Social Responsibility

Social responsibility is an ethical theory that an entity, be it an organization or individual, has an obligation to act to benefit society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystem. A trade-off always exists between economic development, in the material sense, and the welfare of the society and environment. Social responsibility means sustaining the equilibrium between the two. It pertains not only to business organizations but also to everyone whose any action impacts the environment. This responsibility can be passive, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

Critics argue that Corporate social responsibility (CSR) distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful corporations though there is no systematic evidence ~~to~~ support these criticisms.

Corporate governance

Corporate governance refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders.

There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud. Corporate scandals of various kinds surface often having violated public interest

Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. Another point which is highlighted in the SEBI report on corporate governance is the need for those in control to be able to distinguish between what are personal and corporate funds while managing a company.

Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors are increasingly depending on when deciding on which companies to invest in. It is also known to have a positive influence on the share price of the company. Having a clean image on the corporate governance front could also make it easier for companies to source capital at more reasonable costs. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam.

Companies Act 2013

Companies Bill 2013 received assent from President Pranab Mukherjee in August 2013.The new bill, providing for sweeping changes in the way companies operate and are regulated in the country, received Parliamentary approval in August 2013. It will replace the Companies Act 1956.

Highlights:

Certain class of companies should have at least one women director on board. This is an interesting move as it makes mandatory for company boards to have a woman representative, something that will give a greater representation to women in corporate decision-making.
National Company Law tribunal: Separate tribunal to deal with disputes such as winding up amalgamations, rehabilitation, reduction of share.

Employee Protection in Failed Companies: Must pay 2 yrs' salary on winding up of ops. Rights of workers to supersede those of secured creditors

One-Person Company: An individual can set up a 1 person company (Read ahead)

Class Action Suits: Members or depositors can file class action suits. It lays down a stringent regime for those accepting deposits from public, protection for whistleblowers. (Read ahead)

Statuary recognition to the Serious Fraud Investigation Office.

It will have powers to arrest offenders.
Once SFIO begins to investigate a case no other agency can be involved. Listed cos must have at least one-third independent directors.

An independent director cannot hold more than two consecutive terms of 5 yrs each Auditors to be appointed for 5 yrs, to be approved every year.
A person can audit a maximum of 20 companies.

Auditors can face imprisonment up to one year for violating relevant provisions and pay damages for incorrect or misleading statements.

Companies have to spend at least 2% of its average net profit during three preceding years on Corporate Social Responsibility (CSR) activities.

Amount has to be preferably spend near or around the areas the company operates.

Class action Suit

The first time class action suit came to the spotlight in the context of securities market was when the Satyam scam broke out in 2009. At that time, many small investors in India could not take any legal recourse against the software services firm's management while their counterparts abroad filed class action suit claiming damages.
Thanks to the Satyam scam, India has introduced class action suit in the new Companies Act 2013.

A 'class action suit' may be defined as a lawsuit in which a group of shareholders of a company collectively bring an action in court against an identified group of defendants belonging to the company. The Companies Act mandates the initiation of class actions suits by the members and depositors of a company in case they are of the opinion that the management or conduct of the affairs of the company are being done in a manner prejudicial to the interests of the company or its members or depositors. Under the Companies Act, class action suits can be commenced collectively by a minimum of 100 shareholders or depositors, or a minimum prescribed percentage of such shareholders or depositors, whichever is less. A class action suit may be brought against the company, its directors, auditors or any experts, advisors and consultants for their inactions and wrongdoings. Hence, the Companies Bill attempts to cast a wide net on the erring management of the company. Upon admission of a class action application, all similar applications in any jurisdiction are required to be consolidated into one single application. This provision would reduce multiplicity of litigation on the same subject matter.

The features of a class action suit under the Companies Bill certainly carry benefits for investors of a company. It provides investors with a medium to fight as one unit against the errant company or management, thereby reducing multiplicity of suits, costs of ligation and increasing their chances of success in the process. No doubt, 'class action suits' under the Companies Bill may prove to be a potent tool to keep the accountability of a company/management in check and to contain any likely prejudice against the minority. However, on the flipside, such a concept may be open to misuse by unscrupulous minority shareholders in furtherance of their vested interest thereby hampering the efficacious functioning of the company.

Class action suits have to be filed before the National Company Law Tribunal first, but banking companies are excluded from such action.

CSR

The new law would require companies that meet certain set of criteria, to spend at least two percent of their average profits in the last three years towards Corporate Social Responsibility (CSR) activities. But only companies reporting Rs 5 crore or more profits in the last three years have to make the CSR spend. The Act allows companies the freedom to choose areas of work for CSR and the mandate of a rotation in auditors every 5 years gives the process added credibility. In case, entities are unable to comply with the CSR rules, they would be needed to give explanations. Otherwise, they would face action, including penalty.

One person company

Till recently, law mandated a minimum of two shareholders to start a company. Now, Companies Act opened the doors for the entrepreneur looking to set up a company all by himself. This has been made possible by bringing in the concept of One Person Company (OPC). A one person company is a paradigm shift in the Indian corporate regime, bringing it at par with global standards and will provide a significant fillip to micro and small-scale businesses.

CSR

Corporate social responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-

Approach"), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

CSR programme follows the Triple Bottom Line (TBL) Approach to meet social and environmental standards without compromising their competitiveness. The TBL approach is used as a framework for measuring and reporting corporate performance against economic, social and environmental performance. It is an attempt to align private enterprises to the goal of sustainable global development by providing them with a more comprehensive set of working objectives than just profit alone. The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations.

Key CSR issues: environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.

A properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes.

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, meaning those on whom an organization's activities have an impact. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses.

Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. One of its focal areas is CSR.

ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to local and non-local nonprofit organizations and communities, including donations in areas such as the arts, education, housing, health, social welfare, and the environment, among others, but excluding political contributions and commercial sponsorship of events. Some organizations do not like a philanthropy-based approach as it might not help build on the skills of local populations, whereas community-based development generally leads to more sustainable development.

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. For instance, procurement of Fair Trade tea and coffee has been adopted by various businesses including KPMG. Fair trade is an organized social movement that aims to help producers in developing countries. It advocates the payment of a higher price to exporters as well as higher social and environmental standards. It focuses in particular on exports from developing countries to developed countries, most notably handicrafts, coffee, cocoa, sugar, tea, bananas, honey, cotton, wine, fresh fruit, chocolate, flowers, and gold.

Another approach is Creating Shared Value, or CSV. The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

Social accounting

It is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. Social accounting is commonly used in the context of business, or corporate social responsibility (CSR), although any organisation, including NGOs, charities, and government agencies may engage in social accounting.

Social accounting broadens the notion of corporate accountability. Environmental accounting may specifically refer to the research or practice of accounting for an organisation's impact on the natural environment. Social accounting challenges conventional accounting, in particular financial accounting, for giving a narrow image of the interaction between society and organizations. Social accounting, a largely normative concept, seeks to broaden the scope of accounting in the sense that it should:

- Concern itself with more than only economic events;
- Not be exclusively expressed in financial terms;
- Be accountable to a broader group of stakeholders;
- Broaden its purpose beyond reporting financial success.

It points to the fact that companies influence their external environment (some times positively and many a times negatively) through their actions and should therefore account for these effects as part of their standard accounting practices. Social accounting is in this sense closely related to the economic concept of externality.

"Social license" generally refers to a local community's acceptance or approval of a company's project or ongoing presence in an area. It is increasingly recognized by various stakeholders and communities as a prerequisite to development. The development of social license occurs outside of formal permitting or regulatory processes, and requires sustained investment by proponents to acquire and maintain social capital within the context of trust-based relationships. Often intangible and informal, social license can nevertheless be realized through a robust suite of actions centered on timely and effective communication, meaningful dialogue, and ethical and responsible behavior.

Local conditions, needs, and customs vary considerably and are often opaque, but have a significant impact on the likely success of various approaches to building social capital and trust. These regional and cultural differences demand a flexible and responsive approach and must be understood early in order to enable the development and implementation of an effective strategy to earn and maintain social license. Governments could facilitate the necessary stakeholder mapping in regions for which they are responsible and provide a regulatory framework that sets companies on the right path for engagement with communities and stakeholders.

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones. Evidence shows a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy. Intel employs a 5-year CSR planning cycle.

Triple bottom line

People, planet and profit approach is also known as the triple bottom line. People relates to fair and beneficial business practices toward labour, the community and region where corporation conducts its business. Planet refers to sustainable environmental practices. A triple bottom line company does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy metals for example. Profit is the economic value created by the organization after deducting the cost of all inputs.

Critics

Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as in-congruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of the free market argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.

Critics of this argument perceive the free market has to be inclusive as a part of its own enlightened self interest.

Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society .CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies.

Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government.

Another concern is that sometimes companies claim to promote CSR and be committed to sustainable development but simultaneously engage in harmful business practices.

Ethical consumerism

The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand . Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

Globalization and market forces

As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subtle level of advertising. Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective.

Social awareness and education

The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through socially responsible investing (SRI) are exerting pressure on corporations to behave responsibly. The extension of SRI bodies driving corporations to include an element of 'ethical investment' into their corporate agenda's generates socially embedded issues. The main issue correlates to the development and overall idea of 'ethical investing' or SRI. The Non-governmental organizations are taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing.

Public policies

CSR has inspired national governments to include CSR issues into their national public policy agendas. The increased importance driven by CSR, has prompted governments to promote socially and environmentally responsible corporate practices. Over the past decade governments have considered CSR as a public issue that requires national governmental involvement to address the very issues relevant to CSR. The heightened role of government in CSR has facilitated the development of numerous CSR programs and policies.A key debate in CSR is determining what actors are responsible to ensure that corporation's are behaving in a socio-economic and environmentally sustainable manner.

Some Indian examples

Coca-Cola's 'Support My School', Aircel's 'Save Our Tigers' or Tata Tea's 'Jaago re'. Jaago re campaign showed simple aspects of our daily life, highlighted how we have forgotten our basic duties as citizens of India, and urged the audience to 'wake up'. In 2013, NDTV and Vedanta announced the launch of their unique initiative 'NDTV Vedanta Our Girls Our Pride', a first of its kind national movement to create awareness about issues related to the girl child.

To mark its silver jubilee, Tata Tea has unveiled a new television commercial (TVC), Soch Badlo, to salute women for being the agents of change in the society.

The TVC starts on a cynical note, with a husband, who has just finished reading the day's newspaper, telling his wife that he is fed up of reading about scams every day. As he walks over to the kitchen and asks her to make him a cup of tea, she urges him to look at the water boiling in the vessel on the gas oven. She uses the turmoil in the vessel as a metaphor for the kerfuffle that precedes change in society. Just like you get a wonderful cup of tea when you pour tea leaves into boiling water, the mayhem in the country is just an indication that things can only turn for the better, she explains.

The company says "Soch Badlo" is an extension of the highly successful 2007 "Jaago Re" campaign.

Why do companies engage in corporate social responsibility?

At least 120 were killed when a *fire* broke out in a *garment factory* outside Dhaka, *Bangladesh's* capital in November 2012. In mid-2013, the collapse of the Rana Plaza factory in Bangladesh exposed the unsafe working conditions that garment workers endure across the developing world. The tragedy also revealed the inconsistencies of some companies with respect to corporate social responsibility (CSR).

Take the case of Walmart. A month after the disaster, it refused to sign on to the safety measures adopted by more than a dozen European firms. Those companies, including Marks & Spencer, backed a plan in which they agreed to have rigorous, independent inspections of the factories they contract with in Bangladesh and to help pay for improvements in building safety.

Walmart, along with other retailers and the main retail federations, are forging their own plan to promote safety in Bangladesh's apparel industry. This effort will seek to "develop and implement a new program to improve fire and safety regulations in the garment factories of Bangladesh."

Despite their high-profile -- and widely criticized -- resistance to the originally proposed safety measures, Walmart and Gap would no doubt be quick to cite their initiatives in other areas: Gap is often considered an industry leader in CSR, and both companies have proclaimed themselves as champions of efforts promoting women.

Two years ago in 2011, Walmart launched its Global Women's Economic Empowerment Initiative, which doubled the money the firm spends on women-owned businesses and provides women around the world with job training and access to education. Gap has instituted PACE (Personal Advancement & Career Enhancement), a program to help female garment workers in developing countries advance beyond entry-level positions.

To some, the companies' rejection of the European plan -- while also touting these kinds of social programs -- appears contradictory, even hypocritical. A cynical view might be that when firms trumpet their efforts to produce organic foods, sell fair-trade T-shirts or just make the world a better place, they are diverting attention away from the more unseemly elements of their business strategies -- such as polluting the air, manufacturing goods in unsafe factories or exploiting workers with low wages. For people who see companies doing one thing with their right hand and doing another thing with the left, the question is: What is your more moral calculus?

There are some serious arguments in favor of compelling firms to abide by the standards of CSR. They are particularly relevant in the context of weak countries where even rudimentary regulatory standards might not exist or be enforced, or where such basic regulation might be subverted by corruption. It is certainly possible that industrial operations in weak or corrupt states can produce what economists call negative externalities—air pollution, water contamination, human-rights abuses—and that the need for CSR is self-evident.

CSR in Companies Act 2013

The provision related to Corporate Social Responsibility under present Clause 135 of Companies Bill 2012 applies to all companies; listed, unlisted, public, private, one – person subject to limitation based on its net worth, turnover and net profit. These threshold limits are:

1. Net worth rupees five hundred crore or more
2. Turnover rupees one thousand crore or more
3. Net Profit rupees five crore of more

There is a requirement of constitution of Corporate Social Responsibility Committee of the Board of Directors consisting of three or more directors. There must be at least one independent director in the board irrespective of nature of constitution of company; public or private. In the report of the Board of Directors under Section 134 (4) shall disclose composition of this CSR Committee.

The mandate of this committee shall be:

1. Formulate and recommend a corporate social responsibility policy
2. Recommend amount to spend
3. Monitor this CSR policy

The Government lists out government directive on this programme under Schedule VII of the Bill. Corporate Social Responsibility activities may include:—

(i) Eradicating extreme hunger and poverty;
(ii) Promotion of education;
(iii) Promoting gender equality and empowering women;
(iv) Reducing child mortality and improving maternal health;
(v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
(vi) Ensuring environmental sustainability;
(vii) Employment enhancing vocational skills;
(viii) Social business projects;
(ix) 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 castes, the scheduled tribes, other backward classes, minorities and women; and
(x) Such other matters as may be prescribed.

The Board has duty to approve corporate social responsibility policy. This corporate social responsibility policy is public document and required to disclose in (i) Board's Report, (ii) company website in prescribed manner. This is duty of board to make sure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

The Board *shall ensure* that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. Second proviso to relevant sub – section 5 gives some relief, if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

The company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

CSR directives in the Companies Bill or otherwise are in accordance with Directive Principle of State Policy enumerated by Constitution of India.

Before the Companies Bill was passed, CSR was in the nature of voluntary actions that businesses could take. It was like going the extra mile. But the provisions of the Bill, particularly Section 135, read with Schedule VII, show that the Government has adopted an inclusive growth strategy to implement CSR through corporates.

The intention of the Bill is to eradicate extreme hunger and poverty, promote education, enhance vocational skills and empower women.

The need for CSR has its roots in the fundamental moral thought — "what and how much has been given back over and above what you have taken from society."

Section 135 of the Companies Bill provides that "the functions of the CSR committee shall be to formulate and recommend a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Bill.The CSR committee shall also deliberate on the amount to be incurred on activities mentioned in the CSR Policy. It shall also monitor the CSR Policy from time to time.

The company's board, after receiving the panel's recommendations, will adopt a CSR Policy and ensure that the activities it mandates are undertaken.

The company shall not select a project that earns profit for the company, but rather take on work that benefits society.