CHAPTER-V
CURRENT TRENDS IN CSR PRACTICES: ISSUES & CHALLENGES IN ITS IMPLEMENTATION & REGULATION

After analysing the meaning, nature & scope of CSR, historical background, its relationship with corporate governance & sustainable development in Chapter-I, II & III respectively bring to the forefront the importance and significance of CSR in current socio-economic environment created by liberalization & globalization and changing nature of State. The irresponsible behaviour on the part of Corporate is diminishing their social acceptance and they are loosing faith & credibility in society. This situation coupled with corporate fraud & rising gap between rich & poor as a result of privatization may one day force populist governments in welfare state to reverse the trend of Liberalisation/Privatisation, which may threaten the existence of corporate itself. So, by now we are aware of critical importance of having socially responsible behaviour by Corporates. Now the next question that arises is how to make the corporate responsible? The historical background suggests that historically Corporate Social Responsibility practices are voluntary and in the nature of philanthropy i.e. charity which means that it is not obligatory and can't be forced upon them. But when we examined the role of government (legislature & executive) and judicial approach towards CSR, it came to notice that there is comprehensive legislative framework which supports CSR which means indirect regulation. Judiciary also seems favouring regulating CSR by searching the roots of CSR in jurisprudential postulates and relating corporate behaviour with constitutional mandate. However till now there is no specific regulation on CSR. There are some guidelines which are voluntary in nature. The provision of CSR in proposed Company Bill, 2012 is also not purely mandatory in nature rather it is only about CSR reporting.
So, presently in India CSR is voluntary in nature and not yet regulated. The debate about regulating and non regulating is still continuing. In the ongoing chapter the current trends in respect of regulating CSR practices in some of the important countries like U.S.A., U.K., Australia and France are being examined to ascertain the current trends on regulating CSR.

5.1 Recent Trends in United States of America

The concept of CSR arose in the USA in the form of corporate philanthropy. The concept is controlled by the American companies themselves. Consequently, CSR in the USA seems somewhat ambiguous as there are limited guidelines for companies to follow in their work with CSR. However, there are scholars who have followed the development of CSR in the USA and contributed to the discussion on the matter. It is obvious from these contributions that CSR is still to a great extent regarded as corporate philanthropy. Corporate philanthropy, however, goes for beyond the concept of modern CSR, as it can be dated back to the seventeenth century. Back then it was prominent business people who made donations and not the actual company. It was not until the late 1800s that corporate philanthropy was linked directly to the company. However, at this stage it was not at all tied to the company’s strategy.¹

CSR today is tied to a company’s core business and exploited as a strategic management and marketing tool. Nevertheless, Kotler and Lee² among others, argue that American CSR is still connected to corporate philanthropy. This seems to be emphasized in the six CSR initiatives that Kotler and Lee in the their book “Corporate Social Responsibility Doing the Most Good for Your Company and Your Cause”, a book intended to guide business managers, executives and

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¹ Susan Vangedal, Corporate Social Responsibility; A comparative Analysis of Denmark and the USA, 2010
² John Wiley & Sons, Corporate Social Responsibility; Doing the most good for your company and your cause, 2005: 23-24
their staff in their work with CSR. The six initiatives, Promotion Cause, Related Marketing, Corporate Social Marketing, Corporate Philanthropy, Community Volunteering and Socially Responsible Business Practices are introduced and discussed in the next subsection. However, in order to discuss whether these initiatives are all really concerned with philanthropy, seemingly, two different conceptions of philanthropy exist in the literature. The one conception regards philanthropy charity, which is evident in the following definitions:

“Donating money to a good cause is the same as philanthropy”\(^3\)

“Most philanthropic activities involve giving money to other organizations that actually deliver the social benefit”\(^4\)

The other conception also regards philanthropy as the practice of donating money, but in addition it regards contributions of company resources - time, goods, knowledge etc as philanthropy as long as the donations support a good cause or improve human life. This is evident in the following definitions:

“Philanthropy is the practice of giving money or help to people who are poor or in trouble.”\(^5\)

“Philanthropy is an altruistic concern for human welfare and advancement, usually manifested by donations of money, property, or work to needy persons, by endowment of institutions of learning and hospitals, and by generosity to other socially useful purposes.”

5.1.1 Corporate Social Responsibility Initiatives

Even though CSR and the belonging initiatives are determined and initiated by the American companies themselves, this section will describe and discuss the six initiatives established by Kotler and Lee.\(^6\)

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\(^3\) Neergaard Peter, DJurso, Tolboll, "Social Ansvarlighed, Fra idealisme til Forretnings princip" Academica, Denmark, 2006, P. 21.


\(^6\) Supra note 2.
I. Corporate Philanthropy

Kotler and Lee describe this initiative as the most traditional CSR initiative in the USA, and as the label indicates, the initiative is centered on companies making a direct contribution to a cause, often in the form of money donations. However, companies can also contribute with other corporate resources such as products, awarding scholarships, providing a service on technical expertise. The fact that the authors include such initiatives in their description of the “corporate philanthropy” initiative suggests that they regard philanthropy from the second view as well. Nevertheless, they have deliberately chosen to distinguish some of the initiatives from philanthropy, for example the initiative “Cause promotion. Their reasons are presented and discussed along with the presentation of the different initiatives.

II. Cause Promotion

The objective of the CSR initiative “Cause Promotion” is to increase awareness and concern for a certain social cause. “Cause promotion” initiatives most often include activities that seek to persuade others, for example other companies, to donate money or time to the actual cause.

Companies engaging in “Cause Promotion” most commonly contribute with money that can help to increase awareness and concern for the cause in question. Second, it is common to contribute with time and expertise, for example by helping to develop printed materials, websites etc. that promote the cause. “Cause promotion” is one of the initiatives that Kotler and Lee have distinguished from philanthropy. The separation of these two initiatives is based on the following explanation:

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7 Cause promotion is not for selling a product to customer like business promotion. It aims to make people aware of social issues in the hope they would change their behaviour, such as not wasting water, caring about public health, preventing air pollution and preventing infections diseases.
“Cause promotion differs from philanthropy in that it involves more from the company than simply writing a check, as promotional campaigns will most often require involvement in the development and distribution of materials and participation in public relations activities, and will include visibility for the corporation’s sponsorships.”

Based on the definitions of philanthropy that this thesis takes point of departure in, it seems that “Cause Promotion” is just an initiative covered by the big umbrella of philanthropy. Kotler and Lee’s argumentation presupposes that philanthropy is all about donating money, despite the fact that in their presentation of the initiative, “Corporate philanthropy” they argue that companies can contribute with other things such as time, resources and knowledge. Consequently, it seems reasonable to conclude that their argumentation is self-contradictory, and therefore not persuasive enough to maintain the separation of the two initiatives. In other words, this thesis regards “Cause Promotion” as a philanthropic CSR initiative.

III. Cause Related Marketing

“Cause Related Marketing” is an initiative where companies make a money donation to a specific cause based on its scale of a certain product. Companies can for example choose to donate a specific amount of money for each product sold, or a certain percentage of their profit from a product.

IV. Corporate Social Marketing

The purposes of “Corporate Social Marketing” initiatives is to influence and in the long run, change a particular public behaviour, most often within the areas of public health, safety, the environment or community well being. Companies that engage in social marketing initiatives most often engage is collaborations with organizations that are the promoters behind the behaviour change project. The
company’s role is therefore centered on supporting the work with the actual behaviour change campaign. There are many ways in which a company can contribute in this respect, both with expertise, money, equipment, resources etc.

The “Corporate Social Marketing” initiative is quite similar to the “Cause promotion” initiative. Nevertheless, the latter initiative focuses on building awareness and concern, whereas “Corporate Social – Marketing” initiatives focus on behaviour change.

V. Socially Responsible Business Practices

This is when a corporation adopts a way of working so that the environment is protected and there is community well-being.

VI. Community Volunteering

“Community volunteering” is the sixth of Kotler and Lee’s six CSR initiatives. The initiative is based on companies encouraging its employees and business partners to voluntarily donate their time and talent to organizations or causes. Companies can do so in several ways, for example, by giving the employees some paid time off to do volunteer work, or suggest specific causes and provide the employees with information needed in order to get involved. This initiative is quite different from the other CSR initiative, as it only involves the employees and business partners of a company.

5.1.2 CSR in the US Today

Today, in the US, there is widespread awareness about CSR. There is a distinctive emphasis on the stakeholder theory, sustainability, corporate citizenship, systemic risks of business, business integrity, accountable corporate governance, and ethical and responsible leadership. Thus, it is apparent from the emphases that the focus has widened to every field of business, including ethical challenges in technological innovation, human rights, equality in distribution of benefits, and sustainable environment practices. Businesses in the US usually encouraged volunteerism, while giving
communities resources with philanthropic programmes, and compared to Europe and Asia, in the US philanthropic practices were most established. Many business organizations are putting in place ethical business processes and codes of ethics. There is a closer understanding of how to manage ethical risks in organizations. At the business leadership level, ethics training is receiving much attention. Training in areas of ethical decision-making, ethical leadership development, which also includes how to use power, is becoming extremely popular. Ensuring integrity in all activities and conduct of the leader is being endorsed by all. American companies are promoting ethical business practices because American consumers like to identify with companies that practice ethical behaviours beyond legal requirements. The modern awakened consumers feel satisfied when they believe that they are connecting with a brand due to its moral and ethical make-up and buying quality products. This encourages the American companies to reveal and publicize a general strategy of CSR practices and strategies, which include consumer safety, equal opportunity employment practices, non-exploitive supply chain processes, and environment-friendly technologies. An example of business contributing to society is Carnegie (the steel tycoon), who gave away most of his money to establish many libraries, schools, and universities in the US, the UK, and other countries, as well as established a pension fund for former employees. To inculcate ideas about ethics and responsibility among managers, business ethics and social responsibility have become important themes in research and teaching. There has been a sustained effort to promote social responsibility among business organizations since 1995.

Business scams centre around accounting frauds like Enron, World Com (at one time, the second largest long-distance phone company grew rapidly by acquiring other telecommunications companies), Tyco (a major US company that produced a variety of
products, from electronic components to healthcare products and operated in more than a 100 countries), and environment as well as human disasters like the Bhopal gas tragedy have increased the need to review responsibility as a requirement for future sustainability. Various actions based on mandatory regulations and codes have been taken to ensure more transparent CSR. The Sarbanes-Oxley Act\(^8\) was passed in 2002 as a safeguard against frauds like Enron. The Act is meant to accomplish quality and transparency in financial reporting, independent audits, and accounting services for public companies. The Child Labour Deterrence Act (the Harkin Bill) was passed through US Congress to safeguard children against unfair exploitation. However, this kind of regulation led to tens of thousands of children in Bangladesh and elsewhere to lose their jobs and be impoverished, showing how interconnected business is and one has to be careful in designing the strategy of CSR. However, still there is a gap in the sharing of best practices among industry and among regions. The challenges that need to be attended to are global sustainability, which analyses the issues of corruption and poverty that create a gap between the privileged and the under-privileged sections of a society. There is an urgent need to promote thought leadership among business managers, so that a holistic growth is encouraged, more than just earning profit for shareholders. Businesses have to realize that because of their widespread impact, they can no longer avoid issues related to morality and good governance. A broad understanding of the risks involved in the business world, whether related to technological innovation or human rights have to be weighed with much consideration, so that the least harm is caused.\(^9\)

\(^8\) The Sarbanes enacted on July 30, 2002, also known as the ‘Public Company Accounting Reform and Investor Protection Act and ‘Corporate and Auditing Accountability and Responsibility Act and More commonly called Sarbones- Oxley, Sarbox or Sox, It is named after US Senator Paul Sarbones and US representative Micheal G. Oxley.

\(^9\) Madhumita Chatterji; Corporate Social Responsibility, Oxford University Press, 2011, PP. 295-296.
Thus we see that the concept of CSR arose in USA in the form of corporate philanthropy, is voluntary in nature and controlled by the American companies themselves. The CSR today is tied to the company’s core business and exploited as a strategic management and marketing tool. CSR practices in USA are basically controlled by companies themselves and they have been basically associated with business development. So, CSR practices in U.S.A. are voluntary in nature and not regulated by any specific & dedicated law however, there are many legislative provisions which relate to those activities which fall in the ambit CSR and they are being examined as under:

- **US Corporate Constituency and Anti-Takeover Laws**

  The corporate law of many comparable jurisdictions now permits and sometimes even requires corporate directors to consider not only shareholder interests, but also non-shareholder interests and the third party effects of corporate decisions and actions too, as reflected in laws governing directors’ duties and business judgment defenses. **Authoritative US-based guidelines on corporate governance stipulate** that while ‘a corporation should have as its objective the conduct of business activities with a view to enhancing corporate profit and shareholder gain’, a corporation must ‘act within the boundaries set by law’, can justifiably allocate ‘a reasonable amount of resources to public welfare, humanitarian, educational, and philanthropic purposes’, and is entitled to ‘take into account ethical considerations that are reasonable regarded as appropriate to the responsible conduct of business’ and it can do all of these things ‘even if corporate profit and shareholder gain are not thereby enhanced’.

  By the end of the 20th century, **Corporate Constituency Statutes** ostensibly promoting interests beyond shareholder interests

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had been enacted in many US states. Characteristically, they empower corporate executives to consider a wide range of interests in corporate decision-making, including the interests of employees, customers, creditors, and local communities. Their impetus lay in equivalent amendments to Corporate charters by members, the long-standing debate about CSR, the rise of stakeholder theory in influential American business and management schools, and the need for legislated anti-takeover protection in the USA in the latter part of the 20th century. 11 Many of the constituency statutes in American states were introduced from the 1980s onwards not simply to guard against undesirable takeovers as such, but to ensure that state employment and services provided by companies for local communities would not be adversely affected by the resultant asset-stripping, sell-offs, and lay-offs inevitably resulting from some takeovers.

At the same time, many of these standard corporate constituency laws seem at face value to go beyond existing leeways of managerial discretion, and to permit outcomes beyond simply self-interested maintenance of corporate control by existing directors, even if they happen to produce that effect too. So, properly viewed, either they cannot be seen simply as an anti-takeover device, or else their anti-takeover role must be assessed by reference to the background interests thereby served. On either view, the context of their original introduction and their relative lack of success so far in CSR terms does not completely preclude their applicability to CSR contexts in the future. 12 Thus we see that there are provisions like Corporate Constituency Statutes & Anti-Takeover law which provide protection to various stakeholder and govern those aspects which relate to CSR. Thus in U.S.A., even though there is no specific

legislation on CSR but there are many CSR related legislation.

5.2 **Recent Trends in United Kingdom**

The range of possible definitions of ‘CSR’ in U.K. is closely related to two considerations. First, the extent to which importance is placed on the centrality of the ‘business case’ for responsible behaviour in defining the scope of CSR practices. Second, the extent to which one sees a role for government particularly through legislation in framing the agenda.

If the ‘business case’ for CSR is key to defining the boundaries of the CSR agenda, that would indicate that as the ‘business case’ expands, so too do those boundaries. But ‘business case’ arguments are not the only way to define boundaries. Some businesses choose to balance ‘values’ and ‘business case’ based arguments for CSR. There are also businesses that understand philanthropic activities as an expression of CSR, though this is sometimes criticized on the basis that since, the philanthropy is not integrated in core business activities should not properly be considered ‘CSR’. And there are more nuanced approaches to analyzing the relationship between ‘business case’ and ‘philanthropic’ visions of CSR too: “as soon as serious money needs to be spent, you need something more than CSR. For example, if a major pharmaceutical company decides to spend £X million on access to essential medicines, it’s still only doubling a small philanthropy budget. But if you want that company to devote 10% of its R&D to it, that’s a whole different story. You need a real business argument to bring about this change.”

Many businesses understand CSR as encompassing only ‘Voluntary’ business action ‘beyond compliance’ with legally mandated baselines. For example, the definition of CSR that is favored by the European Commission is that it 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. In contrast, many non-governmental organizations (NGOs) have chosen to focus on building support for a distinct agenda on ‘Corporate Accountability’ through law, and a few have argued for the legal accountability of businesses to be brought more centrally into the CSR agenda, so that the two are effectively integrated.

Different approaches to defining CSR also reflect wide perspectives on its value in framing understanding of the role of business in society. For example, CSR could be understood essentially as a source of competitive advantage, or alternatively as a collaborative effort to change perceptions of the role of business in society. A similar sentiment was reflected in the contrast between the view that “CSR is the business contribution to the widen agenda of sustainable development”, and the person who argued that companies don’t ‘do’ sustainable development they simply have a role.

The underlying rationale for different definitions of CSR may also be connected to views on a related question: “Whose agenda is it? How much must the agenda focus on businesses, and on what businesses can and are willing to do?” Some people stress the importance of putting business at the centre: “corporate Social responsibility is only relevant when businesses have choices.” Or “CSR is about business responsibility which businesses can choose to take or not ... CSR loses its purpose if it ceases to be business led.” Whilst there may be general consensus that CSR is at heart about viewing businesses as part of society, there is much less certainly about the nature and scope of these societal obligations. This less certainty is visible in the nature of legislation on CSR in U.K. and the same is being examined now.

Presently there is no law which makes CSR mandatory for

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Corporates in U.K. but there are some legislations which relate to CSR and the significant CSR related provisions are;

Directors who are looking to ‘promote the success of the company for the benefit of its members as a whole’ must at least take account in their boardroom decision-making of a range of legislatively laid down shareholder related and other stakeholder-related considerations. These considerations include ‘the likely consequences of any decision in the long term’, ‘the interests of the company’s employees’, ‘the need to foster the company’s business relationships with suppliers, customers, and others’, ‘the impact of the company’s operations on the community and the environment’, ‘the desirability of the company maintaining a reputation for high standards of business conduct’ and ‘the need to act fairly as between members of the company’.\textsuperscript{14} All these aspects relate to ethical behaviour of directors.

This landmark Act is pregnant with potential CSR implications for a variety of CSR actors. Act embodies the UK Government’s acceptance of the policy of ‘enlightened shareholder value’, which also conditions and orientates that body of law in discrete ways from a CSR perspective. In particular, it makes the crucial triumvirate of directors’ duties, business risk management, and corporate reporting more explicitly long-term, relational, and stakeholder-sensitive in their structure, content, and implementation.

This enactment is the most comprehensive legislative overhaul in more than a century of company law generally and directors’ duties and corporate reporting obligations in particular, is bound to generate important questions of interpretation, application, and practice for some time to come for a variety of CSR actors in the UK, as well as for those interested in such comparative developments and

\textsuperscript{14} Section 172 of Companies Act, 2006 (UK).
experiments. Its many untested issues and implications are progressively unfolding in judicial test cases, professional corporate advice, official regulatory guidance, and the practice of corporate decision-making, risk management, and reporting in the UK.¹⁵

5.2.1 Provisions regarding Business Review and Reporting Requirements in U.K.

The strong connection in regulated reporting requirements between non-financial information, social and environmental matters, and material business risks and drivers is also reflected in recent national reform of corporate reporting in Commonwealth countries such as the UK and Australia. The UK’s provision for a business review under the 2006 Companies Act¹⁶ supersedes earlier regulatory requirements for an Operating and Financial Review (OFR). This business review includes key non-financial information and commentary, orientated towards a forward-looking assessment of matters affecting a company’s strategy and operations. Under the impetus of applicable EU directives, UK law is moving further in the direction of narrative reporting, along a European path that also leads to enhanced reporting of non-financial information, greater collective boardroom accountability, and increased corporate governance disclosure.

Going beyond corporate reporting on environmental matters, U.K. corporate law now requires annual directors’ reports for particular businesses to include in a business review which, in the case of listed public companies, must contain relevant information and appropriate business-related performance indicators about ‘the company’s employees’, ‘social and community issues’, and

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¹⁶ The Companies Act 2006 is an Act of Parliament of UK which forms the primary sources of UK company Law. It was brought into force, with the final provision being commenced on 1st October 2009. It superseded the Companies Act, 1985.
'environmental matters (including the impact of the company’s business on the environment)'.

These requirements for a business review in the directors’ report have a number of important features. Given the different scale and cost of complying with these requirements for small, medium, and large business enterprises, important exceptions to some or all of these requirements apply to different kinds of companies. The primary audience for the business review envisaged by the legislation is the company’s shareholders, although the information and analysis in the business review will also be of interest and relevance to the company’s other stakeholders. The business review is legislatively intended to inform the assessment by a company’s shareholders of how well the directors are performing their duty to promote the company’s success.

The business review has both backward-looking and forward-looking elements. The requirement imposed upon particular kinds of companies to include reference in the business review to information going to employment, environmental, and social concerns, as well as other non-financial information, is not an absolute requirement of a company’s business review. Rather, the inclusion of such material in a company’s business review is contingent upon its precise relationship to ‘an understanding of the development, performance or position of the company’s business’. This condition keeps these aspects of the business review tightly focused upon how they relate to the company’s business, as distinct from how well the company meets public policy goals concerning the advancement of social, environmental, and other interests in their own right. The financial and non-financial indicators of a company’s business activity provide the evidence-based platform for the business review’s analysis.

Relevant information about a company’s supply and distribution chain

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17 Sub-S 417(5) and 417(6) Companies Act 2006 (UK).
corresponds to ‘information about persons with whom the company has contractual or other arrangements which are essential to the business of the company’, subject to considerations of privacy, confidentiality, competitiveness, and other countervailing interests precluding the disclosure of such information.

The explicit connection drawn in the UK legislation between the business review’s reporting requirements and informing investor perceptions of the performance by directors of their legislated duty to promote the company’s success has both legal and practical implications. The kinds of matters legislatively required to be canvassed in the business review also go to the long-term and relationship-focused elements of a successful business upon which the proper performance of directors’ duties turns. In other words, both the legislated duty of promoting the company’s success (and other directors’ duties too) and the business review requirements are positioned within a wider boardroom decision-making framework that is orientated around the dynamics of the 21st century business environment, with everything that means in terms of abandoning short-term wealth-maximisation for particular shareholders at a particular time. Operationally, boards face the more immediate tasks of relating the business review requirements to internal corporate governance and reporting, as well as to meeting the expectations of investors and the market in assessing and comparing what boards report publicly in meeting these requirements.19

The fact that narrative reporting and business reviews can present information gathering, assessing, and reporting challenges that are quite different for directors from what they might be accustomed to in annual reporting is reflected in the UK Accounting Standards Board’s first review of narrative reporting in early 2007.20

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20 The Financial Reporting Council is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the Framework of codes and standards for the accounting, auditing, actuarial and investor communities and overuses the conduct of professionals involved.
It found that companies were much better at describing their markets, strategies, and performance than disclosing forward-looking information, identifying sources of business risk, and explaining their approach to managing those risks.  

Thus, we see that in U.K. there is dispute about specifically defining the nature and scope of CSR. However, certain aspects of environment protection, labour welfare and social obligations have got recognition slowly-slowly. The next issue of CSR in U.K. is about its regulation. Corporate are of the opinion that it should not be regulated rather should remain voluntary in nature. NGOs focus is on corporate accountability through Law. The Government has tried to tread the middle path for looking after the interest of varying factions. Firstly, while considering Corporate’s point of view the government has not comprehensively regulated CSR through any specific legislation. Secondly, the govt. has tried to look after the interest of varying stakeholders including society by incorporating provisions regarding director’s duty in Company Act, 2006. Thirdly, the accountability is being ensured through reporting and review. Fourthly to look after the implementation of these provisions one separate minister has been appointed. Social reporting indexes and ratings are also adopted in the form of soft legislation to ensure compliance of CSR practices. So researcher concluded that even though there is no specific legislation on CSR in U.K. but still there is well established regulatory framework for CSR through related legislations, reporting & rating indexes and business review provisions and government is actively participating in promoting CSR activities among corporates.

5.3 Recent Trends in Australia

Corporate Social Responsibility (CSR) is currently one of the most discussed topics by business people and scholars alike. The concept has been enthusiastically supported by three very disparate

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group by government, by non-government-organizations (NGOs) and by business itself, in particular large corporations.

In 2000, a study by the Centre for Corporate Public Affairs and the Business Council of Australia found around half of Australia’s large companies had policies related to community involvement, social-responsibility or stakeholder engagement. More than half of these companies had developed policies related to CSR in the last decade. In 2001, Cronin and Zappala concluded from their survey of Australia’s top 100 companies that just over 70 percent of companies surveyed had corporate community involvement (CCI) or CSR policies.

Increasing numbers of companies in Australia have policies and programs that purport to reflect their commitment to the community, society and the environment. Yet, despite the prolific amount of literature on CSR, particularly from the perspective of companies themselves and from practitioners in the thriving industry of CSR consultancy, there is a dearth of empirical studies examining whether and if so to what extent and in what manner, Australian companies are responding in practice to the increasing momentum surrounding CSR. Here the researcher outlines and discusses the small number of studies that have been conducted in Australia over the past decade by academics, business associations, government, non-profit organizations and by consultancies into these issues.


24 C Cronin and G. Zappala,’ The Coming of Age of Corporate Community Involvement : An Examination of Trades in Australia’s Top Companies (Working Paper No.6, Research and Social Policy Team, The Smith Family, 2002).
5.3.1 CSR in Australian Perspective

There is a draft of terms associated with CSR, many of which elude precise and commonly shared definitions.\(^{25}\) While definitions of CSR itself often vary, it appears widely accepted that it involves a company going beyond compliance with legal requirements. Modern understandings of CSR emphasize the responsibility of corporations not only to their shareholders, but to a much wider group of stakeholders. These stakeholders include employees and contractors, customers and suppliers, the community (including non-profit organisations), society and the environment. In addition, it is commonly emphasized that CSR is more than simple ‘cheque book philanthropy’, ‘Cause related – marketing’ or business ethics.\(^{26}\) Key dimensions or criteria of CSR or corporate citizenship in Australia include social and environmental responsibility, corporate governance, social and environmental reporting, ethics sponsorship, stakeholder relations and partnerships.\(^{27}\)

While the terms ‘CSR’ and ‘Corporate citizenship’ are regarded by some authors as synonymous,\(^{28}\) others insist that they have different connotations. For Birch, the Director of Deakin University’s corporate citizenship Research unit, CSR is a narrower, ‘programme based’ paradigm which focuses on the company’s external behaviour. In contrast, corporate citizenship entails ‘systemic, holistic, cultural

\(^{25}\) Mr. Jeremy Cooper of the Australian Securities and Investments Commission (ASIC) outline the definitional issues that arise in the area of corporate responsibility: having some very veining terminology problems. such are what a stakeholder is, what sustainability means, what triple bottom line reporting is and what we really mean by corporate social responsibility itself…”P parliamentary Joint Committee Report.


change’ within the organization.

Further, the report of the Parliamentary Joint Committee on Corporations and Financial Services\(^\text{29}\) stated that:

“Corporate responsibility is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities. It is about companies assessing and managing risks, pursuing opportunities and creating corporate value, in areas beyond what would traditionally be regarded as a company’s core business. It is also about companies taking an ‘enlightened self interest’ approach to considering the legitimate interests of a company’s stakeholders’.

Recognizing that corporate responsibility is a multi-facet concept, the committee makes no attempt to reach a conclusive definition. Because of the sheer diversity of modern corporations in terms of size, sectors, stakeholders, structures and strategies, the concept of corporate responsibility can have a different meaning to different people and different organizations.

The CAMAC Discussion Paper on this aspect noted that:

While there is an increasing recognition and acknowledgement of corporate social responsibility or comparable notions such as ‘corporate citizenship’ or ‘corporate social responsibility’ as an issue; the term does not have a precise or fixed meaning. Some descriptions focus on compliance with the spirit as well as the letter of applicable laws regulating corporate conduct, while other descriptions concentrate on the social impacts of corporate activities (sometimes encapsulated in the notion of sustainability) on groups (usually referred to as stakeholders) including, but extending beyond, shareholders. This societal effect, going beyond the physical or social

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\(^{29}\) The Parliamentary Joint Committee on Corporations and Financial Services was appointed on 30th September, 2010 When the Senate agreed to a resolution From the House of Representatives, passed on 29 September, 2010.
goods or services provided by companies and returns to stakeholders are sometimes subdivided into environmental, social and economic impacts.\textsuperscript{30}

In a similar vein, past emphasizes that corporate citizenship involves both actual results (what corporation do) and the processes through which these are achieved (how they do it).\textsuperscript{31} For other authors, however, it is CSR that is the broaden term of the two.\textsuperscript{32} Ultimately, both terms are fuzzy, varied and constantly evolving and it is likely that the terms will continue to elude precise definition as different organisations and interest groups tend to use the terms differently depending upon their normative view of what should be expected of Australian businesses.\textsuperscript{33}

In addition to the broad concepts of CSR and corporate citizenship, there are a number of narrower concepts that are intrinsic to discussions of CSR. Common terms include ‘triple bottom-line reporting’, ‘sustainability reporting’, and ‘Corporate Community Involvement’ (CCI). The first term is used to refer to the pursuit of

\textsuperscript{30} The CAMAC Discussion Paper footnoted a number of definitions or description of the term. ‘sustain Ability (a UK organization) describes corporate social responsibility as ‘a business approach embodying open and transparent business practices, ethical behaviour, respect for stakeholders and a commitment to add economic, social and environmental value.’ The European Union (EU) Green paper promoting a European framework for Corporate Social Responsibility (2001) described corporate social responsibility as ‘a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.’ The International Finance Corporation (IFC) refers to corporate social responsibility as ‘the commitment of business to contribute to sustainable economic development by working with their employees, their families, the local community and society at large to improve their lives in ways which are good for business and for development.’ The Certificate General Accountants Association of Canada paper, Measuring Up: A Study on Corporate Sustainability Reporting in Canada (2005) at 20 describes corporate social responsibility as ‘a company’s commitment to operating in an economically, socially, and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment, and society at large.’ Ibid.

\textsuperscript{31} J.E Post, ‘Meeting the Challenge of Global Corporate Citizenship’ (Policy- Paper Series, Centre For Corporate Community Relations, Boston-College, Chestmit Hill, MA) 8

\textsuperscript{32} Wood and Logsdon, for example, arrive that CSR is a wider concept than the more recent ‘ corporate citizenship’: I wood and J M Logsdon, ‘ The arising Business Citizenship’ in J an driof & M mcintosh (eds) perspectives on Corporate Citizenship (Sheffield : Greenleaf 2008)

\textsuperscript{33} G Zappala, ‘Corporate Citizenship and the Role of Government : The Public policy case’ (Research paper No.4, Information and Research Services, Department of the parliamentary Library, 1st December 2003)3.

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the objectives of profit, environmental impact and social contribution. This conception lies in contrast to conventional ‘single bottom line’ thinking and practices, which focus purely on securing the maximum possible returns for shareholders. The term ‘sustainability reporting’ refers to the practice of corporations and other organisations measuring and publicly reporting on their economic, social and environmental performance. CCI focuses on the involvement of companies in their society and community, through financial or in kind assistance as well as through contributions of time and expertise.34 In Australia, several of the key studies undertaken in the past decade have focused on CCI.35 This appears to be because the studies were commissioned by non-profit organisations in the community sector, which have a particular interest in this area36 or by the Federal Government which tends to emphasise the philanthropic features of CSR.37 The Parliamentary Joint Committee reported noted that evidence received by the committee ... strongly underlined the importance of integrating the consideration of broadens community interests into the core business strategy of companies, if corporate responsibility was to succeed.38

5.3.2 The Australian Regulatory Framework

In Australia, regulation of CSR has been overwhelmingly through ‘soft’ law initiatives. This part of the review looks initially and very briefly at legislative requirements which oblige company directors to recognize the interests of stakeholders other than shareholders. It then identifies the main ‘light touch’ regulatory initiatives at both the national and international level. There is great

35 See, eg, The Smith Family’s Study by Cronin and Zappala, above __ , and the Brotherhood of St Laurence’s Study by SHolm and S Lily white, ‘ Doing Business Responsibility : Perceptions of ethical Practice and Governance of Australasia’s Top 100 Companies’ (Brotherhood of St Laurence No member 2002)
36 See, eg, Cronin and Zappala, above n.11
37 In 1999/2000, for example, the Prime Minister’s Business Community partnership commissioned a survey by the Centre for corporate Public Affairs and the Business Council of Australia. See CCPA report , above n.10
38 Parliamentary Joint-Committee Report above n.9.
deal of overlap between the various regulatory measures, and companies within Australia may participate in multiple voluntary social and environmental initiatives. The regulatory framework of CSR in Australia basically involves The Corporation Act 2001, Various Normative principles & guidelines, Rating Indices and Reporting guidelines. Salient features of these provisions are examined as under;

(a) The Corporation Act 2001

It is the central piece of legislations governing directors’ duties. There are two specific sections in the Act that are widely recognized as expanding company reporting in a way that relates to CSR. Section 1013D (1) of the Act imposes obligations on superannuation, life insurance and managed funds to disclose the extent to which they take account of environmental, social, labour and ethical standards in their investment decisions. Section 199(1) (f) requires companies to include within their annual reports details of breaches of environmental laws and licences. Beyond this, however, debate surrounds the extent to which Australian company directors are able to consider the interest of stakeholders other than immediate shareholders.

Legislation other than the Corporations Act imposes additional

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39 Westpac, for example, measures itself against 90 social, environmental and financial indicators
40 It is an Act of the Commonwealth of Australia that sets out the Laws dealing with business entities in Australia at Federal and Interstate level.
obligations on companies and their directors in relation to employees and the environment. For example, companies must pay their employees at least minimum rates of pay and they must comply with occupational health and safety, anti-discrimination and equal opportunity requirements. Companies must also comply with a wide range of environmental requirements.

(b) Normative principles and guidelines related to CSR

In 2003, the Australian Stock Exchange (ASX) released the ASX Principles on Corporate Governance and Best Practice Recommendations, which are intended to guide publicly listed companies in their corporate governance practices. While the principles are voluntary, companies are required to explain to the ASX and to investors if and why they have opted not to follow the guidelines. Three of the recommendations are relevant to CSR. They are:

Principle 3: Promote ethical and responsible decision-making

Principle 7: Recognize and manage risk; and

Principle 10: Recognize the legitimate interest of stakeholders.

There are also initiatives relevant to particular industries. In 2004, the Minerals Council of Australia (MCA) established a framework for sustainable development, entitled ‘Enduring Value: the Australian Minerals Industry Framework for Sustainable Development.’ Signing up to the framework is a precondition to MCA membership. Signatories are required to assess system used to manage key operational risks publicity report sustainability information based

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44 Workplace Relations Act 1996 (Cth).
46 For example, Equal opportunity Act 1995.
47 For example, Environment protection Act 1970.
on the GRI indicators.\(^{50}\)

(c) **Rating indices**

There are several prominent Australian indices that rate companies according to CSR performance. First, The Age/Sydney Morning Herald’s Good Reputation Index (GRI) measures the performance of Australia’s top 100 largest companies in terms of corporate governance, market performance, management and ethics, employee relations and social and environmental impact. The GRI ranks the top 100 companies in Australia (selected from Business Review Weekly magazine’s annual list of the top 1000 companies) according to their reputation. The rankings are compiled from opinions of relevant stakeholders for each category.

A Second major rating index in Australia is RepuTex’s Social Responsibility Rating. Repu Tex, an independent research agency, rates the largest 100 companies in Australia in four areas of CSR: corporate governance, environmental impact, social impact and workplace practices. Another index is the Australian Sustainable Asset Management (SAM) Index (AuSSI)\(^{51}\). Launched in 2005, SAM invites the largest listed companies in Australia to participate in a ‘corporate sustainability.’ Finally, in 2004 the St James Ethics centre launched the Corporate – Responsibility Index (CRI), in which participating companies agree to be ranked publicly on their non-financial aspects.

(d) **Reporting Guidelines**

There are a number of reporting guidelines developed specifically for Australian companies. In 2003, the Department of the Environment and Heritage developed a guide for public environmental reporting, entitled ‘Tripalpe Bottom line Reporting in Australia: A

\(^{50}\) http://www.minerals.org.au/enduringvalue

\(^{51}\) The Australian SAM Sustainability Indes (AuSSI) was established in February, 2005 to track the performance of listed Australian companies that lead the field in terms of corporate sustainability.
The Department of Family and Community Services in 2004 released a draft guide to assist companies in reporting on their social impacts.

The concept of CSR in Australia has been well supported by government, NGOs along with business. In 2000, the Centre for Corporate Public Affairs and the Business Council of Australia found that 70% of companies have formulated Corporate Community Involvement plan or CSR policies related to Community Involvement, Social Responsibility or Stakeholder Management. CSR is also treated as synonym of Corporate Citizenship.

Although Australian corporate law does not expressly deal with shareholder and non-shareholder interests in the same terms as UK law in its formulation of the duties of directors, the federal governmental advisory committee (CAMAC) and the joint federal parliamentary committee (PJCCFS) engaged in parallel CSR inquiries throughout 2005 and 2006 both concluded that the current law implicitly permits and affords sufficient leeway for company directors to consider both shareholder and non-shareholder interests in acting in socially responsible ways.

Thus it is amply clear that regulation of CSR in Australia is through soft legislation and these legislation are not specific for regulating various aspects of CSR rather they fall in the category of Related legislation. In addition to these related legislation there are various normative principles & guidelines which are voluntary in nature, reporting requirements laid down by the governments. Then there are rating indices which are being maintained by independent agencies.

5.4 Recent Trends of CSR in France

The term “social” in the expression “corporate social responsibility” poses a lexical and conceptual problem in French. The word “social” as used in the expression in English is commonly
translated into French using the same word, whereas in fact “social” in French has a more restricted meaning, as it is limited for the most part to the social dimension of sustainable development. Thus the three dimensions inherent to this notion, “economic efficiency”, “social equity”, and “control of resources”, are not naturally covered by the term “social” in French. Hence, this problem of language can lead to confusion as to the very meaning of “social responsibility”. Some analysts even believe that this word is the reason for a strong and threefold resistance to CSR in the French-speaking world:

Firstly, Trade unions reject the idea that unilateral private sector standards should govern the social aspects of a company;

Secondly, employers are afraid of having new obligations forced on them, in an area that they believe to be already very restrictive;

Thirdly, the State does not accept that the principles which have been historically laid down to govern corporate social relations, and which combine legal intervention and collective bargaining under full public scrutiny, should now be challenged (Doucin 2004).

Thus the term “societal” would perhaps be more appropriate here, expressing as it does a systemic vision incorporating all three aspects of social responsibility: economic, social, and environmental.

This lexical clarification highlights the French notion of relations between economic, social, and political actors, especially with regard to labour relations. This notion is based on two founding principles:

Firstly, the importance of a clearly established public standard for labour relations; Secondly the fact that social dialogue was historically carried out in a context of negotiations between social partners with no privileges involved, which can happen when decisions are taken unilaterally in the context of the company. There is indeed to some extent a hierarchical opposition between hard law
and the inferior soft law which can only be invoked as an adjunct to the hard law. As a result, CSR in the French context has a fundamentally political dimension, which must in turn have repercussions on the way the French democratic model functions (Rose 2006).

There are two aspects to the CSR situation in France: an important legal framework on the one hand, and a strong political dimension on the other.

5.4.1 Availability of Substantial Body of Legislation in France

The first laws to cover the notions incorporated in CSR, though without this term being explicitly mentioned appeared in France in the middle of the 1970s with a law on social reporting in 1977. Without referring specifically to CSR as such, this law already required that the social reports that were compulsory for companies with more than 300 employees should apply 134 specific measures and indicators, and these reflected notions are now commonly used in relation to CSR. Thus the social report required by this 1977 law opted deliberately for a social vision that focused entirely on employees and social policies (Igalens and Joras 2002). However, it was mainly after 2000 that the body of legislation began to develop.

The turning point was undoubtedly the law of 15 May 2001 on new Economic regulations. With the adoption of this “NRE” law (*loi Nouvelles Regulations Economies*), which today affects more than 700 listed companies, *France was the first country to make it mandatory for listed companies to account for the social and environmental consequences of their activities*. The French Council of State fixed by decree, the information that the business report should contain regarding social responsibility, the legislature intended that listed companies to be transparent in their activities. More obligations followed on from this decree in the social and environmental areas and reporting requirements are in following areas:
- Numbers hired i.e. number of employees employed,
- Types of contract i.e. contract of employment,
- Information on staff cutback plans, if any
- Organization and length of the working week,
- Pay scales,
- Health and safety conditions and measures taken
- Labour relations
- Reports on collective agreements,
- Training policy,
- Employment and professional integration of the disabled,
- Community work.

These were the main social areas where companies had to account for their actions. The areas covered under these reporting covers wide area of activities covered under CSR framework. With regard to environmental areas, they had to be in a position to notify the following:
- Overall consumption of resources by the company,
- Details of measures taken to improve energy efficiency,
- Details of measures taken for nuisance control and,
- Details of measures taken for waste treatment.

Legislation also contained following guidelines for companies:
- Evaluation and certification procedures,
- Suggestion for putting an environment management system in put place, Companies must also justify the way in which they assess the impact of their activities on local development and the local population.
- Companies must explain their commitment to their stakeholders, including non-governmental organizations, consumers, educational institutions, and local communities.

This new legal framework was in addition to that of the 1999
directive law concerning territorial planning and sustainable local and regional development (the “LOADT” law of 'Orientation pour l’Amenagement Durable du Territoire) and was an attempt to reorganize relations between the different local authorities by integrating economic and social actors into the procedure. Local authorities too are becoming subjected more and more to the requirements of sustainable development and new regulations on governance, and as they draw up their own local Agenda 21 they will need a higher level of involvement and responsibility from companies in matters of local development Durrieu et al. (2006).

Following on from the NRE law, which to some extent laid down the foundations, more laws were added to complete the CSR legal framework in France; these sometimes echoed decisions taken at European level, especially in relation to environmental aspects. Thus, with regard to controlling major accident hazards, the law of 30 July 2003 ensured that so-called Seveso companies (classified sites)\(^ {52} \) adhere to specific rules regarding; prevention, civil responsibility, and victim compensation.

More recently, the transposition of the European directive on setting up a system for the exchange of emission quotas has resulted in a series of obligations in terms of emission declarations and quota delivery. In 2005 Environment Charter, a Constitution amendment giving legal force to the major environmental principles was adopted. This charter places the right to live in a balanced and healthy environment on the same level as the human and social rights and recommends the precautionary principle although without undermining the possibility of innovation.

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\(^ {52} \) A Seveso company is a company that falls under the Seveso II directive, and there are possible risks of major accidents occurring. It can be distinguished as low and high threshold Seveso companies, depending on the nature and amounts of dangerous substances that may be present in the company.
Lastly, regarding financial matters, the 19 February 2001 Law on employee savings, like that of 17 July 2001 on the creation of a public pension reserve fund, takes ethical, social, and environmental factors into consideration. Similarly, the Law of financial security, dated 1 August 2003, ensures that listed companies produce a specific report describing the conditions governing the preparation and organization of the work of the board of directors, and internal control procedures put in place by the company in order to protect themselves, again with greater transparency, against different types of risk. In the same vein, the introduction of new accounting standards in 2005 has brought changes to the rules on information and financial transparency.

Thus the 2005 report of AMF (Autorite des Marches Financiers/French Authority for Financial Markets) analyzing 108 reports of listed companies concluded that corporate governance and internal control by companies were of a higher quality. The report underlined considerable disparities between companies’ disclosures in these areas, these differences were however more pronounced in internal control than in corporate governance, where companies can rely on more familiar, and longer standing industry recommendations (AMF 2006).

5.4.2 Contribution of Public Consultation and Instigating Bodies in regulating CSR in France

A National Council for sustainable development bringing together almost 100 representatives from various areas of civil society was created in January 2003. Following on from this, a national sustainable development government strategy was adopted in June 2003, in which the French government declared its objective to be “the development of social and environmental responsibility on the part of companies, with the overall concern of good governance”. This
declared objective has three parts: to create a common frame of reference at national level in the matter of corporate social and environmental responsibility, and then promote it both nationally and internationally; to encourage companies to adopt a responsible mode of operation both environmentally and socially; and lastly to develop socially responsible investment. The Regions are other tiers of local government (Departments, Communes, and Commune communities) have been similarly active with their own Agenda 21 sustainable development strategies.

Similarly, in the area of international business relations, a certain number of measures have been put in place in an attempt to influence corporate behaviour. For example, the French contact point has been particularly busy: they are responsible for monitoring implementation of the OECD (Organization of Economic Cooperation and Development) leading indicators by multinational companies that are integrating the fundamental principles and rights at work as recognized by the 1998 International Labour Organization (ILO) declaration and the environmental principles in the Rio Declaration, Agenda 21, and the European Union’s Aarhus Convention. The contact point has had to apply the public communication procedure on several occasions.

This short retrospective of the legal and institutional background in France shows that CSR is both strongly supported by the law and yet at the same time somewhat scattered across a variety of different rules and regulations. Thus when one tries to analyze corporate practices, it is apparent that while there is certainly considerable weight behind the legal tools that have been put in place, nevertheless, as is the case in other countries, these regulations do nothing to reduce the great diversity not only in corporate practices but also in company attitudes to CSR.
5.4.3 The Emergence in Parallel Rating Agencies and Mutualized Activities in CSR Awareness and Promotion

There are basically two rating agencies that have emerged in France since the end of the 1990s. The first is the ARESE agency, created in 1997 with support from the Caisse des Depots et de Consignation (French funding body for public works and housing) and the Caisses.d’Epargne (savings banks). Its aim was to produce a Social and Environmental Rating for each company based on an econometric procedure, originally intended for fund managers. In 2003, the Vigeo agency, a French public limited company (Societe Anonyme), took over from ARESE. The agency’s board of directors is made up of companies, European trades union organizations, non-governmental organizations (NGOs), and suitably qualified individuals and they offer sustainable development audits for local authorities, social responsibility audits for companies and organizations, themed studies, and sector-based benchmarking. About 56 projects were completed in 2006, 85% of which were in France. This group is now active elsewhere in Europe (Belgium and Italy) and also in Morocco since 2004. The agency’s auditing activity grew by almost 63% in 2006 compared to 2005, an indication of the growth of this market in France. In socially responsible investment too, Vigeo’s turnover increased considerably, showing an annual growth of 56% between 2003 and 2006 and reaching almost 3.2 million euros by the end of 2006.

The second agency, BMJ Ratings, was created from the merger in 2004 of the BMJ sustainable development agency, forerunner in France since 1993 in the field of solicited social ratings, and the Core Ratings agency, thus creating the first European rating agency to cover both social and environmental matters. They offer confidential ratings, and in only 10 years they have built up a client base of over 800 companies.
In parallel with the emergence of rating agencies, a further addition to the CSR landscape was the appearance of mutualized company activities: a certain number of company groups were formed and now play an important role in maintaining the underlying principles of CSR, in promoting CSR awareness, and in encouraging good company practice. Without claiming to produce an exhaustive study, we’ll look at two types of structured cooperation that are fairly significant today in France. The first are multi-partner groups structured along the same lines as ORSE (Observatoire sur la Responsabilité Sociétale des Entreprises), a study centre for Corporate Social Responsibility. ORSE was created in June 2000 on the initiative of major corporations, fund management companies, investment institutions, trade unions, non-governmental associations, and organizations. The aim was to promote a structure for study, exchanges, and permanent monitoring in the field of CSR, sustainable development, and ethical investments. Today ORSE undoubtedly plays a vital role in terms of analyzing practices and assessing the major consequences for companies of issues relevant to CSR.

Along different lines, a number of associations or employers’ groups are flourishing based on the issues surrounding CSR. The association Alliances, for example, whose aim is to help companies improve their performance while still respecting man and the environment, was created in 1994 on a fairly small scale, by three men from companies in northern France more in the spirit of a group of committed managers. The association puts forward the case for CSR, showing it as something company managers should commit to, something that cannot be ignored if their company is to survive, and also as a tremendous opportunity for the future.

5.4.4 French Companies: Various Strategic Positions on Social and Environmental Responsibility

As we have seen, it is important to consider the specific framework of the French legal and institutional system for a better
understanding of CSR in the context of France. The fact still remains, however, that, as in many developed countries, internationalization and shifting power balances between States, companies, and the international civil society combined with new environmental, political, and social challenges are the main factors that account for the transformations that companies are undergoing regarding CSR. Thus, the degree of internationalization, the resulting image problems that must be dealt with, and specific economic features relating to CSR and sustainable development are the main reasons why there is such diversity in practices and strategic positioning on the part of French companies.

French companies, just like those in other countries, can be found across the entire range of possible positioning in respect of CSR. They range from companies that are barely inclined to invest, not to say stay resistant to the idea, to those that are fully committed and consider CSR as an essential strategic element i.e. entire spectrum is there.

Thus we see that the regulatory framework of CSR in France is very comprehensive and can act as guiding factors for other nations.

5.4.5 The Current international Trends & futuristic CSR through European Commission Perspective

These trends & futuristic CSR can be gauged through proposed agenda points for the period 2011-2014 which covers the following 8 areas:

I Enhancing the visibility of CSR and disseminating good practices:
This includes the creation of a European award, and the establishment of sector-based platforms for enterprises and stakeholders to make commitments and jointly monitor progress.

II Improving and tracking levels of trust in business:
In this Commission will launch a public debate on the role and
potential of enterprises, and organise surveys on citizen trust in business.

III Improving self and co-regulation processes:
In this Commission proposes to develop a short protocol to guide the development of future self- and co-regulation initiatives.

IV Enhancing market reward for CSR:
This means leveraging EU policies in the fields of consumption, investment and public procurement in order to promote market reward for responsible business conduct.

V Improving company disclosure of social and environmental information:
This new policy confirms the Commission's intention to bring forward a new legislative proposal on this issue.

VI Further integrating CSR into education, training and research:
The Commission will provide further support for education and training in the field of CSR, and explore opportunities for funding more research.

VII Emphasising the importance of national and sub-national CSR policies:
The Commission invites EU Member States to present or update their own plans for the promotion of CSR by mid 2012.

VIII Better aligning European and global approaches to CSR which includes the following:
a) OECD Guidelines for Multinational Enterprises,
b) 10 principles of the UN Global Compact,
c) The UN Guiding Principles on Business and Human Rights,
d) The ILO Tri-partite Declaration of Principles on Multinational Enterprises and Social Policy,
e) The ISO 26000 Guidance Standard on Social Responsibility.
5.5 Current State of Corporate Social Responsibility in Indian Perspective

India has a long rich history of close business involvement in social causes for national development. In India, CSR is known from ancient time as social duty or charity, which through different ages is changing its nature in broader aspect, now generally known as CSR. The ideology of CSR in the 1950s was primarily based on an assumption of the obligation of business to society. In initial years there was little documentation of social responsibility initiatives in India. Since then there is a growing realization towards contribution to social activities globally with a desire to improve the immediate environment (Shinde, 2005). It has also been found that to a growing degree companies that pay genuine attention to the principles of socially responsible behavior are also favored by the public and preferred for their goods and services. This has given rise to the concept of CSR.

After Independence, JRD Tata who always laid a great deal of emphasis to go beyond conducting themselves as honest citizens pointed out that there were many ways in which industrial and business enterprises can contribute to public welfare beyond the scope of their normal activities. He advised that apart from the obvious one of donating funds to good causes which has been their normal practice for years; they could have used their own financial, managerial and human resourced to provide task forces for undertaking direct relief and reconstruction measures. Slowly, it began to be accepted, at least in theory that business had to share a part of the social overhead costs. Traditionally, it had discharged its responsibility to society through benefactions for education, medical facilities, and scientific research among other objects. The important change at that time was that industry accepted social responsibility as part of the management of the enterprise itself. The community development and social welfare program of the premier Tata Company, Tata Iron and Steel
Company started the concepts of “Social Responsibility.” (Gupta, 2007)

The term corporate social performance was first coined by Sethi (1975), expanded by Carroll (1979), and then refined by Wartick and Cochran (1985). In Sethi’s 1975 three-level model, the concept of corporate social performance was discussed, and distinctions made between various corporate behaviors. Sethi’s three tiers are:

- social obligation (a response to legal and market constraints);
- social responsibility (congruent with societal norms); and
- social responsiveness (adaptive, anticipatory and preventive) (Cochran, 2007).

The last decade of the twentieth century witnessed a swing away from charity and traditional philanthropy towards more direct engagement of business in mainstream development and concern for disadvantaged groups in the society. This has been driven both internally by corporate will and externally by increased governmental and public expectations (Mohan, 2001).

This was evident from a sample survey conducted in 1984 reporting that of the amount companies spent on social development, the largest sum i.e. 47 percent was spent through company programs, 39 percent was given to outside organizations as aid and 14 percent was spent through company trusts (Working Document of EU India CSR, 2001). In India, as in the rest of the world there is a growing realization that business cannot succeed in a society which fails. An ideal CSR has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well as socio-economic status (Bajpai, 2001).

According to Infosys founder, Narayan Murthy, ‘Social Responsibility is to create maximum shareholders value working under the circumstances, where it is fair to all its stakeholders,
workers, consumers, the community, government and the environment’. Commission of the European Communities 2001 stated that being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relation with stakeholders (Bajpai, 2001). Over the time four different models have emerged all of which can be found in India regarding corporate responsibility (Kumar et al., 2001).

5.5.1 Emerging Trends on CSR according to Surveys

In the context of India, CSR studies were few and limited. Singh and Ahuja (1983) conducted the first study in India on CSR of 40 Indian public sector companies for the years 1975-76 and found that 40 percent of the companies disclosed more than 30 percent of total disclosure items included in their survey. Raman (2006) used content analysis technique to examine the chairman’s message section in the annual reports of the top 50 companies in India to identify the extent and nature of social reporting. This study concluded that the Indian companies placed emphasis on product improvements and development of human resources (Raman, 2006). According to a survey done by Partners in Change 2000, which covered 600 companies and 20 CEOs for judging Corporate Involvement in Social Development in India 85 percent agreed that companies need to be socially responsible; only 11 percent companies had a written policy; over 60 percent of the companies were making monetary donations; health, education and infrastructure were most supported issues.

From 2000 onwards, 4 important surveys have been conducted, which give significant macro level conclusions about Indian corporate. The first and second surveys were carried out in 2001 and 2002 by Business Community Foundation for TERI-Europe. The survey sought to explore the perception of workers, company executives and general public about social, economic and environmental responsibilities. It was found that all companies
irrespective of size or sector have awareness of CSR and its potential benefits. Many companies were collaborating with NGOs, have labour and environmental policy guidelines in place. A third survey was jointly conducted in 2002 by CII, United Nations Development Program (UNDP), British Council (BC) and Price Water Coopers (PWC). The most striking features of the responses to the survey is that the respondents are in near unanimity that CSR is very much a part of the domain of corporate action and the passive philanthropy is no longer sufficient. A significant proportion of respondents, recognize CSR as the mean to enhance long-term stake holder value.\textsuperscript{53}

The fourth survey, the Karmyog CSR rating 2007-08 is for the largest 500 companies. Karmayog is a platform for the Indian non-profit sector providing research on CSR activities of Indian companies. It rated the 500 largest Indian Companies based on their CSR activities. The companies were rated on 0 to 5 levels based on criteria's like products & services, reach of CSR activities, expenditure on CSR, harmful processes etc.

CSR Study by Karmayog’s research (fourth survey)\textsuperscript{54} was kept as base & further research was extended to find out the current scenario of CSR activities in India. For this, firstly the social aspects by organizations like OHSAS, GRI, and ISO etc were streamlined for compilation & better understanding. Then, a list of 500 companies taken by Karmayog from Dun & Bradstreet’s 2006 edition of ‘India’s Top 500 companies’ was made. Karmayog rated these companies on a ‘0-5’ scale based on information from the company’s website and latest annual report. Out of 500 companies, 229 companies got a ‘0’ rating and thus were filtered out for not showing any CSR activity or producing cigarettes/tobacco products & liquor. For the rest 271 companies annual reports / CSR reports were downloaded & its

\textsuperscript{54} Ibid.
content analysis was done. It was found that around 26 companies are reporting on environment in the name of CSR. These were dropped out from the list, so a final list of 245 companies was obtained on which the further work was performed like downloading CSR related reports from the websites and studying the same, etc. The assessment of 245 companies was done by mapping their reported aspects against the 18 GRI social aspects which are globally accepted & most widely used. The GRI social aspects were clubbed as Society Performance Indicators, Human Rights Performance Indicators, Labour Practice & decent work Indicators, and Product Responsibility indicators. The CSR reports (245 companies) were thoroughly examined & its content analysis was done to find out the use of GRI aspects, CSR initiatives & special innovations. A binary code of ‘0’&‘1’ was allocated for ‘not using’ & ‘using’ the particular indicator respectively. The assessment was based on four criteria: the social indicators tracked by the company, the innovativeness in CSR on a 5 point scale, linkage of CSR initiatives to business, and focus area of CSR in each company. It was observed that 46% companies got zero rating (no reporting), around 8% scored 3/5 & 4/5 Karmayog rating.\textsuperscript{55} Around 49% companies out of 500 largest Indian companies were reporting on CSR. Most of the companies report on donations, renovating schools in villages, mid day meals etc.\textsuperscript{56} It is expected from a company to at least spend a minimum of 0.2% of income on CSR activities annually. But in most reports there is no mention of the amount spent in any of their balance sheets or annual reports. Well defined expenditure on CSR has been shown by very few companies. Companies reach for CSR activities was also unsatisfactory in the sense only 25% companies CSR activities were for employees & rest were focusing on vicinity & society at large. Many companies are only making token


\textsuperscript{56} Ibid.
gestures towards CSR in tangential ways such as donations to charitable trusts or NGOs, sponsorship of events, etc. believing that charity and philanthropy equals to CSR. Most companies use CSR as a marketing tool to further spread the word about their business, for instance, donation of a token amount to some cause on purchase of a particular product. The fact that companies are hiring advertising agencies for their CSR further highlights this. Companies hesitate to state the processes followed by them, the damage caused by these processes, and the steps taken to minimize this damage. Very few companies have a clearly defined CSR philosophy. Most implement their CSR in an adhoc manner, unconnected with their business process. Most companies spread their CSR funds thinly across many activities, thus somewhere losing the purpose of undertaking that activity. Special CSR initiatives were taken by some companies like structured CSR etc. Generally speaking, most companies seem either unaware or don’t monitor their company’s CSR. However, all companies can be considered to be an upward learning curve with respect to CSR. The overall approach still seems to be driven by philanthropy rather than integrating it with business as has been happening in the west. The results suggest that CSR is often guided by the commitment of the top management. With compliance and enforcement slack, employee’s care is just employers’ benevolence, environment care and total quality management are driven by market forces and legislation, CSR is considered as an additional activity of Human relation and public relation department.

5.5.2 Assessment of modern trends of CSR through trends of Reporting on CSR activities by corporates

These trends can be gauged from an insight in to a survey conducted by KPMG International in respect of Corporate Responsibility Reporting in 2011 and the salient points brought to fore by this survey in respect of reporting on CSR are as follows:
I. Ninety-five percent of the 250 largest companies in the world (G250 companies) now report on their corporate responsibility (CR) activities, two-thirds of non reporters are based in the US.

II. Traditional CR reporting nations in Europe continue to see the highest reporting rates, but the Americas and the Middle East and Africa region are quickly gaining ground. Only around half of Asia Pacific companies report on their CR activities.

III. For the 100 largest companies in each of the 34 countries we studied (N100 companies), CR reporting by the consumer markets, pharmaceuticals and construction industries more than doubled since KPMG’s last survey in 2008, but overall numbers in some sectors – such as trade and retail and transportation – continue to lag stubbornly behind.

IV. Of the N100 companies, 69 percent of publicly traded companies conduct CR reporting, compared to just 36 percent of family-owned enterprises and close to 45 percent for both cooperatives and companies owned by professional investors such as private equity firms.

Around the world, corporate responsibility reporting has become a fundamental imperative for businesses. This survey finds that – almost across the board – companies are demonstrating an increasing willingness to account for their behavior on key societal issues. The number of companies now reporting on CR has continued to rise since KPMG’s last CR study in 2008. Indeed, where CR reporting was once merely considered an ‘optional but nice’ activity, it now seems to have become virtually mandatory for most multinational companies, almost regardless of where they operate around the world.

G250 closes the gap of the 250 largest global companies, 95 percent now report on their CR activities. This represents a jump of
more than 14 percent over our 2008 survey. And while one might believe that this threshold is as close to universal as can reasonably be expected, it should be noted that a two-thirds of non-reporting G250 companies are based in the US and it is believed that left over are likely to begin reporting on CR in the near future. CR reporting has gained ground within the Top 100 companies in each of the 34 countries surveyed. European companies continue to lead the pack, with 71 percent of companies reporting on CR, but the Americas are quickly catching up. Japan and the UK both report near-unanimous adherence to CR reporting. Almost 60 percent of China’s largest companies already report on corporate responsibility metrics.57

The trend on CSR reporting is catching up in India also. G250 group includes major Indian companies also. Majority of companies have started reporting on CSR matters primarily to fulfill requirements of various Corporate governance guidelines issued from time to time by the govt. & international agencies.58

So business houses all over the world are realizing their stake in the society and engaging in various social and environmental activities. The need of the hour is to formulate effective strategic policies and adopt various instruments according to the company history, its content, peculiarity in relationship with its different stakeholders so that CSR can be best implemented towards its goals: sustained environmental, social and economic growth. As of now, the trends have changed and CSR affects not only the company’s reputation and goodwill but also govern the financial performance. It was analyzed that the reporting practices range from the very sophisticated and well-established system to “a brief mention of CSR” in the annual report. CSR reporting will continue to improve globally,

58 Ibid.
but the information it contains would need to be standardized. A feature noticed in the development of CSR reporting is the influence of several international and local organizations with different frameworks, indices, directives and initiatives etc. Many of these initiatives are voluntary but are likely to hinder rather than assist the development in the reporting systems. India’s markets continue to exhibit a profusion of negative externalities where the costs of resource use, environmental degradation, or community disruption are neither paid by those who incur them nor are reflected in actual prices. Today’s economic framework gives little encouragement for companies to consider the long-term the essence of true sustainable development. There are several companies in India involved in diverse issues such as healthcare, education, rural development, sanitation, microcredit, and women empowerment. Analysis of several surveys in India suggest that though many companies in India have taken on board the universal language of CSR, CSR seem to be in a confused state. Individual companies define CSR in their own limited ways and contexts. The end result being that all activities undertaken in the name of CSR are mainly philanthropy, or an extension of philanthropy. It seems that CSR in India has been evolving in domain of profit distribution. There is a need to increase the understanding and active participation of business in equitable social development as an integral part of good business practice.

The latest trends in CSR practices as highlighted in study of 500 companies which shows that out of top 500 companies, 229 did not report on CSR activities. 49 % of remaining 271 companies were reporting o CSR. Many companies are making token gesture towards CSR. After studying the CSR focus and business linkage of 30 companies as given in the below table it is amply clear that every company defines CSR in their own ways as per their needs.
<table>
<thead>
<tr>
<th>Company</th>
<th>Type</th>
<th>Focus Area</th>
<th>Business Linkage</th>
<th>Methodology Adopted</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Auto</td>
<td>Auto</td>
<td>Development of weaker sections of society</td>
<td>Indirect</td>
<td>Trust Undertakes long-term projects in rural areas.</td>
<td>Community Development</td>
</tr>
<tr>
<td>Castrol India</td>
<td>Chem</td>
<td>Strengthen link between business &amp; social investments</td>
<td>Indirect</td>
<td>Rehabilitation of earthquake affected victims in Gujarat.</td>
<td>Community Service</td>
</tr>
<tr>
<td>Mahindra</td>
<td>Auto</td>
<td>Sharing wealth and promote primary education</td>
<td>Indirect</td>
<td>College establishment Nirmal Kashi (underprivileged girl child)</td>
<td>Community Development</td>
</tr>
<tr>
<td>Mahindra</td>
<td>Mobile</td>
<td></td>
<td></td>
<td>1% Profit after tax for CSR activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Free education for girls</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Lifetime Express: medical facility</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Free surgery</td>
<td></td>
</tr>
<tr>
<td>Infosys</td>
<td>IT</td>
<td>Support and encourage underprivileged sections</td>
<td>Indirect</td>
<td>Infosys Foundation provide medical facilities to remote rural areas, organizing novel pension schemes and aiding orphans and street children and rural education program titled “A library for every school”, Human Capital Education index for its employees</td>
<td>Successfully implemented projects</td>
</tr>
<tr>
<td>ITC</td>
<td>FMCG</td>
<td>“Citizen First” watered watershed development program; Empowering Farmers;</td>
<td>Indirect</td>
<td>Through “e-clou Data” organizing farmers into water user groups that plan and build</td>
<td>Supplier and community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Greening Wastelands and Irrigating dry lands</td>
<td></td>
<td>water harvesting structures Primary education Livestock development Social forestry</td>
<td>development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Integrated watershed development First to be certified SA 6500 standard</td>
<td></td>
</tr>
<tr>
<td>L &amp; T</td>
<td>Engg</td>
<td>Enhancing shareholder value and responsibility for welfare of society at</td>
<td>Indirect</td>
<td>Eco Friendly approach: Create awareness on HIV/AIDS; and waste minimization. Health</td>
<td>Community Service and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>large</td>
<td></td>
<td>One of the first corporate to launch HIV/AIDS program</td>
<td>environment protection</td>
</tr>
<tr>
<td>Dabur India</td>
<td>Pharma</td>
<td>Give back some part of what Dabur has gained from community</td>
<td>Indirect</td>
<td>Establishment of Sundesh, NGO Programs for ecological regeneration &amp; protection of endangered plant species Promoting health and hygiene amongst the underprivileged through Trust and Create environmental awareness amongst young minds</td>
<td>RM Supplier development</td>
</tr>
<tr>
<td>BHEL</td>
<td>Engg</td>
<td>Community and Product development</td>
<td>Direct</td>
<td>Adopted 26 villages and provided infrastructure for schools for physically challenged children near its units Launched wind electric generators, solar heating systems, solar photovoltaic systems, solar lanterns and battery powered road vehicles</td>
<td>Benefited over 30,000 people</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Minimize environmental impact of fossil energy products.</td>
<td></td>
</tr>
<tr>
<td>Tata Steel</td>
<td>Engg</td>
<td>“Improve the quality of life of the communities it serves.”</td>
<td>Indirect</td>
<td>Through “Green Millennium” campaign planted 1.5 million surviving trees Through Employment Generation, Building people, education, health and hygiene</td>
<td>Settling Sustainability</td>
</tr>
<tr>
<td></td>
<td>Metal</td>
<td></td>
<td></td>
<td>Through disaster rehabilitation</td>
<td>Standards</td>
</tr>
<tr>
<td>Wipro</td>
<td>IT</td>
<td>Learning Enhancement Disaster rehabilitation</td>
<td>Indirect</td>
<td>Provide rehabilitation to survivors of natural calamities and Enhancing learning abilities of children from underprivileged sections</td>
<td>Community Service</td>
</tr>
<tr>
<td>Nestle India</td>
<td>FMCG</td>
<td>Integrated communities where it runs industrial and commercial operations</td>
<td>Indirect</td>
<td>Through Water Conservation, Natural refrigerants replaced ozone depleting Also include Nutrition &amp; health projects, agricultural assistance, education and training, arts and culture, HIV/AIDS prevention and donations</td>
<td>Environment protection and community services</td>
</tr>
</tbody>
</table>

Table 1: The CSR initiatives of 30 Indian Companies

5.6 Important Issues and challenges in the field of CSR

The important issues on which immediate focus of CSR practices is needed for having any meaningful influence on corporate behaviour are discussed as under:

5.6.1 Labour Laws violation

Labor laws violation is a major problem in Indian industry especially garments industry. "Workers are not being paid even statutory wages, as payment is linked to reaching unreasonably high production targets simply put, unpaid overtime." In short, the global outsourcing world has a long way to go merely to attain legal compliance. When subcontractors--even those that are subject to monitoring--still routinely violate local labor law, CSR programs and their advocates may be muddying the waters. The advocacy community presents wage demands e.g. the demand that subcontractors pay a “living wage” which is aspirational. But urging multinationals to pay higher wages assumes that legal wages are already being paid. Violations of EPFO & ESI contribution. Whereas the requirement is doing something more than that. The real situation about labour violation is projected by a report of Timberland Company which is a multinational company that plays actively in the CSR field. The company's released in 2004 CSR report includes a breakdown of factory violations by category that closely mirrors the FLA breakdown, with "compensation (i.e. minimum wage)" the second highest category of violations (12%). By definition, violations of this part of Timberland's code of conduct constitute primarily violations of law. Timberland's CSR report claims the company is stepping up its program “from compliance to enablement.” If companies merely ensured that their suppliers obeyed the law that could bring economic restitution to millions of workers whose pay is purposely miscalculated.
5.6.2 Human Rights Violation Issues

Today, human rights cases usually stem from extreme physical abuses, but society's concept of what constitutes "abuses" will likely continue to expand. If labor laws are consistently broken with the knowledge of business partners, this could conceivably be considered "unjust enrichment" and these unjust enrichment inherently include human rights violations.

5.6.3 Environmental Issues

Environmental principles are less specified in the CSR policy of companies than for example social principles. Most codes of conduct simply refer to respect for environment. Their practice however shows that they do have implemented specific environmental measures and that, as a matter of fact, environmental practice seems to be more developed than social policy and practices, also among the smaller companies. A plausible explanation is that a lot of environmental issues are regulated by law. Companies are therefore legally bound to implement measures. This also applies to the activities in India. Indian legislation on environmental issues is also quite far developed, although several companies and stakeholders indicated that enforcement is a major bottleneck. Only a few companies actually refer to these environmental principles, which are derived from international treaties and agreements.

5.6.4 Issue of Consumer Protection

In general, companies pay a lot of attention to product safety and quality in order to fulfill requirements of their buyers. Product safety is ensured through the supply chain, by means of audits and training. Information towards consumers seems to be mainly focused on product information and to a much lesser extent on processes.

5.6.5 Issues of Socio Economic Development (Inclusive Development)

Community development or involvement plays an important role in the Indian context. In the western context it would be called
charity or corporate philanthropy, but in India contribution to the local community is seen as a part of the corporate responsibility of a company. Most Dutch companies leave room to their Indian daughter company to develop initiatives in this field; sometimes they have a special fund. It seems that daughters of large MNCs tend to develop initiatives which are more connected to the core business of the company or the interest of the employees. Issues and challenges arising as a result of Globalization

Globalization is a leading concept which has become the main factor in business life during the last few decades. This phenomenon affects the economy, business life, society and environment in different ways and almost all corporations have been affected by these changes. We can see these changes mostly related with increasing competition and the rapid changing of technology and information transfer. This issue makes corporations more profit oriented than a long term and sustainable company. However, corporations are a vital part of society which needs to be organized properly. Therefore, we need some social norms, rules and principles in society and business life for socially responsible behavior. Globalization affects the economy, business life, society and environment in following ways:

- Increasing Competition,
- Technological Development,
- Knowledge/Information Transfer,
- Portfolio Investment,
- Regulation/Deregulation, International Standards,
- Market integration,
- Intellectual capital mobility,
- Financial crisis

It is clear that there is nothing new about economic growth, development and globalization. Economic growth generally brings out some consequences for the community. This is becoming a world phenomenon. One of the most important reason is that we are not
taking into account the moral, ethical and social aspects of this process. Economic growth and economic development might not be possible without social and moral consequences and implications.

But the important question is who is responsible of this ongoing process and for ensuring the wellbeing of people and safeguarding their prosperity. Is this responsibility of government, the business world (businessman), consumers, shareholders or of all people? Government is part of the system and the regulator of markets and lawmakers. Managers, businessmen and the business world take action concerning the market structure, consumer behavior or commercial conditions. Moreover, they are responsible to the shareholders for making more profit to keep their interest long term in the company. Therefore, they are taking risk for their benefit/ profit. This risk is not opposed to the social, moral and ethical principles which they have to apply in the company. There are many reasons for ethical and socially responsible behaviour of the company. However, there are many cases of misbehaviour and some illegal operations of some companies. Increasing competition make business more difficult than before in the globalized world. However, competition will not have any longer bad influence on company behaviour. According to international norms and expectations, companies have to take into account social, ethical and environmental issues more than during the last two decades. One of the reasons is more competition not always more profit, another reason is consumer expectation is not only related to the cost of products but also related to quality, proper production process and environmental sensitivity. Moreover shareholders are more interested in long term benefit and profit from the company. The key word of this concept is long termism which represents also a sustainable company. Shareholders want to get long term benefit with a sustainable company instead of only short term profit. This is not only related to the company profit but also related to the social and environmental performance of the company. Thus,
managers have to make strategic plans for the company concerning all stakeholder expectations which are sustainable and provide long term benefit for the companies with their investments. Because of the uncertainty surrounding the nature of CSR activity it is difficult to define CSR and to be certain about any such activity. It is therefore imperative to be able to identify such activity and we take the view that there are three basic principles which together comprise all CSR activity. These are: Sustainability, Accountability & Transparency.

5.6.6 Unwillingness of Society and Consumer to pay for CSR Expenses

This is easier said than done. Nobody denies or doubts the concept of CSR. As an individual is expected to be, corporate houses should also be ethical, caring for the environment, providing equal opportunity, setting aside part of their earnings for social causes, and so on. The question is as to how many of us are willing to pay for such efforts. Are we ready to consume only the materials produced in the most ethical ways, despite a product of similar quality or utility being available at cheaper prices in the market? Are we ready to invest in a company which is most ethical and conscious about its social responsibilities but gives less return than companies whose track record about social responsibility is in doubt? Many people say that they want responsible companies, but there are limits to what societies and consumers are willing to pay. There are no simple answers to these issues.

Businesses are created by humans and are equally vulnerable to temptations, survival issues, emotions, and so on. A solution thus needs to be found within these constraints, while maintaining a balance between economic and development needs on one hand, and the impact of related activities on society and the environment on the other. Surveys show that people are willing to pay a little higher if they have the trust that their money is being used for the purpose for
which it is intended. As the level of earnings goes up, these issues will perhaps get diluted. Moreover, a survey conducted in 2005 in the UK found that personal income is not a determinant of or a barrier to giving. Its findings reveal that support to charity or social causes is high across all income groups and increases with an increase in income.59

The research demonstrated that there is a genuine willingness amongst the public to support charities and causes. It also confirmed that people believe that business should play its part, particularly by using the power of its brands and products to support charities or causes. Companies which have changed their businesses to operate more sustainably and which have successfully managed to communicate those changes to consumers are reaping the reward. Marketing gurus believe that the time has come when the consumer wants to know if a company is committed to corporate governance, is an equal opportunity employer, is environment-friendly, and so on. People do not mind paying a little more, as long as they have belief in the claims and actions of the product/service provider. Products and services, which are insensitive to the environment and to social implications, will not survive in the long run.

The share of the private organised sector in the national income (GDP) has increased from 13.1 percent in 1993-94 to 24.9 per cent in 2009-2010. Thus the corporate-led growth model has produced benefits to it and has worked to the disadvantage of the non-corporate sector, especially the unorganized sector including agriculture which employs 53.2 per cent of the work force. Therefore, the negative burden of the changes in income distribution must be shared by the corporate sector which is the major gainer60. The data brings out that

60 The Tribune, dated 24.3.2012, “CSR-Need to ensure inclusive growth”, by Sucha Singh Gill, Director-General, CRRID, Chandigarh.
this sector in not ready to share its booming prosperity with other sections of society. Even the workers and employees in this sector are not partners in this prosperity to the extent that this sector is gaining from the development process and they are not getting an annual rise in their income in commensurate with the rising income in the corporate sector. Further, the corporate sector also does not sharing its prosperity with small and tiny sector engaged in subcontracting with the large sector. In addition to this, there is public perception that the corporate sector has no respect for laws and rules which are essential to protect the environment for sustainable development and also which ensure livelihood of peasants and forest-dwellers, especially when these laws and rules delay projects or put an extra burden or liability on the investors. Three instances are worth mentioning here. These have come in the form of three rulings of the National Green Tribunal (NGT) which started functioning in July, 2011. Similarly, there are a number of examples of land acquisition of peasants and forest-dwellers for mega projects under SEZs leading to their displacement, loss of habitat and livelihood. In some areas these people through a resistance movement were able to save their displacement and livelihood, the prominent being Singur and Nandigram in West Bengal. But in large number of places they were displaced and uprooted. They became victims of development and especially of mega projects. Those who benefited from this development did not share the concerns of the displaced people both in the rural as well as in the urban areas. This pattern of development has produced exclusive rather than inclusive growth. It is imperative that those who benefit from modern progress must share their prosperity with those who are bypassed or harmed by the very development process. This can be partly mitigated by effective implementation of the corporate social responsibility idea effectively.
This would also involve effective mechanism of rehabilitation and settlement of displaced sections of the population. This has to be done by observing environment protection laws and rules in letter and spirit\textsuperscript{61}.

After analyzing the state of CSR in India it is amply clear that the field of Corporate Social Responsibility is not yet settled and is still evolving and developing. There exists lot of contestation about the definition of Corporate Social Responsibility and the scope of CSR needs to be clearly defined. There are arguments in favour of and also against the concept/principles of Corporate Social Responsibility. The principles of Corporate Social Responsibility are very critical for good Corporate Governance, Sustainable Development and Inclusive growth. The subject is very important for socio-economic development of any nation. But there are many grey areas which have cropped up during this analysis. There are many issues and challenges in the field of CSR and they are to be settled for having a meaningful CSR framework. The issues on which the concept of CSR has been criticised are as follows:

5.7 Criticism of Concept of CSR

5.7.1 Criticism of Stakeholder Theory of CSR

Firstly, it leads to firms denial of Fiduciary Responsibility:

Stakeholder theory has some significant disadvantages. For instance, stakeholder theory runs directly counter to corporate governance. Since shareholders are owners of the firm, the firm should be operated to maximize their returns. Stakeholder theory transfers the corporation’s focus from shareholders to the needs of stakeholders. By implementing unprofitable CSR programs, firms are denying their fiduciary responsibility to shareholders. Denies

\textsuperscript{61} India Partnership Forum: National Workshop on Promoting Corporate Citizenship in India: Challenges and Opportunities (Background Paper), (2002); online: http://www.indiapartnershipforum.org/resources/Background%20paper.pdf

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Fiduciary Responsibility

Secondly, Stakeholder Theory does over simplification of social problem & remedies:

Society has numerous problems that have existed for many years such as poverty and pollution. If these problems were as simple to solve as Stakeholder Theory advocates, they would have been remedied long ago by profit-seeking firms focused on benefiting society (Karnani, 2010). Many businesses have discovered, however, that the pursuit of society’s welfare often leads to a reduction in profits. If managers pursued CSR activities that hampered profits they would likely be out of a job. The owners of a firm desire a return on their investment, and would likely fire a manager that purposely opposed this objective. Social problems are more complex than stakeholder theorists claim.

Thirdly, Stakeholder Theory emphasis on excessive regulation:

Another critical argument voiced against stakeholder theory is the over regulation argument. This argument maintains that the pursuit of CSR would lead to more rigorous environmental and social regulations for businesses across the world. These regulations would then make it more difficult for undeveloped nations to keep pace with developed nations. David Henderson (2009), a Visiting Professor at the Westminster Business School and the London School of Economics asserted, “when conditions differ widely between countries, as they do, prescribing and enforcing such common standards...restricts the scope for mutually beneficial trade and investment flows. It holds back the development of poor countries by suppressing employment opportunities within them”. The potential for over regulation strikes a formidable blow to stakeholder theory.

Fourthly, Stakeholder Theory is criticized due to competing interests:

One of the core problems of stakeholder theory is the presence of competing interests within and outside a firm. Supporters of
stakeholder theory argue for a multifiduciary relationship between managers of a corporation and all of a firm’s stakeholders. By definition, a fiduciary relationship involves promoting the interests of one group above others; however, “as everyone recognizes, the interests of shareholders, customers, suppliers, employees, and communities in the management of a firm's assets are conflicting” (Marcoux, 2003). Shareholders want the highest return possible through capital gains and/or dividends at the lowest possible risk. Customers desire quality products, low prices, and excellent service. Employees crave high wages, excellent working conditions, and a handsome benefits package. These competing demands from stakeholders make stakeholder theory untenable. It would be difficult to balance these desires in practice. Some stakeholders would be satisfied while others would be disgruntled (Jensen, 2002).

Fifthly, Stakeholder Theory is criticized as it leads to competitive disadvantages:

The next argument against stakeholder theory is the competitive disadvantage argument. This argument is that “because social action will have a price for the firm it also entails a competitive disadvantage” (Smith, 2002). Therefore, advocates of this argument deem that social actions should not be initiated by businesses. The problem with this argument is that social actions may actually foster public support of a corporation. The ethical action of Johnson and Johnson executive David Collins serves as a prominent example. In 1982, Collins recalled the entire Tylenol product line after cyanide-laced capsules of the brand had caused several deaths in Chicago. As an article in Workforce, a popular human resource magazine, proclaimed, “To this day, Collins’ response is cited as the textbook example of how decisive action, grounded in sound ethical values, can avert a crisis, and even bolster a company’s support over the long run” (Fandray, 2000). Contrary to the argument, social responsibility may actually provide a competitive advantage. Even if social responsibility results in short-term losses; it can engender loyal
employees and communities and consequently reap long-term dividends: “CSR is also proving to benefit companies. The most commonly identified corporate advantages include maintaining and improving reputation or brand image, government relations, brand differentiation, customer loyalty and employee recruitment and retention” (Walton, 2010). However, proponents of stakeholder theory go too far in their support of discretionary social expenditures. The benefits of profitable CSR initiatives must be balanced with the fact that unprofitable CSR initiatives may put a firm at a competitive disadvantage.

Sixthly, the Stakeholder Theory is criticized as it forces ‘Greenwashing’ i.e. it is reactive instead of proactive and shifts the focus from the flaws or from business failure:

Another problem with stakeholder theory is that it is reactive instead of proactive. Some corporations engage in CSR solely in response to crises. In other cases, the primary CSR action for firms is merely reporting. This reporting is usually in the form of feel-good stories with a lack of concrete social action: “The content of CR very often is misleadingly substantial: the reports are thick and seemingly contain much information, but the actual extent of what is done beyond legal requirements remains limited (Fougere & Solitander, 2009). Although many companies advocate CSR in theory, they would not in practice increase stakeholder welfare at the expense of shareholder wealth (Karnani, 2010). These firms may promote their reputation in the community through rhetoric and advertisements related to their CSR efforts. However, they do this to shift the focus from their flaws or to increase business. This is a practice known as “greenwashing.” These firms are not pursuing CSR to benefit society. They are pursuing CSR to take advantage of consumers who are sold out to the concept of CSR.

Seventhly, The Stakeholder Theory is criticized on the ground that it has potential to destroy pluralism by enhancing the authority of government:
Friedman and Levitt feared the usurping of the authority of political institutions by businesses as a result of CSR. Such a combination of governmental and corporate authority would result in a fusing of the two institutions into a powerful, unified entity. Friedman and Levitt were concerned about the potential socialistic consequences of this fusing. They firmly believed in the concept of pluralism. Pluralism requires the separation of power between the various institutions of society. Friedman and Levitt did not desire to see an oppressive centralized government. As Levitt (1958/1979) stated in his article “The Dangers of Social Responsibility,” “Government’s job is not business, and business’s job is not government. And unless these functions are absolutely separated in all respects, they are eventually combined in every respect”.

The implementation of CSR would likely cause significant disagreement among shareholders as well. Some of the shareholders would promote CSR. On the other hand, some shareholders would support the sole pursuit of profit. Even if, shareholders agreed that CSR were beneficial, they may differ as to where it should be directed. Furthermore, the stakeholders would be competing for the implementation of various CSR programs. How could a business manager discern which program(s) would be the best to pursue? Shareholder theory overcomes this weakness of stakeholder theory by focusing corporate efforts on a single objective, maximizing shareholder wealth. For example, a firm with a store operating in one region becomes unprofitable. The firm considers closing the store to avoid harming shareholders. Stakeholder theory may suggest that the company leave the store open to continue to provide for the store’s employees and community. Shareholder theory proponents would propose that unless leaving the store open would maximize long-term shareholder wealth, it should be closed. Although stakeholder theory sounds reasonable, it may introduce more problems than it solves. It is practically impossible to serve the interests of each of the stakeholder groups simultaneously.
5.7.2 Criticism of CSR on other Fundamental Principles

The concept of CSR is also criticized on following fundamental grounds:

5.7.2.1 Presently CSR seems to be mere rhetoric not action\footnote{Henry Mintzberg; The case for Corporate Social responsibility in Corporate Social Responsibility edited by Andrew Crane & Dirk Matten; SAGE Library in Business Management,1983, P. 12.}

The most elementary attack comes from those who simply do not trust corporations. They view all of the talk of social responsibility as a giant public relations campaign. The head can pronounce; the hands do not necessarily "respond. Thus, chief refers to the “Gospel of Social Responsibility, “designed to justify- the power of managers over an ownerless system”: “Managers must say that they are responsible, because they are specialist”. Chamberlain writes, “The most common corporate response to criticism of a deficient sense of social responsibility has been an augmented program of public relations”.

5.7.2.2 Lack of Personal Capabilities

Another, more far-reaching attack is that by the very nature of their training and experience, businessmen are ill-equipped to deal with social issues. Theodore Levitt argues that the typical senior executive of the large corporation is there because he is an expert on his own business, not on social issues.

By having had to devote so much time to learning his business, “he has automatically insulated himself from the world around him”, denying himself the knowledge and skills needed to deal with social issues. Others make a related case by claiming that the orientation of business organizations toward efficiency and control renders their leaders inept at handling complex social problems, which require flexibility and political fineness.
5.7.2.3 Theoretically Corporation’s Structure Precludes Social Responsibility

Perhaps most devastating of all, the third attack claims that social responsibility is not possible in the large corporation, given the nature of its environment, structure, and control systems. Appropriate or not, social responsibility, it is claimed, simply cannot and does not work. Proponents of social responsibility are dismissed as naïve. Corporations, by the nature of their activities, create the social problems. How can they solve them? Others claim that socially responsible behavior is precluded in the economic system. We have. Tumin, for example, bases his argument on “the principle of least morality-,” that competition or creed causes some participant to depart from the rules and the rules of social responsibility as noted, are vague and not officially enforced in any event, forcing others to follow suit. Business, as a result, “tends to bring out, standardize, and reward the most unsocialised impulses of mass”. There is a good deal of evidence to back up the cynicism of these commentators. But before we turn to it, let us consider a final and more far-reaching attack on social responsibility.

5.7.2.4 Corporation has no right to pursue social goals

The fourth attack is that the corporation has no right to pursue social goals. The argument is a simple and appealing one: Corporation managers lack broad public legitimacy; at best they are appointed by private shareholders; more likely they are self-selected. Therefore, they have no right to pursue broad social goals, to impose their interpretation of the public good on society.

Some critics ask what values will be embedded in the “socially responsible choices of businessmen. How much of business ideology bigger is better, competition is good, material wealth leads to a better society, etc. will come along with these choices?”. In a paper titled “The Dangers of Social Responsibility” Levitt comments that “its
guilt-driven urge" has caused the modern corporation to reshape “not simply the economic but also the institutional, social, cultural, and political topography of society”.

He sees the continuation of this trend as posing a serious threat to democracy: “business statesmanship may create the corporate equivalent of the unitary state”. And then there is the argument that the function of business is economic, not social. Social responsibility (at least in its pure form) means giving away the shareholders’ money: it weakens the firm’s competitive position, and it dilutes the efforts of its managers, who are supposed to focus on economic productivity. The best known voice here is that of Milton Friedman:

What does it mean to say that the corporate executive has a “social responsibility” in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers.

To Friedman: “There is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. 63

Thus, we have the arguments against social responsibility. Businessmen cannot be trusted; they are ill-equipped to deal with social issues; their corporations are not structured to do so; and they have no business even trying to do so. Let them stick to their own business, which is business itself

5.8 Issues & Challenges in Implementation of CSR mechanism

Lack of clarity about definition leads to uncertainty of meaning, nature & scope of corporate social responsibility. Even though the researcher accepted the Carroll’s definition as most suitable and

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comprehensive definition of CSR but at the level of implementation there is lot of confusion about the meaning, nature & scope of CSR. This situation leads to uncertainty about the contents and practices which corporate should undertake to become socially responsible. This situation of uncertainty leads to confusion and confusion creates impediments in implementation of CSR principles. Then there is overlapping of practices of CSR with that of Corporate Governance. This also leads to confusions among managers.

There is no standardization about the contents of CSR reporting. As far as contents of CSR reporting is concerned there are certain guidelines but they are voluntary in nature and thus optional in respect of its contents and frequency of publishing.

There is no mechanism to co-ordinate the similar CSR activities of different corporate entities. Presently, In India the field of CSR is not regulated and there is no mechanism to monitor and co-ordinate the activities of different corporate entities, whereas to have any meaningful contribution on account of CSR then there is need to pool resources of different corporate entities but same is not being done because there is no mechanism established to handle the CSR fund collection and utilization.

5.8.1 Lack of Community Participation in CSR Activities

There is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is largely attributable to the fact that there exists little or no knowledge about CSR within the local communities as no serious efforts have been made to spread awareness about CSR and instil confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots. (Times of India Survey on issues and challenges)
5.8.2 Absence of Local Capacities

Presently in India the capacities of the local non governmental organizations & other agencies which can implement CSR is not adequate. There is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.

5.8.3 Issues of Transparency

Lack of transparency is one of the key issues brought forth by the researcher. There is an expression by the companies that there exists lack of transparency on the part of the local implementing agencies as they do not make adequate efforts to disclose information on their programs, audit issues, impact assessment and utilization of funds. This reported lack of transparency negatively impacts the process of trust building between companies and local communities, which is a key to the success of any CSR initiative at the local level.

5.8.4 Non-availability of well organized Non-Governmental Organizations

It is also observed that there is non-availability of well organized non governmental organizations in remote and rural areas that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities. This also builds the case for investing in local communities by way of building their capacities to undertake development projects at local levels.

5.8.5 Visibility Factor

Firstly, the claims of various companies are not visible on ground and it is very much possible that the claims may be false or may be made with the intent of avoiding tax or sight of law. The role of media in highlighting good cases of successful CSR initiatives is
welcomed as it spreads good stories and sensitizes the local population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many non-governmental organizations to involve themselves in event-based programs; in the process, they often miss out on meaningful grassroots interventions.

5.8.6 Narrow Perception towards CSR Initiatives

Non-governmental organizations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more donor-driven than local in approach. As a result, they find it hard to decide whether they should participate in such activities at all in medium and long run.

5.8.7 Lack of Consensus on Implementing CSR Issues

There is a lack of consensus amongst local agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between local implementing agencies rather than building collaborative approaches on issues. This factor limits company’s abilities to undertake impact assessment of their initiatives from time to time.

5.8.8 Non Availability of Specialised Agency for implementing CSR

Presently in India CSR activities are undertaken by the managers of Corporate entities who are not qualified to undertake such activities. The another agency which undertake CSR activities are Non- Govt. organization. There functioning always remain under scrutiny primarily on account of capability and transparency. These issues are existing and adversely effecting the implementation of CSR activities.
5.8.9 Misuse of Funds distributed for Philanthropy by the Corporate

In the absence of effective control over money donated by the corporate in the absence of any constructive relations between the provider and end user and also due to lack of monitoring by the provider there are chances that the money received for philanthropic activities can be misused for other anti-social activities.

5.8.10 Misuse of CSR funds by Political & Administrative Bosses controlling the concerned Corporate Activity

In current socio-economic-political scenario where the government is regulator of corporate activity there are chances that the criteria for selecting the beneficiary of CSR activities may be manipulated according to the whims & fancies of the regulators and they can even be misused for political gains.

All these issues & challenges existing in India are adversely effecting the development of CSR mechanism. The primary reasons for this situation can be attributed to following reasons

Firstly, the adoption of CSR practice is voluntary not mandatory.

Secondly, the field of CSR is regulated by indirect or related legislation not by a specific dedicated legislation.

Thirdly, the CSR is undertaken by non-qualified, amateur professional and not by specialized personnel.

Fourthly, there is no specialized agency to implement, monitor and audit the CSR mechanism & activities.