raw material conservation and recycling, etc.
- Employee - Training schemes, educational facilities, health and safety standards, trade union and industrial relations
- Products - User safety, consumer affairs and improvements in public interest.
- Community - Donations to charity, sports, support for community activity aid in national distress, employment growth, family planning, etc.

In India, companies have started recognizing their social obligations or to all sections of the community and, in particular, mention may be made to the Tata Group of Industries, Mafatlal Group of Industries, Hindustan Lever Ltd., who have provided the lead by introducing the concept of social responsibility and social audit. Social audit is an aid in various management decisions like investment with regard to anti-pollution programmes, plant location, social accounting of human resources, etc. however, the following limiting factors of social audit may also be noted:

i. Methods of measuring social purpose have yet to be scientifically developed
ii. The reporting formats are not standardized
iii. Techniques of matching cost-benefits in social responsibility parameters have not yet been exact / accurate.

3.15 CSR CREDITS

Akin to trading in Certified Emission Reductions (CERs) or carbon credits in common parlance, companies may soon be able to trade in corporate social responsibility
credits. The companies would have to get certifications for their CSR activities from their government bodies and earn credits. The credits could then be trade in a CSR credit exchange. The company that does not want to do a CSR activity would then have to purchase CSR credit from companies which earned them. The activities that are likely to earn CSR credits are education, housing, health and sustainable projects, not just for employees but also for the company’s “catchment” areas.

This is similar to carbon credit where the polluter gets his right to pollute by buying the carbon credits from companies that have earned them through environment friendly activities. This attempt is to motivate the companies to do their own CSR activities and get some exemptions for them and not just passively donate to charity.

3.16 A BRIEF OUTLINE ON NATIONAL VOLUNTARY GUIDELINES

A set of National Voluntary Guidelines have been developed on Social, Environmental and Economic responsibilities of business by Ministry of Corporate Affairs, Government of India which lay down the basic requirements for businesses to function responsibly, thereby ensuring a wholesome and inclusive process of economic growth. The 2009 Guidelines with eight principles were reviewed and the revised Guidelines were formulated with nine principles. They are highlighted below with brief description:

**Principle 1: Business should conduct and govern themselves with Ethics, Transparency and Accountability**

The principle recognizes that ethical conduct in all its functions and processes is cornerstone of responsible business. Businesses should not engage in practices that are abusive, corrupt, or anti competition. It acknowledges that business decisions and actions should be amenable to disclosure and be visible to relevant
stakeholders. Also, this principle emphasizes that businesses should inform all relevant stakeholders of the operating risks and address and redress the issues raised. A culture of integrity and ethics should be established throughout the enterprise.

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

The principle emphasizes that in order to function effectively and profitably, businesses should work to improve the quality of life of people. Responsible businesses, therefore, should engineer value in their goods and services by keeping in mind their impacts on society and environment. The principle exhorts them to extend their processes to cover the entire value chain—from sourcing of raw materials or process inputs to distribution and disposal.

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

The principle encompasses all policies and practices relating to the dignity and wellbeing of employees engaged within a business or in its value chain. It extends to all categories of employees engaged in activities contributing to the business, within or outside of its boundaries and covers work performed by individuals, including subcontracted and home based work.

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

The principle recognizes that businesses have a responsibility to think and act beyond the interests of its shareholders to include all their stakeholders. While appreciating that all stakeholders are not equally influential or aware, this principle encourages businesses to proactively engage with and respond to those that are disadvantaged, vulnerable and marginalized.
**Principle 5: Businesses should respect and promote human rights**

The principle imbibes its spirit from the Constitution of India, which through its provisions of Fundamental Rights and Directive Principles of State Policy, enshrines the achievement of human rights for all its citizens. It recognizes that human rights are the codification and agreement of what it means to treat others with dignity and respect. Businesses should, within their sphere of influence, promote the awareness and realization of human rights across their value chain. The principle takes into account the “Corporate Responsibility to Respect Human Rights”, as referred in the United Nations “Protect, Respect, Remedy” Framework.

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

The principle recognizes that environmental responsibility is a prerequisite for sustainable economic growth and for the well being of society. It encourages businesses to understand and be accountable for direct and indirect environmental impacts of their operations, products and services and to strive to make them environment friendly.

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

The principle recognizes that businesses operate within the specified legislative and policy frameworks prescribed by the Government, which guide their growth and also provide for certain desirable restrictions and boundaries. So, the businesses, while pursuing policy advocacy, must ensure that their advocacy positions are consistent with the Principles and Core Elements contained in these Guidelines.
Principle 8: Businesses should support inclusive growth and equitable development

The principle recognizes the challenges of social and economic development faced by India. It recognizes the value of the energy and enterprise of businesses and encourages them to innovate and contribute to the overall development of the country, especially to that of the disadvantaged, vulnerable and marginalized sections of society.

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

This principle is based on the fact that the basic aim of a business entity is to provide goods and services to its customers in a manner that creates value for both. The principle recognizes that customers have the freedom of choice in the selection and usage of goods and services, and that the enterprises will strive to make available goods that are safe, competitively priced, easy to use and safe to dispose off, for the benefit of their customers.

The Guidelines urge businesses to embrace the “triple bottom-line” approach whereby its financial performance can be harmonized with the expectations of society, the environment and stakeholders. As suggested by Ministry of Corporate Affairs, the adoption of these National Voluntary Guidelines will improve the ability of businesses to enhance their competitive strengths, improve their reputations, increase their ability to attract and retain talent and manage their relations with investors and society at large. Successful implementation of the Principles and Core elements that this Guideline provides require that all of them need to be integrated and embedded in the core business processes of an enterprise. They aim to provide coherence in expectations and obviate the need for multiple codes on social and environmental concerns. The principles and core elements of these Guidelines are size neutral and are equally applicable to Micro, Small and Medium Enterprises.