

## **Corporate Social Responsibility-Issues, Challenges and Opportunities**

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### **Abstract**

Corporate Social Responsibility (CSR) has existed in name for over 70 years. It is practiced in many countries and it is studied in academia around the world. However, the concept of CSR is understood differentially by many countries despite increasing pressures for its incorporation into business practices. Corporate means any group of people that work together in a company or organization, whether for profit or non-profit. More and more companies are recognizing the need and the benefits of being socially responsible with the aim to contribute to sustainable development of society. To do so, economical, environmental and social aspects need to be balanced in a responsible way. During the last years, the term social responsibility has been discussed in many for a and now the scope has been very much widened. Now, the term corporate social responsibility (CSR) has assumed much significance on account of increasing problems of pollution, corporate scams etc., It represents ethical and transparent behaviour that takes stakeholders' interest into account and follows international laws and norms (ISO/DIS 26000, 2010). The draft for the International Standard ISO 26000 provides the underlying principles of social responsibility, the core subjects and issues pertaining to social responsibility. The purpose of the initiative is to align business operations and strategies everywhere with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. For the first time in the Indian history, the Central Government has redefined the role of CSR. In the present era of stiff and intense competition, it is imperative on the part of corporates to generate and sustain goodwill among their stakeholders and the community at large

**Key Words:** Business Practices, International laws and Norms, Environment, Anti-corruption, Initiative, Universal.

## Introduction

The term CSR has various dimensions. There is no single definition. In fact, different personalities have defined CSR in different ways and thus the concept of CSR has been widened and discussed at various forums at the global level.

According to the World Bank group, the term corporate responsibility is defined as

*“the commitment of business to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda and society at large”.*

The definition set by the European Union 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” (European Commission, 2010).

According to the definition of the United Nations (1987), CSR is the overall contribution of business to sustainable development, being defined as: “a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations.” Other international forum, such as the United Nations Conference on Environment and Development in 1992 and the World Summit on Sustainable Development in 2002 have highlighted the importance of these objectives over the years since 1987. The main motivational factors for small businesses to be socially responsible were as follows:

- Learning for staff-new skills and competencies developed
- Improved culture-increased motivation and commitment of staff
- Reputation-enhancing the firms’ image locally
- Recruitment-links with potential recruits
- Productivity-gathering innovation for products and efficiencies
- Corporate responsibility-personal satisfaction from discharging wider responsibilities
- Customers-expanding the customer base

## Objectives of the study

The study is undertaken with the following objectives:

- a. To study the conceptual framework of CSR.
- b. To identify the linkage between CSR and Risk management
- c. To examine issues, challenges and opportunities relating to CSR
- d. To know the anti-bribery practices based on the PACI.

## I. Conceptual Framework of the CSR

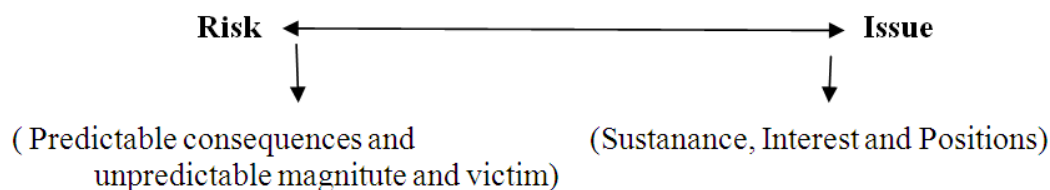
According to Bradshaw and Vogel (1981) there are three pillars or contributors that add to the social performance of any business concern. These three pillars are; corporate policy, corporate philanthropy, and corporate responsibility. *Corporate philanthropy* includes donations for some social cause or for the welfare of

marginalized social groups, having no direct link to its business promotion or economic goals. Corporate philanthropy mostly focuses on delivering monetary Contributions to support the causes like; education, child care, health, religious or community welfare and development. The famous management Guru Prof. Michael Porter and marker (2002) call it a most cost effective way for a firm to improve its competitive advantage. *Corporate responsibility* denotes behavioral Pattern of the corporation while it is pursuing its corporate goal of maximization of profits. Whereas, the *Corporate Policy* defines firm's approach towards the issues of public concerns –capable of affecting business life and the well being of the society as well. There are number of models that provide framework of the CSR however, Carroll's CSR Pyramid' has been validated by a number of research studies (Pinkston& Carroll, 1996



## II Linkage between CSR and Risk management

Companies through their enhanced operations, value chain, new technology and the changed economic environment are exposed to various risks associated with sensitive issues such as consumer rights, women empowerment, human rights, labour, environment and anti-corruption. These sensitive issues can easily harm the reputation, brand and image of the company, which can lead to financial loss through consumer boycotts and business-opportunity loss (Kytte, 2005). A risk is “an event or situation which could adversely or beneficially affect the business' ability to achieve its objectives, maintain a good reputation and meet stakeholders' expectations” (Reyner, 2003). A CSR risk occurs when there is a gap between the expectations from society and the company business behaviour (Zaman, 2004). A company needs to be sensitive to the shift in expectations of its stakeholders to be able to anticipate CSR risks. Expectations are usually raised by opinion influencers, and expressed quickly.



CSR is related to risk management through two means:

- by providing intelligence for identifying risks and as a source of information about CSR risks.
- by offering effective means to respond to them.

The prerequisite for these means, and for an effective CSR performance, is managing stakeholders' relationships (Kytel, 2005). CSR risk management needs to be integrated with other forms of strategic risk management processes through internal and external risk sensing, reporting and monitoring practices. Primarily, CSR issues should be handled and addressed by a company's CSR department if the attention from the public, the civil society and media grows, the company's attention to the issue must spread in the organization, and if necessary, the top management will be required to change business-operating policies (Heath and Palenchar, 2008). Only through well managed stakeholder dialogues increased understanding for the international standards with which the company is expected to comply, as well as the understanding of the stakeholder expectations, together with the linkage of the CSR and risk management process, CSR risk can be successfully managed (Heath and Palenchar, 2008).

### III. Partnering Against Corruption Initiative (PACI)

The World Economic Forum Partnering Against Corruption Initiative (PACI) was formally launched by CEOs from the Engineering & Construction, Energy and Metals and Mining industries in January 2009 in an effort to combat global corruption (World Economic Forum, 2010). Today, PACI is a multi-sectoral initiative with signatories beyond the three originating sectors and fully inclusive, meaning that all companies are invited to join PACI regardless of their size, sector or country of origin. The PACI is based on CEO commitment to zero-tolerance towards bribery and commitment to implement a practical and effective anti-corruption program within the company (World Economic Forum, 2010).

PACI is a multi-stakeholder initiative that works with a number of organizations including:

- The United Nations Global Compact (GC)
- The International Chamber of Commerce (ICC)
- The Organization for Economic Co-operation and Development (OECD)
- Transparency International (TI).
- The Multilateral Development Banks and selected International Financial Institutions.
- The Basel Institute on Governance

145 companies have committed to strengthening efforts to counter corruption and bribery through PACI and have signed a statement supporting the PACI Principles for Countering Bribery (World Economic Forum, 2010). These Principles call for a commitment to two fundamental actions:

- A zero-tolerance policy towards bribery.
- Development of a practical and effective implementation programme.

In practical terms, this will mean either implementing anti-bribery practices based on the PACI Principles or, for companies with established programmes, using the PACI Principles to benchmark existing practice. The aim of the PACI Principles is to provide a framework for good business practices and risk management strategies for countering bribery (World Economic Forum, 2010).

### **Emerging Issues in Corporate Social Responsibility (CSR)**

Earlier, Corporate Social Responsibility was considered as a peripheral issue for the business. The term customer satisfaction has been redefined in the light of changing market trends. It is not only about price and service; it now includes the impact on society with due stress on Ethical trading, Ethical advertising etc. Since Corporate Social Responsibility has assumed magnifying importance in today's context, there are lot of issues that need to be discussed in this regard. There are certain unexplored aspects of Corporate Social Responsibility which deserve special attention. The recent happening in Japan forced the entire global to rethink about CSR. After the nuclear disaster, it would not be wrong to say that Japan has witnessed an unforgettable crisis but its predicament is presenting an opportunity to discuss what CSR means today in a larger perspective and the nation is accountable for its citizens.

The notion of serving one constituency at the expense of others is giving way to the recognition that a company's mission extends beyond its immediate borders. By bringing together luminaries from various fields, our intention is to pool-in and generate ideas that will impart a new dimension to Corporate Social Responsibility as an area of research. The following emerging issues pertaining to CSR have to be properly understood and managed in the interest of well-being of society as a whole.

- CSR and Higher Education
- CSR and Environment
- CSR and Shareholders' value.
- CSR and work Life balance of employees.
- CSR and Corporate Governance.
- CSR and Ethical practices by business concerns.

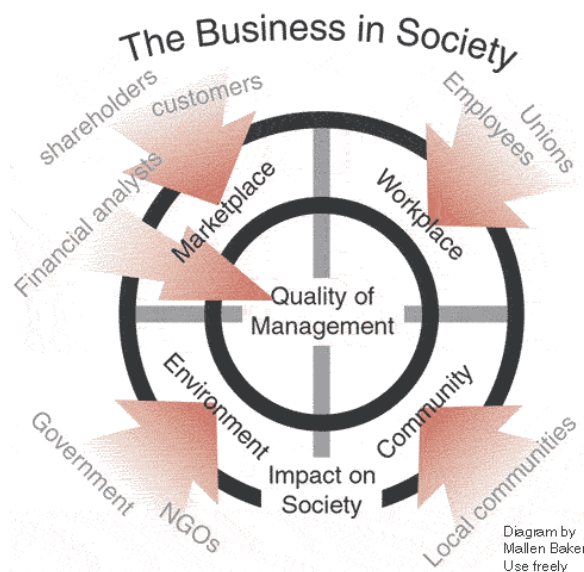
## **IV. Challenges in Corporate Social Responsibility**

### **1. Marketplace**

### **2. Environment**

### **3. Workplace**

### **4. Community**



## 1. MARKET PLACE

Emerging markets/economies refer to those countries that have participated globally by implementing their reforms for their economic improvement. Doing the right thing can be one of the most important aspect of a business in terms of securing its longer term viability. Of late, customers are becoming increasingly demanding. As price and quality become more equal, they are looking towards brand values which match their own, and companies whose activities they can respect. A huge amount of a company's market capitalization can be what are called "intangibles"-96% of Coca Cola's, for instance-and such intangibles are hugely tied to corporate reputation. An increasing number of investment companies look for safe investments and define these in terms of good management of intangibles.

Companies may feel a sense of satisfaction that they have done something to society by answering to questions such as:

- How much value do our goods and services create?
- Do we produce quality goods which are really good for the health of mankind?
- Do we approach the selling process with integrity and honesty?
- Do we buy from suppliers fairly and with due diligence?
- Do we adopt Ethical trading and Ethical advertising practices?
- What are the costs we impose on society?

In the recent past, there have been reports of high profile casualties-Monsanto on GM; Shell on the Brent Spar; Nike on human rights; and most recently Camelot on an issue relating to integrity in the supply chain. None of these companies ever imagined that they would suddenly find themselves on the wrong end of consumer opinion in a way that would damage their business. None of them believe that they were operating in an unethical way-but all of them got entangled by changing their perceptions and forgetting the emerging issues for which they are not ready.

**2. ENVIRONMENT**

Society, competitors and the government have always an eye over the functioning of various manufacturing companies, particularly chemical industry, cement industry, textile industry and other hazardous industries. Many environment legislations have been enacted to safeguard the society and to punish erring companies which violate rules and regulations framed by the government.

Companies may feel a sense of satisfaction that they have done something to society by answering to questions such as:

- How much energy we use? Do we waste water and energy resources?
- Do we have environment policy and environment audit?
- Do we produce goods which are really environment friendly?
- Do we exploit natural resources unfairly?
- Do we damage our earth and environment?
- Do we follow good environmental practices for safeguarding the nature?
- Do we follow proper procedure for clearing wastes including e-waste as mandated by Regulators?
- Are the measures taken so far for safeguarding the environment sufficient?
- What are the costs we impose on society?
- Have we taken measures for the growth and development of pollution free environment?

**3. WORKPLACE**

After the liberalization, privatization and globalization process, most of the organizations have come to understand the fact that human resources are the centre of the whole system. It is not an exaggeration to mention that most of the problems in an organization are human related and human beings are dynamic and complex in their behaviour. Today, employees are aware of their rights and they are qualified and competent to take up enviable positions in companies. In other words, human resources have to play a strategic role in realizing the business goals of organizations rather than being only a supportive service. In the changed economic scenario, companies have to rethink and evaluate themselves their role in safeguarding their employees.

Companies may feel a sense of satisfaction that they have done something to society by answering to questions such as

- Do we adopt fair policy of recruitment?
- Have we selected employees fairly, without any discrimination by adopting a meaningful and transparent selection process?
- Do we have a HR policy and HR audit?
- Do we provide proper working conditions conducive for employees to work?
- Do we exploit human resources particularly at the lower level?
- Have we taken measures to safeguard women employees?
- Do we follow safety measures in factories and offices as required by legislations?
- Do we follow good environmental practices for safeguarding the nature?
- Do we follow proper wage policy and provide reasonable compensation or our employees as mandated by Regulators?

- Are the measures taken so far for safeguarding the health of employees environment friendly?
- Have we taken measures for imparting proper training to employees at different levels to enhance their efficiency?
- Do we follow a fair promotion and transfer policy for our employees?
- Do we comply with legal requirements regularly?
- Do our employees feel proud to work in our concerns?
- Do we provide proper environment for work-life balance of our employees?
- What are the costs we impose on society?

### ❖ COMMUNITY

Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". CSR is not a new concept in India. From the Vedic ages we have seen a reflection of business responsibility towards society. Business in ancient India was seen as a legitimate, integral part of society. The core function of business was to create wealth for society through manufacturing, selling, distributing their offerings. It was based on an economic structure that believed in the philosophy of "*Sarva loka hitam*" which means "*the well-being of all stakeholders*".

### **Greater opportunities for Corporate sector**

As said by **Peter Drucker** "The 21st century will be the century of the social sector organization. The more economy, money, and information become global, the more community will matter." A business has a lot of responsibility to the community around its location and to the society at large. In the changed environment, companies have lot of opportunities to serve various stakeholders.

For the first time in the Indian history, the Central Government has redefined the role of CSR. In the present era of stiff and intense competition, it is imperative on the part of corporates to generate and sustain goodwill among their stakeholders and the community at large. Today, the stakeholders are intelligent and they are aware of their various rights. They can file complaints easily in courts in case their rights are violated. Further, information technology has sharpened the skills of stakeholders. In the changed economic environment, corporates have a greater responsibility to society as a whole. Accordingly, companies have abundant opportunities and can do take up CSR activities such as:

- (i). eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;



- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water;
- (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents;
- (vii) training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
- (viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

**Other activities such as**

- Taking appropriate steps to prevent environmental pollution and to preserve the ecological balance.
- Rehabilitating the population displaced by the operation of the business.
- Contributing the overall development of the locality.
- Taking steps to conserve scarce resources.
- Contributing to research and development.
- Development of backward areas.
- Promotion of ancillary and small-scale industries.
- Making possible contribution in furthering social causes like promotion of consumer education, investor education and population control.

**New requirements under the Companies Act, 2013**

The Ministry of Corporate Affairs, has recently issued Companies (CSR Policy) Rules 2014 on 27.2.2014. The term CSR policy relates to the activities to be undertaken by the company as specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company. The latest CSR (Policy) Rules, 2014 mandate companies to formulate 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. Further, the CSR policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of the company. The Central Government through the CSR (Policy) Rules has given directions to the company concerned that the Board of Directors of the company shall after taking into account the recommendations of CSR Committee, approve the CSR policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website as per the particulars specified.

**Each year the CSR Committee would prepare a CSR Plan specifying the following:**

- ✓ Baseline survey
- ✓ Activities/Projects to be undertaken
- ✓ Budget Allocation
- ✓ Time-lines
- ✓ Responsibilities and authorities
- ✓ Major results expected

The Plan will further state –

- Implementation guidelines
- Involvement of implementing agency
- Procedures and methodologies for monitoring
- Modalities of evaluation

### **Conclusion**

It is evident from the foregoing analysis that the critical aspect of a successful CSR issues management is to integrate the already existing issues and risk management functions with the CSR. The proposal has to be developed on a mutual collaboration between the CSR issue management and key aspects of Crisis Management, Enterprise Risk Management, Group Environment and Media Relations. Structured and transparent channels between the CSR issues management and the functions need to be built. If an issue arises, it must be managed quickly and effectively through these channels and, if needed, to the management, in order to minimize the risk that it develops into a crisis. The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. Some of the positive outcomes that may arise when businesses adopt a policy of social responsibility are benefits to the Community, Charitable contributions, Employee volunteer programs, corporate involvement in community education, employment and provision of homes to the homeless, Product safety and quality, Greater material re-cycling like better product durability and functionality; Greater use of renewable resources; Integration of environmental management tools into business plans, including life cycle assessment and costing, environmental management standards, and eco labeling. A greater collaboration would create a greater unity of the company.

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