UNIT 5 - CORPORATE SOCIAL RESPONSIBILITY

"It takes 20 years to build a reputation and only 5 months to ruin it" - Warren Buffet

Various Definitions of CSR:

- CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce & their families, local communities and the society at large families, local committees and other society at large (World Business Council)
- CSR encompasses the extent to which companies should promote human rights, democracy, community improvement and sustainable development objectives throughout the world (Confederation of British Industry, 2001)
- CSR is the commitment of the business to contribute to sustainable economic development working with employees their families, the local community and society at large to improve quality of life in ways that are both for business and good for international development. (World Bank)
- Business should not only be responsible morally to the stake holders but also to the society, environment and towards a sustainable planet at large.
- CSR can also be called as socially responsible business, responsible business conduct, responsible entrepreneurship, corporate citizenship, corporate accountability or corporate sustainability.
- CSR requires companies to acknowledge that they should be publicly accountable not only for their financial performance but also their social and environment record.

What is CSR?

Corporate Social Responsibility is an extended model of corporate governance. It is about how companies manage the business processes to produce an overall positive impact on the society. It is the responsibility of corporations to go above and beyond what the law required them to do. It is the responsibility of corporations to contribute to a better society and cleaner environment.

Businesses operate in society. They contribute their part to the development of society. However, while undertaking some of the activities, businesses may harm some or the other valuable aspect of society. Businesses may pollute the environment; they may employ workers under extortionate terms, or they may undertake some activities that would undermine the interests of shareholders and other stakeholders.

Corporate Social Responsibility is a concept that outlines the larger responsibility of businesses towards the society. It seeks to reduce negative externalities associated with carrying out activities in a business and enhance their positive externalities instead. It is thus, about encouraging the corporate to adopt responsible business practices.

Dimensions of CSR:

- Business ethics, values and principles.
- Accountability and transparency (legal compliance)
- Commitments to socio-economic developments
- Environmental concerns
- Human rights
- Workers rights and welfare
- Sustainability
- Corporate governance

Benefits of CSR:

- ✓ Increased employee loyalty and retention
- ✓ Increased quality of products and services
- ✓ Increased in Customer loyalty
- ✓ Increased in reputation and brand image
- ✓ Greater productivity and quality
- ✓ Reduced regulatory
- ✓ Access to capital market
- ✓ Product safety and decreased liability
- ✓ Less volatile stock value

CSR TOWARDS DIFFERENT STAKEHOLDERS

SPECIFIC SOCIAL RESPOSNSIBILITES TOWARDS STAKE HOLDERS

Society	Government	Share holders/ Owners	Employees	Consumers	Investors	Creditors

Responsibility towards Society:

- ➢ Carrying of business with moral and ethical standards
- ➢ Prevention of environmental pollution
- ➢ Minimizing ecological imbalance
- ➢ Contributing towards the development of social health, education
- ➢ Making use of technology
- ➢ Overall developments of locality

Responsibility towards Government:

Business enterprises must carry on their business activities within the framework of rules, regulations and directions laid down by the central, state governments and local governments.

- Obey rules and regulations
- Regular payment of taxes
- Cooperating with the government to promote social values
- Not to take advance of loopholes in business laws.
- Cooperating with the government for economic growth and development
- Not to indulge in monopolies and restrictive trade practices
- Not to encourage corruption.

Responsibility towards Shareholders/Owners:

In corporation, shareholders are the owners. The owners expect a fair return on their investment as well as their investment. Shareholders also require a business to invest their funds only in productive and profitable activities.

- To ensure a reasonable rate of return overtime
- To work for the survival and the growth of the concern
- To build reputation and goodwill of the company.
- To remain transparent and accountable

Responsibility towards Employees:

The success of an organization depends on its employees. There are many responsibilities of corporation or business in relation to employees.

- To provide a healthy working environment
- To grant regular and fair wages
- To provide welfare services
- To provide training and promotion facilities
- To provide reasonable working standards and norms
- To provide efficient mechanism to redress grievance
- Proper recognition of efficiency and hard work.

Responsibility towards Consumers:

All the business activities revolve around the customer. No enterprise can survive without caring the customer. Responsibilities of corporation towards customers are

- Supplying socially harmless products
- Supplying quality, standards as promised
- Adopt fair pricing

- Provide after sales services
- Restricting block marketing and profit earning
- Maintaining consumer grievance cell
- Fair competition

Responsibility towards Investors:

Investors include persons and institutions that provide medium term and short term finance by way of investment in debentures, bonds, public deposits and loans. Investors include the investing public, finance companies, banks and financial institutions.

- Regular payment of interest
- Safety of investment.
- Repayment at maturity.

Responsibility towards suppliers and Creditors:

Suppliers mean those who provide or supply the required raw material, intermediary products etc, for the purpose of production. Suppliers making supplies on credit basis are known as creditors.

- Regular orders
- Fair terms regarding supplies
- Reasonable credit period
- Timely payment to suppliers / Creditors.

ARGUMENTS FOR AND AGAINST CSR:

Arguments for	Against
1.Corporate should have some moral and social obligations to undertake for the welfare of the society. 2.Proper use of resources, capability and competence 3.Expenditure on CSR is a sort of investment 4.Companies can avoid many legal complications 5.It create a better impressions 6.Corporate should return a part of wealth	1.Fundamental principles of business gets violates 2.Very expensive for business houses 3.CSR projects will not be successful 4.They are not the special areas of any business 5.CSR undue them to steal away the shareholder money

COMMON INDICATORS FOR MEASURING CORPORATE SOCIAL RESPONSIBILIITY:

Group	Indicators
Trade, Investment and Linkages	1.Total Revenues 2.Value of imports and exports 3.Total new investments 4.Local Purchasing
Employment creation and labour practices	5.Total workforce with breakdown by employment contract and gender. 6.Employee wages and benefits with breakdown by employment type and gender 7.Total no. and rate of employee turnover 8.Percentage if employees covered by collective agreements.
Technology and Human Resource Development	9.Expenditure on Research and Development 10.Average hours of training per year per employee broken down by employee category 11.Expenditure on employee training per year per employee broken down by employee category.
Health and Safety	12.Cost of employee health and safety 13.Work days lost due to occupational illness, injuries, accidents.
Govt. and Community Contributions	14.Payments to Government 15.Voluntery contributions to civil society
Corruption	16.No. of convictions for violation, corruption related laws or regulations and amount of fines paid/payable.

CORPORATE SOCIAL REPORTING : [MANDATORY DISCLOSURE REQUIREMENTS]

It is mandatory for companies to disclose in Board's Report, an annual report on CSR. The report of the Board of Directors attached to the financial statements of the Company would also need to include an annual report on the CSR activities of the company in the format prescribed containing following particulars –

- ✓ A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
- ✓ The Composition of the CSR Committee.
- ✓ Average net proflt of the company for last three financial years
- ✓ Prescribed CSR Expenditure
- ✓ Details of CSR spent during the financial year.

In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.

A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company. If the company has been unable to spend the minimum required on its CSR initiatives, the reasons for not doing so are to be specified in the Board Report. If a company has a website, the CSR policy and the report containing details of such activities have to be made available on the company's website for informational purposes.

CORPORATE SOCIAL RESPONSIBILITY IN INDIA

CSR is not a new concept in India. It gained legal force when it was incorporated under ***Section 135*** of the ***Companies Act, 2013***.

Under this Act, every company that has a net worth of Rs. 500 crore or more, or a turnover of Rs. 1000 crore or more, or a net profit of Rs. 5 crores or more shall be obligated to constitute a **Corporate Social Responsibility Committee**. Such a committee must be constituted by three or more directors of the Board, and at least one of the directors must be an independent director. It is the responsibility of the Committee to formulate a CSR Policy.

Such a policy must duly indicate activities that the company plans to undertake amongst those enlisted in ***Schedule VII*** of the ***Companies Act***. Moreover, these companies must spend at least 2% of the average net profits of the preceding three financial years. These activities include promotion of education, eradicating extreme hunger and poverty, promoting gender equality and empowerment of women, improving maternal health and reducing child mortality, combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, promoting hygiene and sanitation in backward areas, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Tribes, the Scheduled Castes other backward classes, minorities and women and such other matters as may be prescribed.

The Companies Act requires companies to focus more on the local areas where they operate to undertake their CSR activities. Companies also have the option to collaborate with other companies for the purpose of undertaking CSR activities. However, companies have to make separate CSR reports of their own.

Business Responsibility Reporting as per SEBI Guidelines

Through Business Responsibility Report, SEBI mandates that the listed companies disclose all the practices that they have adopted in pursuance of CSR to all of its stakeholders.

The Ministry of Corporate Affairs came out with the ***'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'.*** These guidelines consist of principles that the companies need to adopt as part of their corporate social responsibility. To make the activities conducted under CSR by publicly listed companies more transparent, SEBI has made it mandatory for top 100 listed entities to include Business Responsibility Report as part of their Annual Reports. It is also mandatory for them to furnish this report to the stock exchange and also publish it on their websites for easy access to all the stakeholders. For other listed companies disclosure of Business Responsibility Reports (BRR) has been made voluntary.

In cases where a foreign company has its subsidiary in India, it is mandatory for them to make their own separate BRR. SEBI has after that, published the prescribed format of the BRR. It is essential for every top 100 listed company to provide basic information about themselves like its financials, related performance indicators and the practices it has adopted in pursuance of CSR. This information is expressed through indicators such as total turnover, profits after tax and total spending on CSR. Additionally, these entities are obligated to disclose the following information in its report:

- The list of entities to which the BRR and the company policy applies.
- The company is required to report on at least three of its products or services.
- It must indicate the proportion of goods and services received by the company from its distributors or suppliers that are a part of the company`s policy and is compliant with environmental and social standards prescribed.
- It must describe the mechanism the company has in place to recycle its products after consumption as well as wastes generated after that and also at the time of production.

- The number of stakeholders' complaints received in a financial year, and the number of complaints satisfactorily responded must also be mentioned.
- Some customer complaints received and the percentage of that which were addressed.
- Some complaints against the company that relates to discriminatory employment, sexual harassment, employment of child labor, forced labor or involuntary labor and the percentage of these complaints that have been addressed or are pending.

The company must also provide information with regards to its principle-based performance. These principles are as follows:-

- Carrying out of business with ethics, accountability, and transparency.
- Providing goods and services that are safe and contribute to sustainability throughout their life cycle.
- Promoting the well-being of employees.
- Respecting the interests of all the stakeholders and being responsive to towards them.
- Respecting and promoting human rights.
- Respecting, protecting and making efforts to protect the environment.
- While engaging in influencing of regulatory bodies, customers and the public at large, businesses should act responsibly.

Thus, it can be concluded that the requirement of furnishing Business Responsibility Report, exhorts businesses to instill core principles that are essential for carrying out responsible business practices. This would help businesses to implement responsible business practices as a core part of their business model.

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