

## Chapter-14

### Social Responsibility in Management and Corporate Social Responsibility

What is Management? What is the importance of Management? How Management improves the performance? We have already tried to answer all these questions in previous chapters of this book. In today's world, where the competition is increasing day by day different policies are created by government to meet the dynamic business scenario, ever changing legal, economical, social, cultural and technological environment which in turn increases the importance of Management. A business cannot survive without management because management is its means of support. Management is concerned with acquiring maximum prosperity with minimum efforts. Management is essential wherever group efforts are required to be directed towards achievements of common goals. Business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so that they may do something for the society.

Opinions are divided in this issue, for some Business is responsible only to its owner Like Henry Ford said once “Business is business, it is not a social institution.” Even Fredman once wrote in one of his article that Responsibilities are for people and not for Organizations to perform. While some others believe that a better business can survive and grow only in a better society through

catering to the needs of the society the reason being that all the businessmen take the required resources from society only. For those having conflicting opinions on the concept of Social Responsibility, Government has made legal provisions for Business organizations to spend a specified part of the profit occurring to the business towards welfare of the society.

In this management conscious age, the significance of Business management can hardly be over emphasized. It lays down the importance of participation of Business organizations and firms towards the upliftment of society if we are able to manage the business well and earn profit then only we will be able to supplement and support society.

Some underestimate the importance of management in business but the latest researches have shown that it is certainly not the case. The input of the labour, capital and raw materials can never become production without the catalyst of management. Management is a dynamic life-giving element in an organization. In its absence, the resources of production remain underutilized and can never become production. In fact, without efficient management, no country can become a nation and contribute towards global welfare and development.

Under the worldwide recognized and accepted Management principles, the available resources of production are put to use in such a way

that all sort of wastages and inefficiencies are reduced to a minimum so that scarce resources may be used in the best possible way and business may cater to the requirements of stakeholders such as government, creditors, investors, consumers etc. Management creates and maintains an environment conducive to higher efficiency and performance.

A business enterprise operates in a constantly changing environment. Changes in the business environment create risk and also provide opportunities for growth. A conducive and encouraging environment is indispensable for any business to grow and perform its obligation towards society. They may start with creating awareness among public at large especially consumers, woman and children, preventing pollution of any kind, planting more trees, keeping the city clean, helping in conservation of natural resources etc. It is the duty of all businessmen of our society to work towards protection and conservation of our environment as every businessman earns profit through, the cost of resources needed by society, if society will not flourish, how would the business flourish?

Business organization may undertake various modes and perform various activities to fulfil their responsibility regarding welfare and upliftment of society like educating children, funding NGO's in promoting clean and green city, providing employment opportunities to youth of the country, helping the nation in combating corruptions, undertaking various missions, programmes and campaigns to preserve and

protect our natural resources, provide free education to poor people, providing technological support and availability of computers and internet in government schools, donating funds to public welfare organizations, creating awareness on sanitation and hygiene, providing and improving credit facilities, establishing branches in rural areas and villages, organizing fair which are both entertaining and informative, providing free medical aids, spreading importance of education and sports, working for gender equality etc. All these activities results into a prosperous and progressive society which in turns benefits business in long run. This is social responsibility.

Further elaborating the concept of Social Responsibility, H.R. Bowen has said "Social Responsibility means to implement such policies, to undertake such decisions and perform such acts which are important for the implementation of social values and beliefs." According to Andrew businessmen and wealthy individuals were the caretakers or stewards of their property holding it in trust for the benefit of society as a whole.

### **Social Responsibility: concept**

Many Scholars have different opinions on the concept of Social Responsibility. Some think that by giving the best quality goods and services and meeting the requirements of society, businessmen will perform their duty of social responsibility whereas some scholars think that working for some social cause like providing free medical aids to poor, working for children education, spreading awareness about pollution

etc. accounts for Corporate Social Responsibility. Here we would like to mention the vision behind the TATA NANO car which was laid down by Ratan Tata; this one-lakh-rupee car was aimed at providing a safe and comfortable mode of transport to millions of Indians at an affordable price. Ratan Tata, the man behind the 'Nano project' set a great example of Social Responsibility.

Social Responsibility is the boosting agent behind the development of society while fostering social values, beliefs and business ethics. It further helps in protection of interest of consumers, meeting the requirements of various classes and sections of society including woman, working professional, children, old age people, disabled people, business class people, villager people, urban dwellers etc. through various programmes, campaigns, events focused on Social Responsibility and social welfare.

R. Joseph Monsen had illustrated four levels of implementation of Social Responsibility namely:

- 1) Abiding by Law First Level
- 2) Meeting the expectations of society Second level
- 3) Gauging the expectations of society before hand or in advance Third level
- 4) Nurturing the expectations of society Fourth level.

Let's elaborate:

**First Level-** This is the minimum level of Social Responsibility that we can expect from the businessmen. It refers to fulfillment of all the legal requirements by the businessmen and corporate which are applicable on them.

**Second Level-** It is the next stage after complying with the legal requirement, which focuses on meeting the expectations of different sections of the society.

**Third Level-** It is the next stage and more advanced stage, where the organizations find about the likes and dislikes of the public, identify their needs and takes steps towards satisfaction of those needs.

**Fourth Level-** It is the last stage, where businessmen and organizations use their caliber, knowledge and resources in increasing the living standard of public by providing them access to new technology, gadgets, inventions and ideas of life.

One interesting way of telling how the management concepts of proper managerial behavior have evolved over time has been nicely described by Robert and Ed Gray. They identified three phases:

**Phase 1: Profit maximizing management:** - it was derived from Adam Smith's Wealth of Nations. He believed that entrepreneurs should be allowed to pursue their own self interest for the benefit of all.

**Phase 2: Trusteeship management:** This phase began with the diffusion of the corporate ownership as thousands of stockholders shared ownership in a single enterprise. This concept gained popularity after the great depression in 1930s.

**Phase 3: Quality-of-life Management:** It came upon in 1960s, with the concept “what is good for the society is good for the company” and aimed at understanding and partnering with the government.

Ackerman also emphasized on the importance of Social Responsibility and Responsiveness program that can be used to assess the value and contribution in the fields of welfare

of Society and strategic management. According to Edward Cole in today's world the biggest challenge is ever changing environment and expectations of society.

The Concept of Social Responsibility has to be proactively and voluntarily taken up by the Corporate and other Organizations to follow and preach the concept of social welfare not only in words but in true letter and spirit. It should not be followed due to the fear of penalty under law. Corporate should work whole heartedly towards the progress of society and bring prosperity towards society. In short there are three levels of Corporate Social Responsibility: -

**1) Low Level-** Social concerns and Duties:

Corporate, Organizations, firms and all the other similar entities should perform their duties as specified under law and various other provisions applicable.

**2) Medium Level-** This level focus on performing and taking up more responsibility then what is mandated in law. Corporate, in this level identify the needs and desires of the society and strive towards attaining them. All the Corporate should act in good faith, share the profit with stakeholders, be true to the society and act as a good corporate citizen by following as the desired social norms.

**3) High Level-** In this level main focus is given on crude problems of society. Here the corporate don't wait for any mishap or problem to occur they proactively track down the issues of society which are very deeply grounded and try to

remove them for ever. Corporate become more far sighted and don't wait for any law or expectations to guide them through their duties and responsibilities.

**Social Responsibility towards different interest Group:**

**1) Responsibilities towards Oneself:** One should not hurt others while pursuing his/her goals. Following are some other points:

- Keeping in mind social concerns and issues while taking up decisions
- Maintaining decorum and decency in business
- Obtaining the membership of Professional Organization
- Following the code of conduct
- Following professionalism and Business ethics
- Support and lend in the development and research methodologies.

**2) Responsibilities towards one's organization:**

These points should be kept in mind:

- Successful working of the business
- Meeting the continuous demand in the market
- Maintaining healthy competition in the market
- Bringing newness in the business
- Developing and extending the business
- Investing in the research activities
- Increasing the profit making capacity of the Business
- Developing and maintaining
- Developing the goodwill of the company.

**3) Responsibilities towards Stakeholders:** Due to the difference between managers and



stakeholders of the Companies, Management has certain duties towards the stakeholders of the company as enumerated below:

- Keeping the capital invested by the stakeholders in safe custody
- Utilizing the capital invested for desired objectives and purposes
- Distributing the profit earned and sharing the benefit
- Act with equality and respect towards all the different stakeholders
- Disseminating required information to all the stakeholders
- Not to make secret profit and not to commit any fraud
- Not to create any hurdle in transfer of shares and units

**4) Responsibilities towards Creditors:** To meet the financial requirement of the business, creditors help in great deal by providing cash and credit facility as and when required. Management and Businessmen have certain duties towards them also:

- Utilizing the credit amount and facility efficiently
- Keeping apt terms and condition on credit facility
- Making payment of Loan and interest on time
- Keeping the Mortgaged property safely
- Keeping inform the Creditors on regular basis

**5) Responsibility Towards workers:** No Enterprise can succeed without the whole-hearted

cooperation of the employees. Responsibility of business towards employees is in the form of training, promotion, proper selection, fair wages, safety, health, worker's education, comfortable working conditions, participation in management etc. here are some of the duties mentioned:

- Providing fair compensation and benefits,
- Providing good, healthy and safe Working conditions
- To develop a sense of belongingness
- To implement good motivational policies and programmes to encourage employees
- To provide enough security and protection to employees
- To Work towards labor welfare
- To provide Social Security in form of Pension, Gratuity, Insurance etc.
- To allot work as per the caliber and interest of employees
- To provide adequate training to employees
- To provide promotion opportunities
- To involve their ideas in Employee Management Programmes
- Provide them Bonus and share in Profit
- Increase their potential and knowledge by adequate exposure

**6) Responsibilities towards Consumers:**

Consumers are the King of Market. They are the main focus of a business. Buying capacity and consumer preferences should be taken into consideration while deciding the manufacturing policies. Care must be exercised in supplying of goods to avoid any adverse effect on the health

of consumers. Consumer should always be happy and satisfied. Certain other duties towards consumer:

- To understand the needs and interest of the customers
- To supply right quality of goods & services at reasonable prices.
- Provide certified quality of products
- Avoid malpractices such as adulteration, hoarding, window dressing of accounts, wrong measurement etc.
- Immoral, False and Misleading advertisement should not be used for promotion
- Accomplish all the promises and services offered at the time of sale
- To handle the customers grievance promptly.
- Follow the code of conduct
- Conduct research on market, customers and products
- Inform consumers about the use of products
- Manufacture such products which will raise their standard of living
- Maintain adequate supply to meet the demand

#### **7) Responsibilities towards Suppliers:**

Following are the duties towards suppliers:

- Provide apt price for the goods supplied by the suppliers
- Pay suppliers on time
- Keep suitable conditions of purchase
- To bring and support innovation in raw material and supply
- Provide market related information to the suppliers

#### **8) Responsibilities towards other Businessmen:**

Following are the duties towards other businessmen:

- Maintain healthy competition
- Not to involve in any word war with other businessmen or talk ill about them
- To work only towards welfare and future of society and benefit of market
- Do not create or support monopoly
- No to use the trademark, brand and goodwill of other Businessmen.

#### **9) Responsibilities towards Business association and Professional Institution:**

Following are the duties towards Business association and Professional Institution:

- To become member of Chamber of Commerce and other similar associations
- To follow and use the materials published by these association and professional institutions
- To follow the code of conduct of these associations and institutions
- To employ the students of these professional institutions and nurture and harness their talent
- To support such associations and institutions financially
- To take part in their conferences and programmes

#### **10) Responsibilities towards Regional Masses:**

Following are the duties towards regional masses:

- Protect the natural resources and environment
- Prevent air, water and noise pollution
- To provide employment opportunities to people
- To establish hospitals, schools, old age homes

for the benefit of society

- Provide financial support to woman's, handicapped people and weaker sections of the society for their upliftment
- Follow and respect the local values and belief of the society

#### **11)Responsibilities towards Government:**

Following are the duties towards Government:

- To observe rules and law laid down by the government
- To work according to the policies of government
- To utilize the full production capacity and licensed capacity
- To avoid corrupting government employees
- To pay taxes honestly
- To donate money and fund in the programmes of government focused on the well being of people

**12)Responsibilities towards World:** Today the business is growing at fast pace and international boundaries act as no barriers to businessmen any more. World has itself become the market place for trade. Following are some duties which businessmen and corporate should perform towards world and world economy:

- To supplement and support international trade and business
- To gain values from the policies and programmes of other nations
- Not to interfere in the domestic matters of other countries
- To accept technological advancement and development of developed nations
- To follow International code of conduct

- To reconcile cultural differences and respect social values of other countries
- To help underdeveloped and developing nation in acquiring new technology and adopt new set skills of management
- Adhere to lawful behavior, maintain healthy competition and respect mutual decisions

### **Corporate Social Responsibility CSR**

Corporate have a responsibility towards society and environment which they should perform timely and make genuine efforts to improve the quality of life of people which they are accustomed to serve. It is expected from corporate and businessmen that they will look after the benefits and interest of the society as whole especially the weaker section of the society. Lately, corporate social responsibility has attracted attention from businesses and stakeholders in regard to its benefits and what it is. Corporate social responsibility has been defined differently by different writers based on what they perceive about the concept. Having learnt from the devastating effects of corporate social irresponsibility, companies are focusing on the impacts of their operations not only on profits but towards society and environment at large. Therefore, corporate social responsibility refers to "the ethical principle that an organization should be responsible for how its behavior might affect society and the environment"

Government after realizing that to implement Corporate Social Responsibility at a larger scale a law is required made provisions for Corporate

Social Responsibility in the Companies Act, 2013 under section 135 for the first time. In simple words Corporate Social Responsibility is all the efforts, work and actions which corporate take for the benefit and in the interest of the weaker section and society as whole.

As per section 135 of Companies Act, 2013, Responsibilities is mainly fixed on large corporations, who have enough finance and liquidity to supplement the progress of society both economically and socially. According to the provisions given under section 135, Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Corporate Social Responsibility Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII. Committee shall recommend the amount of expenditure to be incurred on the activities. Also, Committee is required to monitor the Corporate Social Responsibility Policy of the company from time to time. All this information should also be provided by the corporate on their working website.

The Board of every company and the committee so formed 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 and such amount should be preferably spend in the local area.

Provided that if the company fails to spend such amount, the Board shall, in its report made under section 134(3) of Companies Act, 2013 should specify the reasons for not spending the amount.

### **Provisions under Companies Act, 2013:**

Here are the detailed provisions covered under section 135 and its sub sections:

- 1.)Applicability:** Corporate social Responsibility is applicable to every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. [ Section 135(1)]
- 2.)The Board's report shall disclose the composition of the Corporate Social Responsibility Committee. [ Section 135(2)]
- 3.)The Corporate Social Responsibility Committee shall,
  - (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) Monitor the Corporate Social Responsibility Policy of the company from time to time. [Section 135(3)]
- 4.) The Board of every company shall, -
  - (a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and
  - (b) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company
- 5.) Amount required to be spent: The Board of every company referred to in sub-section (1), 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
- 6.) Preference to Local Areas: 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.
- 7.) Mention the unspent amount: If the company fails to spend such amount, the Board shall, in its report made under sub-section (3) of section 134, specify the reasons for not spending the amount.
- 8.) Calculation of profit: For the purposes of this section "average net profit" shall be calculated in accordance with the provisions of section 198
- 9.) Other provisions: In exercise of the powers conferred under section 135 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013, the Central Government has made Companies (Corporate Social Responsibility Policy) Rules, 2014 which are applicable from 1st April, 2014. Main points covered under these rules are as follows:
  - (i) Provisions made under section 135 of Companies Act, 2013 for Corporate Social Responsibility are applicable to the specified companies which meet the criteria given under sub section (1) of section 135 as well to its holding, subsidiary and Foreign Company having a branch office or project office in India.
  - (ii) A company can also collaborate with other companies for undertaking projects or programs of CSR activities in such a manner that the CSR committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.
  - (iii) Provided that the CSR projects or programs or activities undertaken in India only shall amount to CSR expenditure.
  - (iv) The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act.



- (v) An unlisted public company or a private company covered under sub-section (I) of section 135 which is not required to appoint an independent director, it shall have its CSR Committee without such director.
  - (vi) A private company having only two directors on its Board shall constitute its CSR Committee with two such directors.
  - (vii) The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
  - (viii) An Annual Report on CSR shall be included in the Board's Report of a company pertaining to the concerned Financial Year.
  - (ix) It should be noted that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.
  - (x) The company shall disclose the CSR Policy so adopted and all the activities taken up by the company under section 135 of Companies Act, 2013 on its working website.
- As per the report published under the Indian CSR Outlook, for the year 2015-16, more than 250 companies have spent an amount of one crore or more under the provisions of Corporate Social Responsibility.

## A Case Study on CSR

Success story of Cairn Corporation and its efforts under Corporate Social Responsibility in western Rajasthan.

Corporate Social Responsibility (CSR) is an integral part of Cairn's business philosophy and strategic planning, as sustainable and inclusive growth in our area of operation is essential for the holistic development of communities that are the target beneficiaries of our CSR initiatives. Rajasthan State government has held hands in hands with various organizations and corporate including Cairn for the development of various districts and parts of Rajasthan. Barmer is one such region. In 2004, when India's one of the largest oil reserves were discovered near Barmer, Cairn corporation with due coordination from State Government started extracting oil from Barmer and brought Barmer recognition in the International scenario. In previous 2 years, Cairn Corporation and Rajasthan State Government has collaborated and conducted various social programs, events and seminars to improve the condition of Barmer. Here is an illustration of some of the work done by Cairn Corporation:

### 1.) Jeevan Amrit Project:

Providing safe drinking water to the rural population in Cairn's operational vicinity by setting up water kiosks using RO technology. This also involves implementing one of the largest community drinking water projects of its kind in India. Under this initiative, 330 plus water purification units will be set up across the district to provide safe drinking water to the community in partnership with PHED, Government of Rajasthan. The operating model will ensure community ownership, usage of renewable energy to run the units, doorstep

delivery of water and reject disposal through evaporation pits.

## **2.) Household Sanitation Programme:**

Providing access to sanitation facilities to rural households in partnership with the local panchayat. Multiple areas under different panchayats will be covered over the period of the project. Panchayats have made toilets for about 2657 households out of 4500 households.

### **1.) Solar Project:**

Providing access to electricity to households in remote rural areas through solar PV based projects, in partnership with the government.

### **2.) Education Project:**

A three year program in partnership with local government and NGO partners that aims to improve the quality of education in over fifty rural government schools (primary and secondary). The program is targeting improved academic performance and enrolment, and reduction in the gender gap and drop-out rate.

### **3.) Mobile Health Van Project:**

Providing Mobile Health Van services for the rural population in Cairn's area of operation to provide access to preventive health care. Over 250,000 people benefit from this initiative every year. This program is implemented through NGO partners and the local government under the National Rural Health Mission scheme.

### **4.) Green Barmer Mission: Environment Sustainability**

Increasing the green belt in our areas of operation towards achieving environmental

sustainability. This program will be carried out in partnership with local panchayats, NGO partners and the forest department.

### **5.) Special services in Government Hospital:**

A five year program in partnership with local Government and NGO to improve the health care services. This program aims to reduce child and maternal mortality, control prevalent diseases and improve access to primary healthcare.

### **6.) Construction of Toilets in the Schools of Barmer:**

The main aim of this project to support the ideology of Swacch Bharat Abhyan and provide clean and healthy environment to students. Cairn corporation constructed 161 toilets in 91 schools of Barmer and been donated to them.

### **7.) The Cairn Center of Excellence:**

This excellence center established by Cairn will provide advanced vocational skill training in various industrial trades. The center aims to train and employ over 12000 plus rural youth in the near future. Training will be undertaken by specialized training partners. Here soft skills and spoken English classes are also held to provide overall development to youngsters.

### **8.) Employment enhancing vocational skills:**

Employment linked vocational skills training that aim to train and employ over 4000 youth in the rural areas over the next five years. Training will be undertaken by multiple specialized training providers.

### **9.) Livelihood and income enhancement:**

Increasing livelihood opportunity and sustainable income for the community through

water harvesting, improved practices in agriculture and livestock rearing, and produce market linkages. This is expected to increase the income of over 20,000 farmers in Cairn's operational vicinity over the next five years. The program will be implemented through NGO partners.

#### **10.) Aanganwadi Project:**

Joining hands with Ministry of Woman and Child development by signing a MoU, Cairn Corporation has to establish 50 Aanganwadis as the part of the First Phase of MoU. The first stepping towards the project of developing 4000 Aanganwadi's on national level was laid down in Barmer itself.

#### **11.) ITI Adoption Programme:**

While keeping in mind the new technical advancement in the Industrial sector, a change is required in ITI training to raise the bar of quality and performance so that we can compete in international market. Again on the basis of signed MoU with the technical department of Government, Cairn has adopted the ITI institutions of Barmer and Balotra to provide them with world class facilities and Infrastructure so that quality training could be provided to students.

## **EXERCISE**

### **Very Short Questions:**

1. What is Social Responsibility?
2. Write down anyone definition of Social Responsibility?
3. What is meant by Social consciousness?
4. What is meant by corporate body/corporation?

### **Short Answers Questions:**

1. Describe in brief the concept if Social Responsibilities of Management.
2. Explain the new concept of Social Responsibility of Business.
3. Explain in brief the Social Responsibilities of Management towards itself.
4. Explain in brief the responsibilities of business towards consumers/customers.
5. Explain in brief the responsibilities of business towards the Government.

### **Essay Type Questions:**

1. What do you understand by Social Responsibility of Management? Discuss its concepts.
2. Explain in brief the Social Responsibility of business.
3. Explain the provisions for corporate Social Responsibilities under company Act 2013.