ignou
THE PEOPLE'S
UNIVERSITY

MEDS-052
CSR PROCESS

Volume-1

PROGRAMME DESIGN COMMITTEE

COURSE PREPARATION TEAM

Unit Writing

Dr. Debasis Bhattacharya
ICSRM, Delhi and
Dr. Vandana Bhattacharya
NIHFW, New Delhi
(Units 1,2,3; Block 1)

Dr. Alka Chaturvedi
Kalindi College, DU
(Unit 1,2; Block 2)

Dr. Grace Don Nemching
IGNOU (Unit 3; Block 2)

Mr. Dinesh Agrawal
Former GM, NTPC
(Unit 4; Block 2)

Format Editing:

Dr. Nisha Varghese
SOEDS, IGNOU,
New Delhi

Content Editing:

Dr. Manoj K. Dash, Former Head, CSR
Odisha Power Generation Corporation Ltd.;

Dr. Nisha Varghese, SOEDS, IGNOU, New Delhi

Prof. P.V.K. Sasidhar, SOEDS, IGNOU, New Delhi

Language Editing

Mr. Praveer Shukla
New Delhi (*Language Editing*)

Programme Coordinators : Dr. Nisha Varghese <nishavarghese@ignou.ac.in>
Prof.P.V.K.Sasidhar<pvksasidhar@ignou.ac.in>

Course Coordinator : Dr. Nisha Varghese <nishavarghese@ignou.ac.in>

PRINT PRODUCTION

Mr. Y.N. Sharma
AR, (Pub.), MPDD, IGNOU
New Delhi

Mr. Sudhir Kumar
SO, (Pub.), MPDD, IGNOU
New Delhi

May, 2021

ISBN:

Further information on the Indira Gandhi National Open University courses may be obtained from the University's Office at Maidan Garhi, New Delhi-110 068 or visit our website: http://www.ignou.ac.in

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi, by Registrar, MPDD, IGNOU.

Laser Typeset by: Tessa Media & Computers, C-206, A.F.E.-II, Okhla, New Delhi

Printed at :

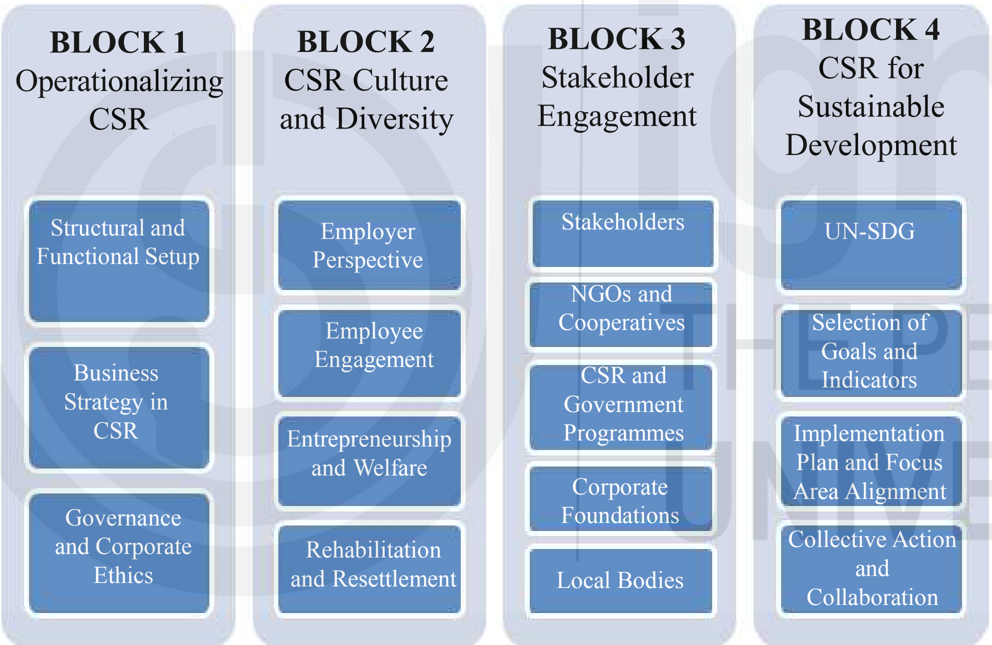
MEDS-052 CSR PROCESS

Dear Learner,

Welcome to the course, MEDS – 052 on ‘CSR Process’. After reading about the ‘Fundamentals of CSR’ in MEDS – 051, by now you have a fairly good understanding of the concept of CSR, its local and global perspectives, the various legislations that govern the CSR activities in India and in other countries, and the various thematic areas in which the CSR activities can be undertaken. In this course, we move a step forward and learn how CSR is operationalized, what the CSR culture is, who the stakeholders are and how best can they be involved in promoting CSR in its right spirit. In this course we also learn how CSR is aligned with sustainable development.

Course Structure

This course has four blocks. The content covered under each of these blocks is as follows:



Course Objectives

- To understand the CSR process in terms of the structural and functional setup, strategic planning for CSR, aligning business strategy with CSR interlinking CSR with corporate ethics and corporate governance.
- To understand CSR culture of welfare and social inclusion, employee engagement in CSR and the CSR perspective from employer’s point of view.
- To identify the various stakeholders in CSR and to know how to fruitfully engage with them.
- To be able to advocate for sustainable development through CSR.

Learning Outcomes

After successful completion of this course, the learners are expected to be able to:

- Explain in detail the steps involved in strategic planning in CSR
- List various strategies for employee engagement in CSR
- Describe how to prioritize stakeholders in accordance with their expectations and relevance to the organization
- Interlink (Sustainable Development Goals SDGs) with CSR projects and align the goals with corporate core strategies

For your convenience and easy handling, the SLM under MEDS-052 is presented in two volumes with two blocks each. Both the volumes are connected in such a way that after completing all 16 units, you will gain better knowledge and understanding of CSR Process.

Block 1, Operationalizing CSR with three units deals with the structural and functional set up, business strategy in CSR and governance and corporate ethics.

Block 2, CSR Culture and Diversity with four units discusses the employer perspective of CSR and employee engagement and also issues related to welfare, rehabilitation and resettlement.

Block 3, Stakeholder Engagement with five units discusses comprehensively the identification of stakeholders and engagement with NGOs and co-operatives, government, corporate foundations and local bodies.

Block 4, CSR for Sustainable Development with four units deals with various UN SDGs, indicators for each of the SDGs, implementation plan, alignment with the focus area, collective action and collaboration.

MEDS-052

CSR PROCESS

Block

1

OPERATIONALIZING CSR

BLOCK 1 OPERATIONALIZING CSR

Block 1: **Operationalizing CSR** consists of three units.

Unit 1: **Structural and Functional Setup** discusses the structure of CSR committee and board. It also discusses CSR policy and its objectives. It discusses in detail the steps involved in strategic planning in CSR.

Unit 2: **Business Strategy in CSR** deals with the concept of business strategy, the importance of a good business strategy and steps needed to achieve sustainable corporate strategy. It also discusses the sustainability risks and challenges for the corporate.

Unit 3: **Corporate Governance and Business Ethics** discusses the concept of corporate governance and the elements of good corporate governance. It also discusses business ethics, the importance of corporate ethics and approaches to ethical decision making.

UNIT 1 STRUCTURAL AND FUNCTIONAL SETUP

Structure

1.1 INTRODUCTION

The practice of CSR is not new to companies in India. However, what the Companies Act 2013 has done is bring more companies into the fold of CSR. Also, it is likely that the total CSR spends will increase. What is clear to many Companies is that if this increased spending is to achieve results on the ground, which is one of the core intents of the Act, then it is needed to be done strategically, systematically and thoughtfully. It is in this context that the present unit envisages equipping you for this shift towards structured engagement with communities. It suggests steps to develop a CSR strategy and policy, and identifies the key building blocks for initiating and developing the CSR programmes. It takes the CSR practitioner through some of the key choices that may be required to be made while pursuing CSR objectives and help develop internal capabilities in an organization that is socially sensitive and responsible. A major part of the unit focuses on the 'what' and 'how' of strategizing, planning, executing, and monitoring the CSR activities of companies.

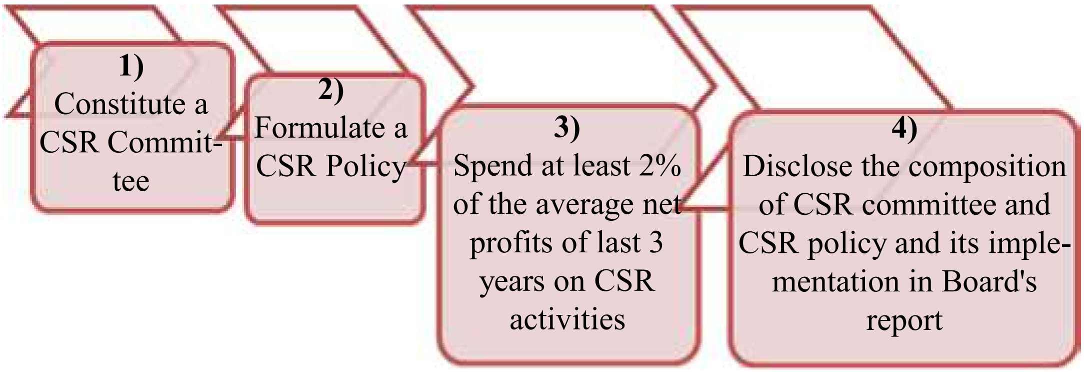
After studying this unit, you will be able to:

- Explain the policy formulation of CSR and organizational set up
- Discuss the formation of CSR Committee of the Board of Directors, its roles and responsibilities
- Identify the thematic areas
- Describe strategic project management

1.2 POLICY FORMULATION AND ORGANIZATIONAL SETUP

Once a company is covered under the ambit of the CSR, it is required to comply with the provisions of the CSR. The companies covered under Sub Section 1 of Section 135 are required to do the following activities (Fig. 1.1 and Box 1):

Fig. 1.1: Responsibilities of the CSR Committee



Box 1: List of Responsibilities of the CSR Committee

1) As provided under Section 135(1), companies are required to constitute a Corporate Social Responsibility Committee of the Board "hereinafter CSR Committee". The CSR Committee shall comprise of three or more directors, out of which at least one director shall be an independent director.
2) All such companies should formulate CSR Policy.
3) All such companies shall spend, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. It has been clarified that the average net profits shall be calculated in accordance with the provisions of Section 198 of the Companies Act, 2013. Also, provison to the Rule 3(1) of the CSR Rules that the net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with the balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Companies Act, 2013.
4) The Board's report shall disclose the compositions of the CSR Committee.

(Sourse: http://finance.bih.nic.in/Documents/CSR-Policy.pdf 0N 12/12/19)

1.2.1 The Objectives of CSR Policy

CSR Policy of a company is laid down with the following objectives:

- Establishing a guideline for compliance with the provisions of regulations to dedicate the recommended percentage of company's profits for social projects.
- Ensuring the implementation of CSR initiatives in letter and spirit through appropriate procedures and reporting.
- Creating opportunities for employees to participate in socially responsible initiatives.

Many PSUs and conglomerates do have written policies being government undertakings whereas, private companies of repute like Tata Steel, Reliance, Ambuja, Aditya Birla also have developed detailed CSR policies. The CSR policy reflects vision and mission statement, beneficiaries to be covered, thematic areas undertaken, place of implementation, etc.

1.2.2 CSR Committee and Board

The composition of the CSR committee varies based on the type of company.

Composition of CSR Committee

Type of Company	Composition
Listed	Three or more Directors including atleast one Independent Director
Unlisted and Private	Three or more Directors, an Independent Director is mandatory
Private	Two Directors
Foreign	At least two persons, one of which must be company's represenative in India

Clause 135 of the Act lays down the guidelines to be followed by companies while developing their CSR programmes. The CSR committee remains responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities.

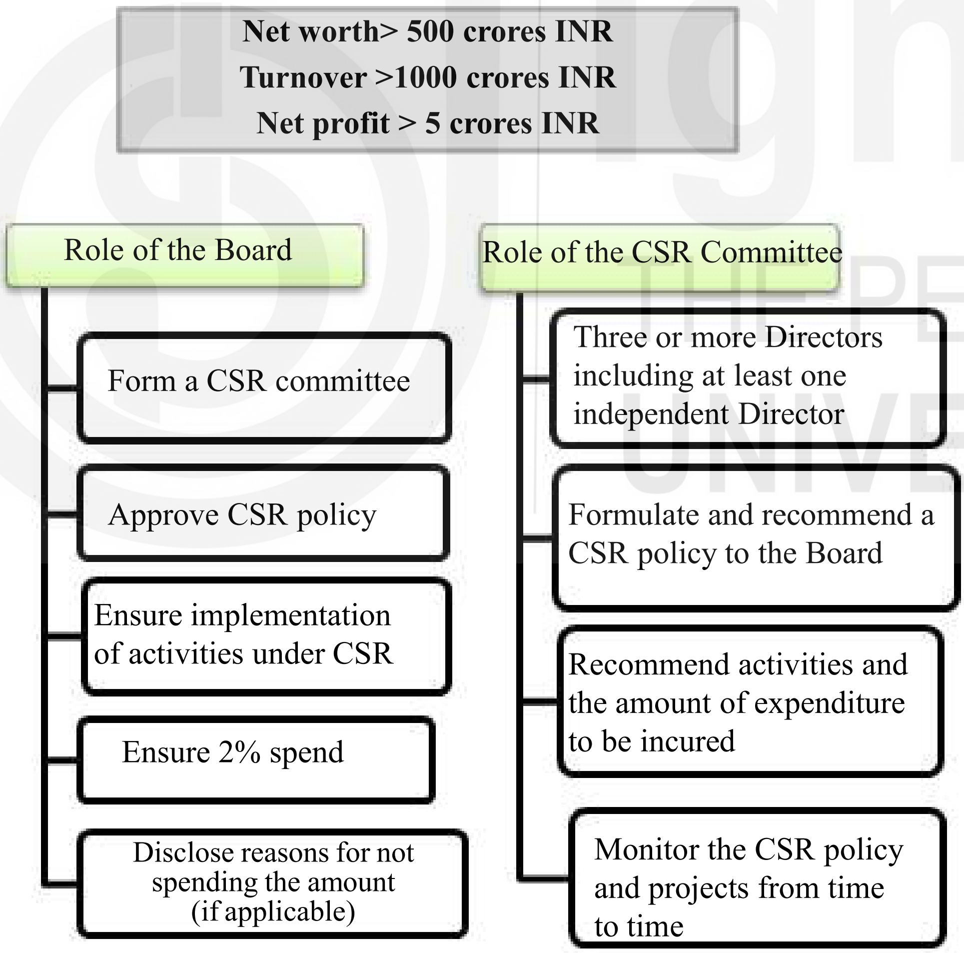


Fig 1.2: Role of the Board and the CSR Committee

The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus. The Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy of the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons.

Formulating a policy document and the selection of the board and the committee is an excellent starting point for any company new to CSR. In case a company already practices CSR, this committee should be set up at the earliest so that it can guide the alignment of the company's activities with the requirements of the Act.

For effective implementation, the CSR Committee must also oversee the systematic development of a set of processes and guidelines for CSR to deliver its proposed value to the company, including:

- Processes such as developing CSR strategy and operationalizing the institutional mechanism.
- Repetitive processes such as the annual CSR Policy, due diligence of the implementation partners, project development, project approval, contracting, budgeting and payments, monitoring, impact measurement and reporting and communication.

A set of such enabling processes, their inter-relationships and the sequence in which they need to be developed have been identified in Fig. 1.3. While developing these processes, no standard set of recommendations exist for all companies. However, an overview of the required details, the activities required to be completed for each of these processes along with some additional guidance on critical issues have been provided below:

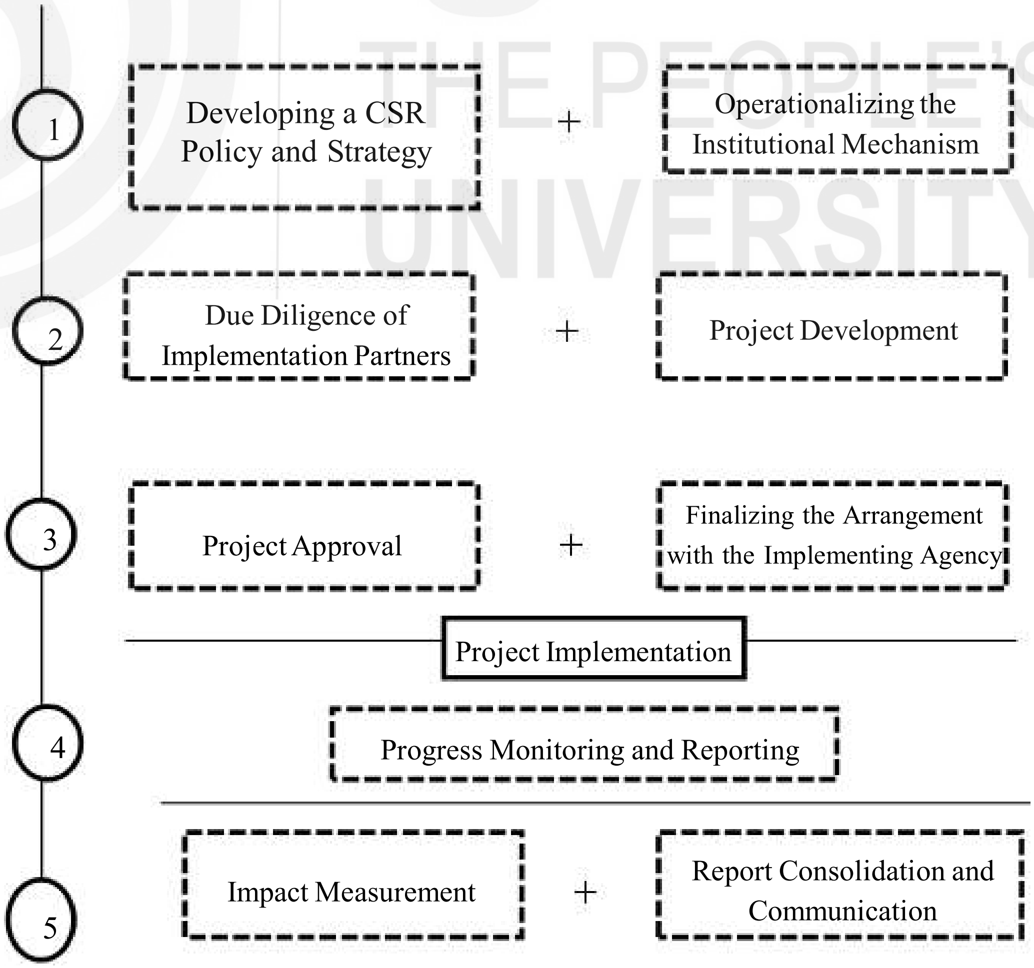


Fig. 1.3: Role of Committee in CSR Processes

1.3 METHODOLOGY OF CSR

CSR is the procedure for assessing an organization's impact on society and evaluating its responsibilities. It begins with an assessment of the following aspects of each business:

- Customers
- Suppliers
- Environment
- Communities, and
- Employees

The most effective CSR plan ensures that while organizations comply with the legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be sustainable, involving activities that an organization can uphold without negatively affecting its business goals.

Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes. It has been progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and agile relationships with the community at large. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programmes and set separate budgets to support them. Most of the time, these programmes are based on well-defined social beliefs or are carefully aligned with the company's business domain.

1.3.1 CSR Trends in India

Since the applicability of mandatory CSR provision in 2014, CSR spending by corporate India has increased significantly. In 2018, companies spent 47 percent higher as compared to the amount in 2014-15, contributing INR 7,536 crores (US $1 billion) to CSR initiatives, according to KPMG India CSR Reporting Survey, 2018. Listed companies in India spent INR 10,000 crore (US$1.4 billion) in various programmes ranging from educational programmes, skill development, social welfare, healthcare, and environment conservation, while the Prime Minister's Relief Fund saw an increase of 139 percent in CSR contribution over last one year.

The education sector received the maximum funding (38 per cent of the total) followed by hunger, poverty, and healthcare (25 per cent), environmental sustainability (12 per cent) and rural development (11 per cent). Programmes such as technology incubators, sports, armed forces, reducing inequalities saw negligible spends. Taking into account the recent amendments to CSR provisions, industry research estimates CSR compliance to improve and range between 97 to 98 per cent.

1.3.2 Examples in CSR (India)

Tata Group - The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programmes. Through self-help groups, it has engaged in women's empowerment activities, income generation, rural community development, and other social welfare programmes. In the field of education, the Tata Group provides scholarships and endowments to numerous institutions. The group also engages in healthcare projects, such as the facilitation of child education, immunization, and creation of awareness of AIDS. Other areas include economic empowerment through agriculture programmes, environment protection, providing sports scholarships, and infrastructure development, such as hospitals, research centers, educational institutions, sports academy, and cultural centers.

Ultratech Cement - Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance. Its CSR activities focus on healthcare and family welfare programmes, education, infrastructure, environment, social welfare, and sustainable livelihoods. The company has organized medical camps, immunization programmes, sanitation programmes, school enrollment, plantation drives, water conservation programmes, industrial training, and organic farming programmes.

ITC Group - ITC Group, a conglomerate with business interests across hotels, FMCG, agriculture, IT, and packaging sectors has been focusing on creating sustainable livelihoods and environment protection programmes. The company has been able to generate sustainable livelihoods opportunities for six million people through its CSR activities. Its e-Choupal programme, which aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. It's social and farm forestry programme assists farmers in converting wasteland to pulpwood plantations. Social empowerment programmes through micro-enterprises or loans have created sustainable livelihoods for over 40,000 rural women.

The above examples show that companies adapt thematic areas of interventions and accordingly plan their strategy to implement the same. In next part of the unit, you will get to know the areas given under law to be adapted by companies.

Source:https://www.india-briefing.com/news/corporate-social-responsibility-india-5511.html/

Activity 1

Visit a CSR project being implemented in the city of your residence. Enquire about the project coverage and its impact and write about them in your own words.

....

....

....

....

1.4 CSR THEMATIC AREAS / ACTIVITIES

The policy recognizes that corporate social responsibility is not merely compliance; it is a commitment to support initiatives that measurably improve the lives of underprivileged by one or more of the following focus areas as notified under Section 135 of the Companies Act, 2013, and Companies (Corporate Social Responsibility Policy) Rules 2014:

i) Eradicating hunger, poverty and malnutrition; promoting preventive health care and sanitation and making safe drinking water available;

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 centers and such other facilities for senior citizens; and measures for reducing inequalities faced by socially and economically backward groups;

iv) Reducing child mortality and improving maternal health by providing good hospital facilities and low cost medicines;

v) Providing hospital and dispensary facilities with more focus on clean and good sanitation so as to combat human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;

vi) 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;

vii) Employment enhancing vocational skills;

viii) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries;

ix) Promotion and development of traditional arts and handicrafts;

x) Measures for the benefit of armed forces veterans, war widows and their dependents;

xi) Training to promote rural sports, nationally recognized sports, sports and Olympic sports;

xii) 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 & women;

xiii) Contributions or funds provided to technology incubators located within academic institutions, which are approved by the Central Government;

xiv) Rural development projects, etc.

xv) Slum area development. Explanation — for the purposes of this item, the term, slum area, shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

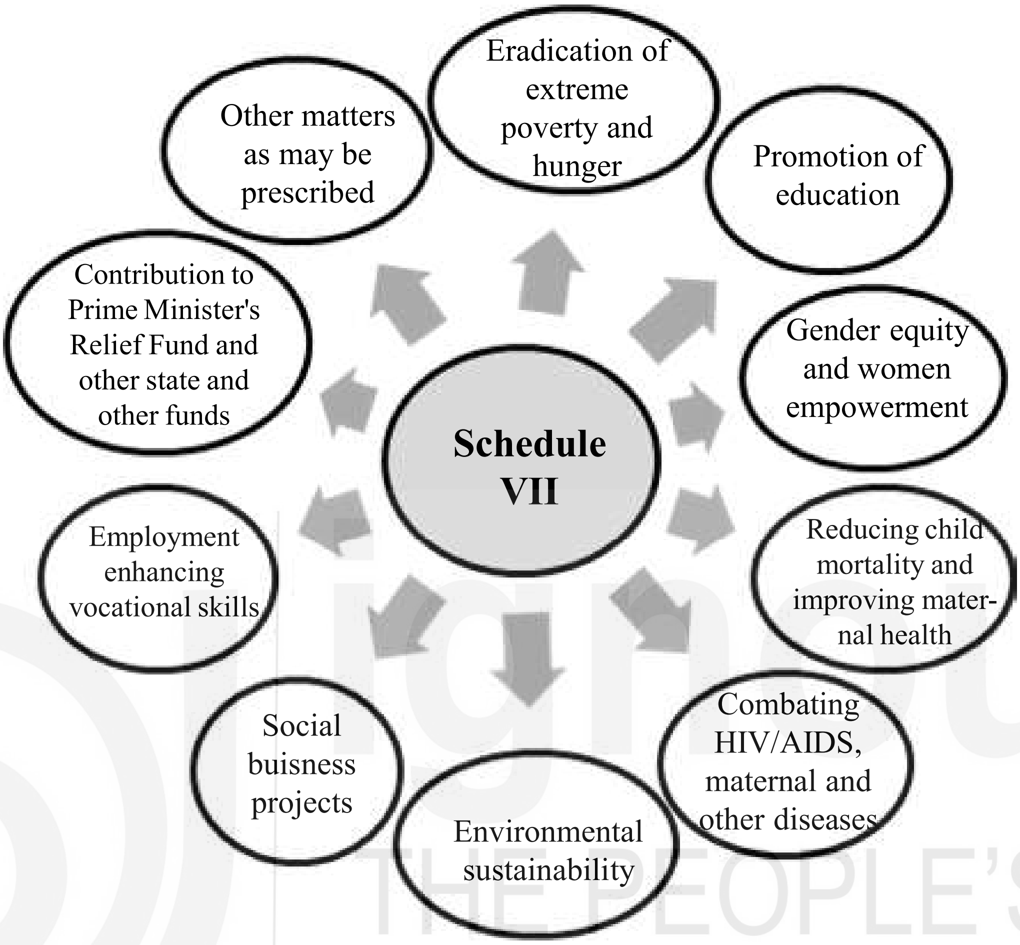


Fig. 1.4: Indicative activities under CSR specified under Schedule VII of the Act

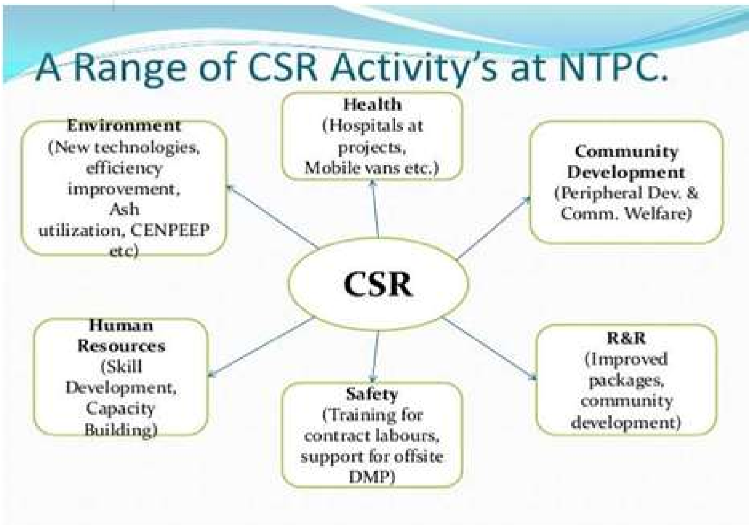


Fig. 1.5: CSR Activities at NTPC

The above list is illustrative not exhaustive. All activities under the CSR domain should be environment friendly and socially acceptable to the local people and society (Fig. 1.5, activities at NTPC under CSR). Contribution towards the Chief Minister's Relief Fund shall be a part of CSR activities over and above 2% of net profit other than the activities mentioned above. Further the Ministry of Corporate Affairs *vide* Notification dated 24.10.2014 increased the scope of contribution made towards Corporate Social Responsibility Activities namely: contribution to the Swatch Bharat Kosha setup by the Central Government for the promotion of sanitation and contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of the River Ganga.

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Name the indicative activities which can be undertaken by a Company under CSR.

....

....

....

....

....

2) Describe the composition of the CSR Committee.

....

....

....

....

....

1.5 CSR: STRATEGIC PLANNING

For effective implementation, the CSR committee must also oversee systematic development of a set of processes and guidelines for CSR to deliver its proposed value to the company, as discussed in Section1.2.2. Now this section discusses an identified set of enabling processes, their inter-relationships and the sequence in which they need to be developed as shown in Fig 1.3. While developing these processes, no standard set of recommendations exist for all companies. Following are suggested steps involved in strategic planning while developing the programme.

1.5.1 Steps in Strategic Planning in CSR

Each step is described generally under three major heads. The first head deals with the purpose of that step. The second head deals with the process which covers the objectives of that step, the owners of that particular step, the inputs required and the outputs generated as a result of fulfillment of that step. The third head describes the various activities that will form a part of that particular step.

Step I: Developing a CSR Strategy and Policy

a) **Purpose:** CSR strategy refers to what the company expects to achieve in the next three to five years and incorporates the vision, mission and goals on a broader level. It also outlines how it plans to achieve these in terms of organization and approach.

b) **Framework:** An effective CSR strategy should articulate its (i) target group; (ii) area of operation (iii) sectors or issues it wishes to address.

c) **Process:**

Objective: Developing the CSR strategy and policy.

Process owners: The CSR committee is the owner of the process.

Inputs: Guidance from the Board, requirements of the Companies Act, business strategy and plan of corporate, the involvement of the supply chain are needed; both, national and other interests of the company would be included in development priorities.

Output(s): The CSR Policy document, identification of sectors and issues, and actual benefit of people are the output.

d) **Activities:** The first part of activities would be reviewing the past and monitoring the current CSR activities to match Schedule VII of the Companies Act, 2013; Second part will define the company's activities under CSR strategies for next 3 to 5 years.

e) **Vision and Mission:** The CSR thrust is on community development. A CSR vision statement is a vivid, compelling description of its future CSR position.

i) *Sectors and issues*: CSR covers a broad spectrum of issues that must be taken into account in business conduct. This includes working conditions, human rights, and the environment, preventing corruption, corporate governance, gender equality, occupational integration, consumer interests and taxes.

ii) *Area of operation:* States and districts; underperforming states not a priority for CSR fund. Policy anomaly tilts CSR scales in favour of states.

iii) *Beneficiaries:* The target beneficiaries have every right to know if there is any social auditing and certification process in place for the money taken out (in their name) by the corporate world to check the impact of CSR.

iv) *KPIs (Key Performance Indicators)*: Global Reporting Initiative's (GRI) reporting guidelines, specifically its performance indicators, can be used to help a company create ethical Corporate Social Responsibility

(CSR) strategies and to also help stakeholder groups evaluate how much of a company's CSR initiative truly means the stakeholder definition of CSR and how much is merely philanthropy or marketing.

v) Determining the implementation mechanism:

i) Grant-making or direct implementation;

ii) Institutional mechanism: in-house department, corporate foundation, partnerships with other NGOs; implementation of CSR means that enterprises abide by laws, regulations, social norms and business ethics, effectively manage the influence of the corporate operation upon the stakeholders and the natural environment, and maximize the comprehensive value in economic, social and environmental aspects.

vi) Establish methods for monitoring and reporting: CSR project monitoring, evaluation and reporting are management requirements for the successful implementation of any CSR project to ensure that the said project achieves the required objectives.

Example-The Aditya Birla group has a vision "To actively contribute to the social and economic development of the communities in which it operates. In doing so, build a better, sustainable way of life for the weaker sections of society and raise the country's human development index".

Aditya Birla CSR Achievements

- Runs 5,000 medical camps and 20 hospitals
- Immunized 70 million children against polio
- Operates 56 schools for 46,500 school children
- Skill training for 95,000 people
- Mid-day meal every day for 63,000 children in 268 schools
- Provide solar lamps for 450,000 school children

Step II: The Institutional Mechanism

a) Purpose: In order for a corporate to gain the greatest leverage and a strategic advantage through the investment of intellectual and financial resources, they are required to select their implementation mechanism. In terms of implementation mechanism, a company has several options, which are permitted under the CSR draft rules:

i) The grants can be made directly by an in-house CSR Department or through the company's grantmaking foundation.

ii) Making grants to an independent implementation partner (which has a track record of at least three years), e.g., NGOs of state or national repute.

b) **Process**:

Objective: A company's objective is to establish a legal entity and aligning the accounting, tax, finance, administration, HR and IT systems to deliver the commitments made in the CSR policy.

Process owners: The CSR committee is the process owner.

Inputs: The CSR strategy

Output(s): (i) Creation of a separate legal entity or a CSR Department for CSR activities; (ii) Other institutional mechanisms to align the accounting, finance, administration, HR and IT systems with CSR activities.

c) **Activities:** For the CSR implementation the company should have an in house CSR department or it can collaborate with a trust, society, foundation (Not for profit Section 8 Company) for example Aditya Birla Centre for Community Initiatives and Rural Development works with WHO, Australia India Council, Bill and Melinda Gates Foundation, Habitat for Humanity, CII, European Union (EU), Global Compact Network, International Rotary Club, National Skills Development Council, FICCI, NABARD, NACO, CARE, IGNOU, Aide et Action, SEWA, BAIF, MYRADA, Basix, CARD, Art of Living Foundation, Smile Foundation, Maya Foundation, ChildLine India Foundation and local NGOs.

The next step would be to identify the implementation model (grant making, direct project execution, etc.). A funding source needs to be finalized; for CSR work, employees' job descriptions, their roles and responsibilities should be clearly stated and a proper reporting system to the CSR team should be defined. The existing finance, administration and IT systems should have a clear picture of the total CSR fund received, its expenditure and balance. The CSR team should be intimated well in advance about the allocation for the expenses (or assets created) so that the work of running the project should not be hampered.

Activity 2

Visit a CSR project being implemented in the city of your residence. Enquire about and record the names of the project partners involved in the implementation of that project.

....

....

....

....

....

Step III: Due Diligence of the Implementation Partner

a) **Purpose:** Due diligence refers to the process a company undertakes to determine the risks as well as the benefits of working with a potential implementation partner. This process has to be sufficiently effective to ensure that a company's implementation partners have the reputation, competence and integrity to deliver effective programmes on the ground. The due diligence process consists of five primary areas for investigation: competence of the implementation partner; identity; management; accountability; transparency and financial capability.

b) Process:

Objective: Selecting the implementation partner.

Process owners: The CSR department or company foundation.

Inputs:

i) The CSR Strategy and Policy.

ii) Discussions with communities, management, staff, other funders, local government officials, local leaders or influencers, auditors studying the books of accounts and the auditor's report.

Output(s): A due diligence report.

c) Activities: Establishing a due diligence criteria to evaluate the implementation, permits and licenses, systems, processes, public image, management, team strength, track record, financial capacity, competence level, presence in desired geography, compatibility with company CSR policy. Establishing due diligence criteria for evaluation and empanelment of private funders for partnership and joint projects is also required. Evaluating partnership opportunities for its risks and benefits and any conflicts of interest between the stakeholders need to be identified.

Step IV: Project Development

a) Purpose: The CSR strategy of a company will be implemented through a series of projects with clearly identified starting to end cycle. It has to have synergy between input and output i.e., funds, other resources, and total expenditure. These projects could be of any length, short duration (a few months) or multi-year.

b) Process:

Objective: Developing a feasible project proposal.

Process owners: The implementation agency (the CSR department, company foundation or the NGO partner).

Inputs: (i)The CSR Policy (ii) Institutional mechanisms (iii) Information from the government sources, previous studies done in the area, etc. (iv) Information on programmes targeting similar geographies and beneficiary groups or strategies (v) Monitoring impact, measurement reports from any earlier Projects.

Output(s): A project proposal that details:

i) project context including the roles of other stakeholders;

ii) key needs of target beneficiaries;

iii) project goals, KPI (Key Performance Indicators), baselines and expected end lines;

iv) project milestones for progress monitoring purposes;

v) activities and timelines to achieve the stated project goals;

vi) budgets along with the purpose of expenditure;

vii) risks and mitigation strategies;

viii) progress reporting: step by step narration from starting to end.

c) **Activities:**

i) Developing a framework to identify key stakeholder groups including the local community, the local government or bodies, academia and research institutions, investors, etc.

ii) Conducting a needs assessment (if required) to assess development priorities. The methodology for this can be participatory processes, surveys or a combination of the two.

iii) Studying and adopting good practices to address similar challenges based on prior experiences or lessons available from other practitioners and develop the approach.

iv) Detailing the project: objectives, beneficiaries and impact on the beneficiaries, assumptions, expected outputs and outcomes, detailed activities, potential to influence public policy and practice.

v) Identifying indicators of success with the means of verification and establish baseline for each. This can be commissioned as a separate study or can even be included at the need assessment stage.

vi) Estimating the budget and how it will be funded specifying community contributions, leveraging of government schemes and contributions from other donors.

vii) Indicating monitoring and evaluation methodologies for impact measurement.

Step V: Project Approval

a) **Purpose:** Every Project, whether developed by the in-house team or an external agency, must be formally examined and approved. This is to ensure that each project is in line with the CSR strategy and policy, that the monitoring indicators are clearly defined and relevant and that there is adequate budget available. The projects must be scrutinized carefully for their durations and resource demands.

The CSR committee is ultimately responsible for every project. It can, however, choose to delegate authority to a project approval committee consisting of company staff and outside experts with clearly defined roles and responsibilities.

b) **Process**:

Objective: Approve projects based on the CSR policy objectives, principles and guidelines.

Process owners: The CSR committee or the delegated project approval committee.

Inputs: Project proposal; due diligence report. (Should be forwarded to the implementation unit)

Output(s): An approved project proposal including a monitoring process and reporting and clear-cut delegation of work, i.e., who will do what should be outlined.

c) **Activities:**

i) Determining the delegation of power for project approval;

ii) Establishing an evaluation framework for appraisal of the project concepts;

iii) The project concept should align with CSR policy;

iv) Establish theory of change. This requires need based tests which result in value for money and efficiency;

v) Reviewing risks and mitigation measures;

vi) Identifying resource availability and any specific organizational requirements and constraints;

vii) Laying down organizational supervision and oversight requirements.

Step VI: Finalizing the Arrangement with Implementing Agency

a) **Purpose:** While working with an external agency, it is very important to enter into a formal arrangement which is referred to, here, as a Memorandum of Understanding or MoU. It defines the roles, responsibilities, deliverables, commitments and consequences in case of any breach. This is essentially a formal acknowledgement that all the partners have voluntarily consented to work together to achieve an agreed outcome that requires each one to play their respective roles.

b) **Disbursement scheduling:** For a project to deliver the desired results, it should have sufficient funds and resources to carry out the planned activities. At the same time, having excess funds in the bank account is not prudent financial management. Thus, the scheduling of disbursements is important both for the company (to plan its cash flows from the CSR budget) and the implementing agency, and hence needs to be detailed in the MOU.

A good practice suggests that the scheduling of disbursements should be linked with the activities planned for each period; this can be a quarter, six months or a year depending upon the administrative convenience and budget sizes. Thus, the project budget needs to be broken up accordingly and the funds required for the subsequent period should be made available in advance.

c) **Process**:

Objective: Agree upon and sign MoU with the partner.

Process owners: The CSR Department or Company Foundation.

Inputs: (i) An approved project proposal

(ii) A due diligence report

Output(s): MoU with the implementing agency including disbursement schedule.

d) Activities:

i) Developing a template for the MoUs based on the context. Specify the outputs and outcomes, the approach and methodology, the KPIs, key parameters to be monitored and reported, the mode of communication, contract management team, scope of change in management procedures, dispute or conflict resolution mechanisms, inspection and audit requirements, contract close out requirements, timelines, milestones and deliverables, budgets, process of invoicing and release of payments, etc.

ii) Establishing a process for negotiation (the MoU with the implementing Agency).

iii) Finally, agreeing upon and signing the MoU.

Step VII: Progress Monitoring and Reporting

a) Purpose: Routine progress monitoring serves the following three important purposes:

i) It highlights any shortcomings and helps to determine corrective action that must be taken if need be

ii) It provides an excellent opportunity for learning: what worked and what did not. This can then be immediately applied to other projects

iii) This is an essential part of the Directors' Report as per the CSR clause of the Companies Act, 2013.

b) Process:

Objective: Monitoring progress, learning lessons and helping to prepare the reporting.

Process owners: The CSR committee

Inputs: (i) The approved project proposal

(ii) Previous monitoring reports.

Output(s): (i) Determining mid-course corrections

(ii) Recommendations for future project designs

(iii) Project monitoring reports to the CSR committee.

c) Activities: (i) Based on the approved project proposal, the need is to determine the monitoring schedule for each project;

ii) Obtaining all relevant progress reports from the project, studying them and making a note of the gaps;

iii) Holding discussions with the implementation team about shortcomings (if any) and to agree on corrective actions. This may be done through a field visit or remotely, based on what has been agreed in the MoU;

iv) Holding discussions with the implementation team regarding what lessons are emerging and how they can be applied within the project as well as outside.

Step VIII: Impact Measurement

a) **Purpose:**

The impact of CSR projects can be varied. For instance, a girl child education programme can show increased enrolment and retention of girls. Further impact such as improved learning levels, will take at least a year. So, impact measurement studies have different objectives from project monitoring and typically have to be undertaken after providing sufficient time for them to manifest.

b) **Process:**

Objective: Measuring outcomes and impact of projects.

Process owners: The CSR committee

Inputs: How resource planning is done and alignment with the project MoU.

Output(s): On the basis of the impact measurement report, recommendations for future project designs need to be taken care of.

c) **Activities:** (i) Identifying methods for conducting impact assessment and outcome measurement suited to the context and size of the project and budgets available.

ii) Defining the skills required for the impact measurement team and accordingly identifying, selecting and appointing the team.

iii) Assisting the team in sample selection, conducting surveys and 'Focus Group Discussions'.

iv) Making provisions for site visits by the team.

v) Undertaking the impact measurement exercise and preparing the report.

vi) Identifying lessons for future interventions.

Step IX: Report Consolidation and Communication

a) **Purpose:** Reporting and communication close the loop between intent and achievement and are hence crucial elements of the CSR process. In the context of the Companies Act, 2013 this is also a mandatory requirement as it provides crucial inputs to preparing the Directors' Report.

b) **Process**:

Objective: Reporting the CSR at an individual project level, consolidated at a programme level and aligned with the requirements under the Companies Act, 2013 and the CSR committee.

Process owners: The CSR department

Inputs: CSR strategy and policy. It needs to be ensured that monitoring reports are aligned with the project MoU,

Output(s): Finalization of CSR reports. The report should be disseminated to the Board of Directors, investors, government agencies, beneficiaries, etc.

c) **Activities:** (i) Selecting the appropriate reporting framework that is aligned with requirements of the Companies Act, 2013 and global best practices;

ii) Consolidating project reports into programme reports and an overall CSR report

iii) The reporting format is a part of the CSR rules.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Enumerate the Companies Act, 2013, Section135: CSR Committee requirements.

....

....

....

....

....

2) Enlist the nine steps of CSR Process.

....

....

....

....

....

1.6 LET US SUM UP

Implementation of CSR within an organization is an important element for companies today. The unit explores different steps in the CSR implementation process, with the intention to create a dynamic CSR implementation model that could be utilized by organizations as guidelines when implementing CSR within their organization. CSR implementation is a complex process that needs to be integrated in every part of the organization and in the daily activities in order to be successful. CSR implementation process should also be seen as an ongoing and never ending process, rather than a strategy implementation with an evident beginning and ending.

1.7 KEYWORDS

UN Global Compact: The United Nations Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption.

Key Performance Indicator: A Key Performance Indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives. Organizations use KPIs at multiple levels to evaluate their success at reaching targets.

Memorandum of Understanding (MoU): A memorandum of understanding (MoU) is a type of agreement between two (bilateral) or more (multilateral) parties. It expresses a convergence of will between the parties, indicating an intended common line of action.

1.8 BIBLIOGRAPHY AND SELECTED READINGS

Articles

Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology, 51*(6), 1173–1182.

Bhattacharya, C. B., & Sen, S. (2003). Consumer-company identification: A framework for understanding consumers' relationships with companies. *Journal of Marketing, 67,*76–88.

Bhattacharya, C. B., & Sen, S. (2004). Doing better at doing good: When, why, and how consumers respond to corporate social initiatives. *California Management Review,47*(1), 9–24.

Bhattacherjee, A. (2001). Understanding information systems continuance: An expectation-confirmation model. *MIS Quarterly, 25*(3), 351–370.

Brammer, S. J., & Pavelin, S. (2006). Corporate reputation and social performance: The importance of fit. *Journal of Management Studies, 43*(3), 435–455.

Crane, A. (2001). Unpacking the ethical product. *Journal of Business Ethics, 30*(4), 361–373.

Du, S., Bhattacharya, C. B., & Sen, S. (2010). Maximizing business returns to corporate social responsibility (CSR): The role of CSR communication. *International Journal of Management Reviews, 12*(1), 8–19. doi: 10.1111/j.1468-2370.2009.00276.x.

Garriga, E., & Melé, D. (2004). Corporate social responsibility theories: Mapping the territory. *Journal of Business Ethics, 53,* 51–71.

Oliver, R. L. (1980). A cognitive model for the antecedents and consequences of satisfaction. *Journal of Marketing Research, 17,* 460–469.

Schultz, F., Castelló, I., & Morsing, M. (2013). The construction of corporate social responsibility in network societies: A communication view. *Journal of Business Ethics,115,* 681–692.

Books & Reports

Bentele, G., & Nothhaft, H. (2011). Trust and credibility as the basis of corporate social responsibility: (Mass-) mediated construction of responsibility and accountability. In: Ø. Ihlen, J. Bartlett, & S. May (Eds.), *The Handbook of Communication and Corporate Social Responsibility* (pp. 208–230). Boston: Wiley.

Bhattacharya Debasis (2006) 'Corporate Social Development- A Paradigm Shift', Concept Publishing Company, New Delhi.

Hayes, A. F. (2013). *Introduction of mediation, moderation, and conditional process analysis: A regression-based approach*. New York: The Guilford Press.

Hou, J., & Reber, B. H. (2011). Dimensions of disclosures: Corporate social responsibility (CSR) reporting by media companies. *Public Relations Review, 37*(2), 166–168.

Waddock, S., & Googins, B. K. (2011). The paradox of communicating corporate social responsibility. In: Ihlen, J. Bartlett, & S. May (Eds.), *The Handbook of Communication and Corporate Social Responsibility* (pp. 23–43). Boston: Wiley.

1.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress - 1

1) The activities specified are:
   - Eradication of extreme poverty and hunger
   - Promotion of education
   - Gender equity and women's empowerment
   - Reducing child mortality and improving maternal health
   - Combating HIV/AIDS, maternal and other diseases
   - Environmental sustainability
   - Social business projects
   - Employment enhancing vocational skills
   - Contribution to the Prime minister's Relief Fund and other state and other funds
   - Other matters, as may be prescribed

2) The CSR committee has the following composition based on the type of company:
   - Listed Company: Three or more Directors including at least one Independent Director.
   - Unlisted and Private Company: Three or more Directors, Independent Director is mandatorily required to be appointed.
   - Private Company : Two Directors.
   - Foreign Company: At least two persons, one of which must be company's representative in India.

Check Your Progress - 2

1) Companies Act, 2013, Clause 135: CSR committee requirements are:

- A CSR Committee of the Board should be constituted. It should consist of at least three Directors out of whom at least one is an independent Director. This composition will be disclosed in the Board's Report, as per sub-section (3) of section 134.

- The CSR Committee shall:

  o Formulate and recommend a CSR Policy to the Board, indicating the activities as specified in Schedule VII of the Act

  o Recommend the amount of expenditure to be incurred on the activities indicated in the Policy

  o Monitor the CSR Policy regularly.

2) The nine steps of CSR process are:

1. Developing a CSR Strategy and Policy
2. Operationalizing the Institutional Mechanism
3. Due Diligence of the Implementation Partner
4. Project Development
5. Project Approval
6. Finalizing the Arrangement with the Implementing Agency
7. Progress Monitoring and Reporting
8. Impact Measurement
9. Report Consolidation and Communication

UNIT 2 BUSINESS STRATEGY IN CSR

Structure

2.1 INTRODUCTION

The Prime Minister's "Social Charter" calls for inclusive growth and affirmative action from the corporate sector. In December 2009, voluntary Corporate Social Responsibility (CSR) guidelines were issued by the Ministry of Corporate Affairs. Subsequently, the Indian public sector was issued a set of policy guidelines by the Department of Public Enterprises which also linked to CSR and the Millennium Development Goals. One significant guideline in the public sector policy is that companies need to put at least 5 % of their Profit After Tax (PAT) into CSR. Many companies set up their own foundations, often run by an employee of the company, and work with civil society was minimal, coming within the realm of "project implementation" than partnership.

Sustainable development is the organizing principle for meeting human development goals while at the same time sustaining the ability of natural systems to provide the natural resources and ecosystem services upon which the economy and society depend. World Commission on Environment and Development, Our Common Future (1987) defined 'Sustainable Development' as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts-the concept of 'needs', in particular, the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.

As a reader you might be thinking of sustainable development in terms of development of the larger society. An example will be a large corporate doing philanthropy for destitute in a natural resource laden tribal area where they have mining interest or some other interest. Does sustainable development for larger society include sustainable development of the business itself? Do we assume that corporates are always benevolent souls and without any self-interest they genuinely contribute to the society? They do contribute, the family businesses in India are a prime example to this. But is this always the case? For public sector enterprises in India, CSR became mandatory even before the present regulations came about. For private sector it was not mandatory before 2014 but we have seen some amazing work done by the private enterprises narrated in other units, which has real long-term positive impacts on the society and the business itself. The focus of this unit is that CSR is a business case. The need of the hour is to embed the CSR strategy with the long-term business strategy.

After reading this unit you will be able to:

- Define business strategy and state its importance
- Explain the steps involved in sustainable corporate strategy
- Discuss the market risks involved in sustainable marketing

2.2 BUSINESS STRATEGY: CONCEPT AND OVERVIEW

A business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish the business goals and to secure a competitive position in the market. It is the backbone of the business as it is the roadmap which leads to the desired goals. Any fault in this roadmap can result in the business getting lost in the crowd of overwhelming competitors (Pahwa, 2019).

Different businesses have their own goals. In order to achieve these goals, the businesses need to have a well thought out strategy. Other than the goals of the organization and the means to achieve those goals, an effective business strategy should also take into account the main competitors of the business as well as the strategy they employ to stand out in the business. It should also take into account the target market and their needs and expectations. Finally, a business strategy should take into account the long-term goal of the organization.

The following are the importance of a good business strategy:

1) **Gives Direction:** A good business strategy gives proper direction to the organization and ensures that all work towards attaining the common goal. It instills a feeling of shared responsibility among the employees.

2) **Measures Success:** It helps in measuring the success of the organization as against the goals set in the business strategy. It also helps in identifying the areas which require improvement to lead the organization to achieve the stipulated goals.

3) **Increases Adaptability:** We live in an era of rapid change. The technology, market needs, demands, etc., are changing rapidly. A good business strategy helps in keeping track of the changes occurring in the market like changing demands, customer expectations and needs and also helps in adapting to these changes and keeping pace with the market trends.

4) **Drives Decisions:** A good business strategy drives decisions in a business by identifying the strengths and weaknesses of the organization and identifying the best possible ways to spend the resources to maximize profits and move towards a sustainable future.

2.3 STRATEGIC POSITIONING WITH RESPECT TO CSR

In order to understand strategic positioning of a company for CSR initiatives, it is important to understand its stage. When it comes to developing a sense of corporate responsibility, organizations typically go through five stages as they move along the learning curve (Table 2.1).

Table 2.1: Important Ethical Issues Confronted by Businesses

STAGE	WHAT ORGANIZATIONS DO?	WHY THEY DO IT?
DEFENSIVE	Deny practices of outcome and responsibility	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity, and the brand
COMPLIANT	Adopt a policy-based compliance approach	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
MANAGERIAL	Embed the societal issue in their core management processes	To mitigate the erosion of economic value in the medium term and to achieve long term gains by integrating responsible business practices into their daily operations
STRATEGIC	Integrate the societal issue into their core business strategies	To enhance economic gains in the long term and to gain first-mover advantage by aligning strategy and process innovations with the societal issues
CIVIL	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming any first mover disadvantages and to realize gains through collective action

Source: The Path to Corporate Responsibility, Harvard Business Review, 2004

In the table above, we can see that corporations in India are at the managerial stage and that there is an immediate need to shift the corporations to strategic and thereafter to the civil stage.

Activity 1

Visit a company involved in CSR in the city of your residence and talk to the CSR head of the company regarding its vision on CSR. Based on their response, which stage do you think the company can be categorized into and why?

....

....

....

....

....

This concept of CSR focuses more directly on day-to-day business practices which will evolve into long term and sustainable growth. By definition, business practices that adhere to the principles of corporate responsibility and sustainable development must take the long and multidimensional view of their outcomes. That is, they must manage for both private returns and societal returns, and do so with the view that the company will remain a growing concern for the indefinite future. This entails a commitment to inter-generational responsibility, equitable development and environmental stewardship, the key building blocks of corporate responsibility as well as sustainability. By integrating socially responsible principles into their corporate strategies, companies have been able to make impressive financial gains while improving the communities in which they operate.

2.4 CSR AS BUSINESS CASE

The practice of CSR and philanthropy is not new to Indian businesses. Many Indian conglomerates and business houses have a rich history of social welfare activities and interests behind them. Yet, our country continues to be a land of contradictions. On the one hand, we have one of the largest economies, and on the other, a third of the world's poor; we have an abundance of political freedom, and yet a deficit of economic opportunities for all. While the USD 20 billion Indian pharmaceutical industry today is the third largest API (Active Pharmaceutical Ingredient) market in the world, yet, 24 per cent of the world's tuberculosis cases were reported in India. We are considered as the outsourcing destination of the world, and yet the world's largest population of illiterate people resides in India.

Correcting these imbalances and ensuring the economic prosperity of over one billion people continues to be one of the greatest challenges in the decades ahead. It is a challenge that requires us to create employment opportunities; improve the quality of human capital through education, skilling and training; provide accessible healthcare; deliver affordable shelter; ensure food security; and create institutions that are transparent, responsive and efficient. Doing this requires companies to be inclusive in their approach of business and pursue a 'triple bottom line' instead of being focused purely on their financial results. This Unit highlights business strategy in CSR for sustainable development with the help of various case studies.

Corporate Social Responsibility is defined as follows:

Social responsibility is the responsibility of an organization for the impact of its decisions and activities on society and the environment through transparent and ethical behavior that

- is consistent with sustainable development and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behavior; and
- is integrated throughout the organization.

The different areas of CSR interventions are community, workplace, marketplace, and environment and supply chain. So let's focus on the community stakeholder first. Remember, Coca Cola was banned from using ground water for its Plachimada Plant in Palakkad district, Kerala. The reason was the drought-like situation that was created in that district because of the gross misuse of the natural resource. Let's see the impact; it is well known that Coca Cola and Pepsi are already struggling in the Indian Market. They had to bring variants that suited the Indian Market like Nimbooz, etc., which involved significant costs. Coke spent so much on its advertisement and distribution. So, this single episode impacted both demand and supply adversely. From the supply point of view this plant was the only plant in Kerala, so it impacted the supply and distribution in Kerala. From the demand side, the company's brand image received a blow. Kerala has higher per capita income and education levels than the rest of India. Pepsi has always been an alternative to consumers in almost every part of India. The consumers understood that the company was working against the interest of the society and there was also an alternative (Pepsi) present in the market and hence the consumer preferences started tilting away from the company associated with violation. Community is a stakeholder for the business. Business must understand its economic, legal, and ethical responsibilities towards stakeholders as well as recognize the opportunities and challenges that every stakeholder presents.

Example 1: ITC e-Choupal Initiative

Let's focus on the famous e-Choupal initiative by ITC. This project is perceived as IT for masses, which it should be because of the tremendous amount of improvement it has brought to the life of the common man. Farmers can look at weather forecasts, order fertiliser and herbicide, and consult an agronomist by e-mail when their crops turn yellow. At some e-Choupals they can even buy life insurance, apply for loans and also check their children's exam results. While much has been written about the social benefits of ITC's e-Choupal, the fact of the matter is that the project was conceptualised with a pure business focus to create farmer communities in villages to facilitate sourcing of high-quality farm produce for the company's fast-growing agribusiness. Here again from the supply side, ITC got a huge benefit because of elimination of middleman and a superior produce received by it directly from the farmer. Here ITC recognized the needs of the stakeholder, which is the farmer. In IT parlance, e-Choupal is an intelligent blend of applications like community resource mobilization and supply chain management. For instance, by helping the farmer identify and control his inputs and farming practices, and by paying more for better quality, ITC has been able to preserve the source and improve the quality of produce. The portfolio of commodities sourced has been vastly expanded to include maize, barley, sorghum, and pulses, and the sourcing cycle is extended almost around the year. In the commodities market, these two factors are helping ITC create a definite competitive advantage. ITC now plans to leverage its e-Choupal infrastructure to sell third party products, provide rural market research services, and in the social sector, to provide services like health advisories and enable e-governance.

Just look at the benefit of this CSR activity for ITC. Do you still feel CSR is giving some pay checks to vulnerable people because the company has huge resources at its disposal? Enabling e-governance would mean partnering with the respective state or central government to implement their social schemes with the e-Choupal platform. The e-Choupal CSR strategy proved to be the business growth story for ITC.

Look at the innovations happening around us. These ideas are not like patents that Apple Company has. India requires its own kind of innovations. For Example, Rural BPOs and Self Help Groups (The famous Shakti project by HUL (Hindustan Unilever Ltd.), was emulated by so many corporates. These are aimed at providing livelihoods to the poor but at the same time this was an innovative method by the company to improve the bottom line. Lijjat Papad is a famous brand. These papads are made by women in their households, who make papads and supplement their family income. Is this some charity by Lijjat Pappad? No, it’s their business model. Such models provide an opportunity for dignified and safe work, which everybody deserves. These models are not only reducing the company’s supply constraints in a big way but they also provide avenues for substantial cost reduction.

Example 2: L&T Employee Health Checks

Larsen and Toubro was one of the first organisations to screen its workforce for detection of HIV/AIDS. This happened when the first case of HIV/AIDS was detected in India. It is part of CSR. In fact, this dimension, in CSR parlance, is called workplace CSR. L&T has a major stake in it because its employees are mostly labourers who are more susceptible to the disease. Labour productivity is directly correlated with labour health and company’s productivity is directly correlated to labour’s productivity. Many organisations, especially those with a large labour force, have employee health checks as a part of workplace CSR.

Example 3: GE Technology in Water Purification, Power Generation and Health in Africa

GE on its part launched a 5-year project, a $20 million commitment, where the company would use its extensive knowledge and technology in water purification, power generation, and health care to help upgrade existing hospitals and build new medical centers in Africa. The company enlisted relevant stakeholders in the community (e.g., the health ministry to furnish supplies and assign a doctor; local community members to volunteer labour) and provided the necessary high-tech equipment (power generators, water purification equipment) and project management expertise. The first major site was Ghana. This investment was in line with GE's commercial interest. Don't you think that Africa and other underdeveloped and developing nations have serious water purification, power generation and healthcare concerns? GE was sending its employee force to Africa for building a prototype which they would further leverage and cash in with expansion of their business in the above mentioned markets. This kind of branding would indeed help GE generate top-of-mind recall among various government bodies and civic organizations, which could help the company to generate business in future. For GE the African market and the other emerging markets are the next avenues of growth.

There are a number of examples which we can go on citing. But the fact of the matter is, in the new business environment many organizations have developed clear CSR efforts as strategic branding and management approach in achieving a win-win outcome. Any prospective investor in the current scenario would invest in companies that act with good corporate governance and social responsibility. Increasingly, a company's performance as a responsible business is key to its financial and stock market standing, helping to protect it from instability and share price volatility.

Look from any angle, say environment waste management or energy conservation. Study any environment waste management, and you would find an underlying effort to bring about operational efficiency. It was in Tata's interest to build the steel city of Jamshedpur as a model city. This is called sustainability. There are short sighted companies which indulge in illegal activities to cause harm to the environment and they are doing this at their own peril. Let's study this from the demand and supply point of view. What is land or water or air or groundwater; are they not part of the supply side? If an industry set up in an area keeps on inefficiently using the groundwater of that area, say for 5 years, then what will it do in the 6^{th} year? All the money saved from exploitation will be lost from 6^{th} year onwards and then the company will have to bear added expenses in future. The demand will slump due to fall in its image. Corporate branding is very important in maintaining and attracting new customer base.

Check Your Progress - 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) Define Business Strategy.

....

....

....

....

2) What are the challenges faced by our country today and how can the corporates help in overcoming these challenges?

....

....

....

....

2.5 SUSTAINABLE CORPORATE STRATEGY

For every company like Unilever and Wal-Mart that has successfully embedded sustainability into their core business, there are many others that are struggling with the implementation of corporate sustainability strategies. To be sure, every company presents a unique case and requires a comprehensive review of its strategy, operations and goals to advance sustainable practices. There is no single path to adopt sustainability, but critical steps exist that can help to successfully integrate sustainability into a business strategy. This section will focus on these steps, essentially creating a roadmap for the development and implementation of a corporate sustainability strategy.

Raising **C-suite** (executive level managers or highest ranking senior executives in an organization) awareness of sustainability benefits is a critical initial step before even creating a roadmap. Some progress can be reported on this issue, as more CEOs are aware of the benefits of implementing corporate sustainability. According to MIT Sloan's 2012 Sustainability and Innovation Global Executive Study, 48% of CEOs responded that they had changed their business model to incorporate sustainability; of those, 46% reported that sustainability added to their bottom line. However, out of 600 companies surveyed in 2018 by CERES for The Road to 2020 Report, more than half still fell into the Tier 4 "Starting Out" in their Roadmap for Sustainability. In Tier 4, CERES catalogs those companies who are beginning to understand sustainability and which need considerable work to integrate sustainability into overall corporate accountability systems. Corporate sustainability demands a broad view of issues and impact, as well as a working understanding of what the company does and how it does it. Embedding sustainability means joining the two together through a series of concrete steps.

2.5.1 Five Steps in Achieving Sustainable Corporate Strategy

Step 1: Understand sustainability and recognize what it means to the company

As a first step, it is important to define what sustainability means for every area in the company and to identify its benefits. From investment decisions, developing new products or services to changing procurement practices, sustainability has an increasingly central role in these decisions. Coca-Cola is one of the companies centering its investment decisions on sustainability. When considering the development and location of new production plants, water sustainability has been now included as a key factor. Sanjay Guha, president of Coca-Cola, Great Britain, says "Potential markets and ease of distribution were once the only key factors. Now, it is the long-term supply of water." In order to understand where sustainability efforts should be concentrated in a company, it is necessary to identify those issues that have the biggest impact and are most relevant to the business and its stakeholders.

Step 2: Engage with Stakeholders

Depending on its line of business, a company's impact can vary among stakeholders. Generally, companies engage with the most influential groups, keeping close ties and a constant dialogue. However, engagement can happen at different levels and should respond to expectations from both sides. Different levels and methods of engagement bring benefits to both companies and stakeholders and can be translated into more sustainable practices. Bonnie Nixon, Director of Environmental Sustainability at Hewlett Packard explains, "Allowing stakeholders to honestly critique us pushes us to improve our programs and helps us develop our thought leadership platforms." In the same way, Procter and Gamble has benefitted through the engagement with local communities around the world by finding alternative uses for its waste materials. Through employee engagement, Kraft Foods has developed a model where employees contribute with ideas and viable plans to reduce waste while helping to reach the company's waste reduction targets.

Step 3: Set Goals and Commitments

Once key environmental, social, and governance issues have been identified and engagement methods for each stakeholder group have been defined, efforts must focus on reducing risks and seizing opportunities around these issues centered on sustainable practices. Whether driven by cost reductions, innovation or improved financial performance, sustainability commitments and goals need to be established.

For Wal-Mart, most of its commitments and goals on sustainability are focused around the use of renewable energy and the adoption of energy efficiency. Initiatives in these areas have resulted in the recognition of Wal-Mart as the largest on-site green electricity generator in the U.S. and have led to cost savings of over USD500m a year. Another example is United Airlines. The airline aims to reduce its environmental impact through participation of all its suppliers in its sustainable supply chain initiative.

While companies like Wal-Mart and United Airlines aim for a complete transformation of their businesses, small companies are setting goals and commitments according to their scope of action. Initiatives mainly focus on cost reductions from energy use, waste management and commuting practices, as well as social actions in the community like local development projects and volunteering campaigns.

Step 4: Establish Systems and Processes

Once the goals are established, specific systems and detailed processes need to guide the implementation of each initiative. Throughout the design, processes and policies in place must be taken into consideration and collaboration among areas encouraged. At this point, gaining executive commitment is crucial. The appointment of an internal sustainability champion as the main driver of sustainability and the development of a successful employee engagement model are also good practices. According to the 2012 Report of Sustainability Leaders by VOX Global and Net Impact, Berkeley, 78% of respondents said top management was a key contributor to embracing sustainability. However, 81% identified their colleagues across the company as primary drivers of success.

Unilever's Sustainable Living Plan was launched in 2010. Under the leadership of its CEO Paul Polman, this ten-year sustainability plan accomplished considerable progress in its first two years. Under the umbrella of its comprehensive overall sustainability strategy, Unilever is utilizing its wide array of brands to target distinct social issues, invest in sustainable technologies and change consumer behavior. Unilever has also accomplished to fully embed sustainability across the company and to successfully engage external actors. Besides the appointment of a Chief Sustainability Officer in 2012, the company's management structure includes a Sustainable Living Plan Steering Team, a group of external specialists in corporate responsibility and sustainability known as the Sustainable Development Group. It also launched the 'Small Actions, Big Difference Budget' which finances employees' ideas based on environmental benefit and financial return.

Step 5: Track Progress, Communicate Actions and Meet Expectations

Lastly, it is important to set a system that measures the performance towards each goal. Defining key performance indicators to meet the identified goals will allow to detect areas for improvement and will gather relevant data to track progress. Metrics and indicators are also central to the reporting and communicating activities of the company. Internally, the availability of data contributes to the prioritization of issues and initiatives and to promote employee involvement around sustainability. Externally, collecting data is fundamental for an accountability strategy, to respond to stakeholders' expectations and interests and to comply with reporting standards.

Companies reporting under the Global Reporting Initiative guidelines have already embraced the development of indicators. In addition to these guidelines, the Sustainability Accounting Standards Board is currently preparing frameworks that will standardize sustainability key indicators per sector. Alongside these efforts, companies are designing their own systems to measure performance, like Wal-Mart's Sustainability Scorecards, which, among other criteria, ranks suppliers according to their environmental footprint and contributes to Wal-Mart's performance measurement.

In the end, corporate sustainability needs to adapt to the maturity of the business and the company's willingness to treat sustainability as a strategic opportunity. These steps are only the beginning of a process that can eventually transform a company's entire business strategy into a sustainable business strategy.

2.5.2 Sustainability Risks and Challenges of the Corporates

Sustainability is an important business concept, however, there are some important and significant risks that need to be addressed to make the business both sustainable and profitable.

The sustainable marketing risks that corporates face can be classified as follows:

1) Market Risks
2) Operating Risks
3) Corporate Image Risks

1) Market Risks:

Studies show that there is a gap between the consumer's green intentions and their dedication to fulfilling these intentions. Cost continues to be the greatest barrier that stops consumers from making sustainable purchases. Sustainability comes with a price which may be either financial, effort or time. Sustainability may make the society and environment better off while the individual is always rendered worse off as they have to absorb the additional cost. A product being good for the environment may not be a reason good enough to convince the consumer to bear the additional personal cost. Hence, the societal and personal benefits of sustainability need to be made known to the masses. Thus, information dissemination and educating the consumers are key to influence consumer's decision to choose sustainable products.

Thus, marketing risks with sustainability initiatives include:

i) Lack of consumer appeal for sustainable products in terms of their value, convenience and efficacy.

ii) Lack of understanding and appreciation among consumer groups on the benefits of sustainability.

2) Operating Risks

The operating risks associated with pursuing the sustainability initiatives include:

i) Decline in profitability.

ii) Loss of focus.

Even though adding sustainability to their corporate missions and adding green elements to their products have given a competitive edge to some companies, a company can lose on its profitability if it invests more of its financial and human resources into sustainable initiatives without getting commensurate benefits. Thus, in order to avoid loss of sales, market share or profitability, the pricing of products should cover the additional cost incurred or the initiative should make the products superior in the minds of the consumer thus giving it a competitive advantage.

Adding sustainability can also shift the focus away from profitability leading to misallocation of critical resources.

3) Corporate Image Risks

The corporate image related risks include:

i) Negative greenwashing image

ii) Negative impact of an inconsistent action

Greenwashing

Environmentalist Jay Westerveld coined the phrase in his 1986 essay regarding the hotel industry's practice of using placards in each room to promote reuse of towels to "save the environment." He wrote that many hotels made little effort toward energy use reduction. The principal goal of this activity was to increase profits.

Since that time, the Federal Trade Commission (FTC) has put some parameters into effect to help minimize greenwashing with its Green Guide, which was first published in 1998 and revised again in October 2010. The FTC Green Guide mandates that companies provide clear substantiation to any environmental claims and that there is specificity surrounding these claims. In particular, the FTC warns of using more generic terms such as "eco-friendly" and "environmentally friendly" without documented and detailed evidence to these claims. Failure to comply can cost a company up to $16,000 per false claim.

Lee van der Voo, "FTC Takes a Swipe at Greenwashing,"

Source:http://www.sustainablebusinessoregon.com/articles/2010/10/new_ftc_rules_take_swipe_at_greenwashing.html)

From the above box we can see that greenwashing or green marketing is giving an incorrect impression that a company's strategies and policies are designed to be beneficial to the environment. This can have a negative impact on the company's image if it is discovered that the claims made by the company are false.

Maintaining consistency and effective execution are as important as a company's commitment to sustainability. Even though a company may have a good name in green initiatives due to its past action, it can still lose on its image if it is not consistent.

Activity 2

Identify any one sustainable consumption item that would add additional cost to a consumer. Ask five people if they would be willing to buy that product against a cheaper non-sustainable substitute and note down your observation.

....

....

....

....

....

Check Your Progress-2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) What are the steps in achieving sustainable corporate strategy?

....

....

....

....

....

2) Name the sustainable marketing risks that corporates face?

....

....

....

....

....

....

....

2.6 LET US SUM UP

Strategic corporate social responsibility (CSR) involves the voluntary practice of social and environment activities to satisfy firms' stakeholders, with the intention of generating profits.

Undoubtedly several NGOs, government organizations and Public-private partnerships are the emerging communities taking voluntary initiatives for CSR effectiveness in India but this is not possible without companies moving towards strategic CSR. Businesses are known as the shapers of society and time has come when businesses can prove it by their sustainable actions through strategic CSR. This paves the way where strategic CSR can work as an element of transformation, encompassing the complexity and tensions of the different and intersecting dimensions of sectors, levels, and structures that provide the setting within which CSR is negotiated.

Strategic CSR through sustainable actions provides real time customization rather than without vision and spontaneous "good deeds" of the companies. CSR initiatives need to be qualitative instead of quantitative.

2.7 KEYWORDS

Sustainable Development : For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.

Corporate Disclosure : Corporate disclosure can be defined as the communication of information by people inside the public firms towards people outside the main aim of corporate disclosure is "to communicate firm performance and governance to outside investors" (Haely and Palepu, 2001).

ESG : ESG stands for Environmental, Social, and Governance. There is growing evidence that suggests that ESG factors, when integrated into investment analysis and portfolio construction, may offer investors potential long-term performance advantages.

Risk Management : In business this refers to the forecasting and evaluation of financial risks together with the identification of procedures to avoid or minimize their impact.

Stakeholder Relations : Effective management of relationships with stakeholders is crucial to resolving issues facing organizations. A stakeholder is any person, group or organization who can place a claim on an organization's attention, resources or output, or is affected by that output.

Sustainable Business Strategies : For businesses, sustainability is a powerful and defining idea: a sustainable corporation is one that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts.

Triple bottom line : The triple bottom line (or otherwise noted as TBL or 3BL) is an accounting framework with three parts: social, environmental (or ecological), and financial. Some organizations have adopted the TBL framework to evaluate their performance in a broader perspective to create greater business value. Business writer John Elkington claims to have coined the phrase in 1994.

2.8 BIBLIOGRAPHY AND SELECTED READINGS

Articles

Elkington, J. (2018). "25 Years Ago I Coined the Phrase "Triple Bottom Line." Here's Why It's Time to Rethink It", *Harvard Business Review*, 25 June 2018

Strategic Corporate Social Responsibility: Challenging Sustainable actions in Indiahttp://www.indianmba.com/Faculty_Column/FC1397/fc1397.html

Haely, P.M. and Palepu K.G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature, Journal of *Accounting and Economics*, Volume 31, Issues 1–3, September 2001, Pages 405-440

Books & Reports

"Triple Bottom Line". The Economist. November 17, 2009. Retrieved 14 August *2014.*

Bhattacharya D. and Milindo C. (2003). 'Public Private Partnership in Re-Greening of Degraded Revenue/ Private/Forest Land-Cost Benefit Analysis', CII, IIH-Ahmedabad, IFRI-Bhopal.

Slaper, Timothy F. and Hall, Tanya J. (2011). "The Triple Bottom Line: What Is It and How Does It Work?" *Indian a Business Review*. Volume 86, No. 1.

World Commission on Environment and Development (1987). Our Common Future. Oxford: Oxford University Press. p. 27. ISBN 019282080X

Government Reports

Bhattacharya D. (2010). 'Renewable Energy for Rural Livelihoods – An Industry-led Public Private Partnership Model', UNDP, CII, Ministry of New and Renewable Energy, Govt. of India.

Online Search

http://www.temple.edu/law/tjstel/2007/spring/v26no1-Mandelbaum.pdf accessed on 15/11/18

www.pgsadvisors.com/2013/08/5-key-steps-to-a-sustainable-corporate-strategy/ accessed on 15/11/18

2.9 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress – 1

1) A business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish the business goals and to secure a competitive position in the market.

2) Inspite of being one of the largest economies, 1/3rd of world's poor reside in India. It is a challenge that requires us to create employment opportunities; improve the quality of human capital through education, skilling and training; provide accessible healthcare; deliver affordable shelter; ensure food security; and create institutions that are transparent, responsive and efficient. Doing this requires companies to be inclusive in their approach of business and pursue a 'triple bottom line' instead of being focused purely on their financial results.

Check Your Progress – 2

1) Steps in achieving sustainable corporate strategy are as follows:

   Step 1: Understand sustainability and recognize what it means to the company

   Step 2: Engage with stakeholders

   Step 3: Set goals and commitments

   Step 4: Establish systems and processes

   Step 5: Track progress, communicate actions and meet expectations

2) The sustainable marketing risks that corporate face can be classified as follows:

   1) Market Risks
   2) Operating Risks
   3) Corporate Image Risks

UNIT 3 CORPORATE GOVERNANCE AND BUSINESS ETHICS

Structure

3.1 INTRODUCTION

As the Indian economy becomes more industrialized and the corporate sector continues to acquire an increasingly important profile, a number of issues continue to spring into prominence. While ensuring growth is important, ensuring that it takes place in an ethical, just and inclusive manner is even more important. Corporate governance lies at the heart of the way businesses are run. Often defined as the 'way businesses are directed and controlled', it concerns the work of the board as the body which bears ultimate responsibility for the business.

The Oxford Dictionary defines ethics as "moral principles that govern a person's behaviour or the conducting of an activity". When we add the word 'corporate' before ethics, we obviously are trying to ensure that the day-to-day conduct of business concerns confirms to the existing norms of accepted behaviour. By definition, ethics go beyond the rules of conduct laid down by laws etc. The Unit focuses on various dimensions of the concerns that relate to corporate governance and business ethics.

After studying this unit, you should be able to:

- Explain the significance of corporate governance and ethics in business
- Differentiate between ethics and law
- List the essentials of good corporate governance
- Discuss the approaches to ethical decision making
- Explain the meaning and importance of corporate ethics

3.2 CORPORATE GOVERNANCE

Governance relates to how the board is constituted and how it performs its role. It encompasses issues of Board composition and structure, the Board's remit and how it carried out different functions and the framework of the Board's accountability to its stakeholders. It is also concerned with how the Board delegates authority to manage the business throughout the organization. The words 'Corporate Governance' (CG) are buzzwords these days due to various corporate failures the world over in the recent past. Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investment takes place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but that the business decisions are also taken in a manner which is not illegal, or do not involve moral hazards (Verma & Gupta, 2004). Corporate governance basically denotes adherence to rule of law.

3.2.1 Elements of Good Corporate Governance

Good corporate governance is a formal system of accountability and control of ethical and socially responsible decisions and the use of available resources. To be effective, a company's leaders must take responsibility for their decisions and the performance of the organization as a whole. For example, the leaders of a company should design and adhere to a code of ethics that helps management promote each of the important characteristics of good corporate governance. Corporate governance requires companies to develop and closely monitor comprehensive and robust programmes and mitigate any number of possible risk factors. Each company must eventually tackle corporate governance, and unfortunately, there is no easy way to go about this. Corporate governance is a complex and tiresome subject.

Corporate governance can overwhelm growing companies that are just beginning to realize the importance of tackling this issue, which in the end becomes a full-time job. The UK Corporate Governance Code, which guides many businesses, states that the corporate board sets the values of the company, and this is very different from running the business day-to-day.

Below are eight elements of good corporate governance:

1) Direction

Providing overall direction for the business, its leaders and employees is a major part of corporate governance. Making strategic decisions and discussing current and future concerns of the company are tactics of this element. Company mission and vision statements stem from the governance role of business. These statements provide a sense of purpose and illustrate primary motives for the company's business activities.

2) Independence of Directors

If the directors of a company are also the owners and/or their family members, entrepreneurs appointed by friends, or individuals who are involved in the daily management of the company, then the board is unlikely to be impartial. Having a majority of non-executive independent directors would help avoid prejudice and conflicts of interest between the board and the management. Independent judgment is almost always in the best interest of the company.

3) Effective Risk Management

Even if a company implements smart policies, competitors might steal its customers, unexpected disasters might cripple operations and economic fluctuations might erode the buying capabilities of the target market. One can't avoid risk, so it's vital to implement effective strategic risk management. For example, a company's management might decide to diversify operations so the business can count on revenue from several different markets, rather than depend on just one.

4) Organization

A solid structure and organization within the company is essential towards fluidly implementing and dispersing corporate governance objectives. Companies will need to be able to monitor all of their dealings, interactions, and transactions effectively. One of the fundamental objectives of corporate governance is for companies to develop more transparent business practices, meaning a rigidly structured framework through which it is possible to trace all such activities efficiently.

5) Stakeholder Relations

Corporate governance encompasses a business's accountability to each of its stakeholder groups. Traditionally, this role has largely centered around investor relations and communication of company decisions. Investors can often find contact information of board members on company websites. In the early 21st century, there is more emphasis on balancing investor interests with concerns of other stakeholders, such as customers, employees and business partners.

6) Transparency

Managers sometimes keep their own counsel, limiting the information that filters down to employees. But corporate transparency helps unify an organization. When employees understand management's strategies and are allowed to monitor the company's financial performance, they understand their roles within the company. Transparency is also important to the public, who tend not to trust secretive corporations.

7) Corporate Citizenship

Another major evolution in the early 21st century is increased focus on corporate citizenship. Companies commonly include a corporate citizenship statement on corporate governance or investor relationships web pages. Such statements communicate the business's intent to act with social and environmental responsibility. Philanthropy and other charitable contributions are among common things noted within corporate citizenship statements. In general, governance includes awareness that companies should balance profit-generating activities with responsible policies and practices.

8) Self-Evaluation

Mistakes will be made, no matter how well a company is managed. The key is to perform regular self-evaluations to identify and mitigate brewing problems. Employee and customer surveys, for example, can supply vital feedback about the effectiveness of the company's current policies. Hiring outside consultants to analyze operations can also help identify ways to improve the company's efficiency and performance.

3.3 BUSINESS ETHICS

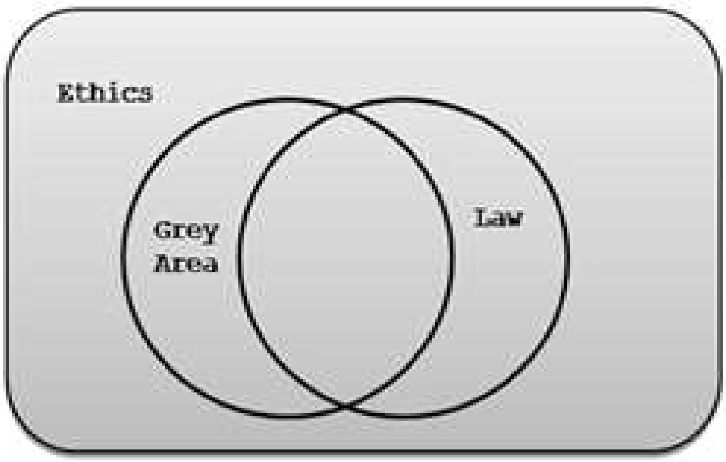
Business ethics are a kind of applied ethics. It is the application of moral or ethical norms to business. The term ethics has its origin from the Greek word 'ethos', which means character or custom- the distinguishing character, sentiment, moral nature, or guiding beliefs of a person, group, or institution. Ethics area set of principles or standards of human conduct that govern the behaviour of individuals or organizations.

Ethics can be defined as the discipline dealing with moral duties and obligations, and explanation regarding what is good or not good for others and for us. Ethics is the study of moral decisions that are made by us in the course of performance of our duties. Ethics is the study of characteristics of morals and it also deals with moral choices that are made in relationship with others. Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximize profits against needs of its stakeholders. Maintaining this balance often requires trade-offs. To address these unique aspects of businesses, rules, articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole.

3.3.1 Difference between Ethics and Law

While law is obligatory and violation of law attracts penalties from the justice system, ethics are more voluntary in nature. However, not acting ethically might lead to violation of laws, as most laws are in one way or the other a codification of ethics.

Business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Business ethics is about the grey areas of business, where values are in conflict. In such scenarios, there might not be a definitive 'right answer'.



3.4 APPROACHES TO ETHICAL DECISION MAKING

There are several approaches to ethical decision making. They are discussed in brief in this section.

3.4.1 Teleology

Teleology is the belief that certain phenomena are best explained in terms of purpose rather than cause. Teleological theories of ethics focus on the consequences arising out of actions. There are two major classes of teleological theories - egoism and utilitarianism.

i) Egoism

Egoism is the view that morality ultimately rests on self-interest. It defines right and wrong in terms of the consequences to oneself. An egoist chooses a course of action out of several available choices on the basis of what effects the chosen action would have on his well-being. When faced with a business decision, such a person would thus choose the course of action that he or she believes would best serve his/her self-interest.

ii) Utilitarianism

Utilitarianism is the system of ethics according to which the correctness or incorrectness of an action should be judged by its consequences. The goal of utilitarian ethics is to promote the greatest happiness for the greatest number. Jeremy Bentham, an English philosopher, was the founder of utilitarianism; John Stuart Mill was its best-known defender.

The utilitarian approach can also be understood as a cost-benefit analysis. The costs and benefits of a decision, a policy, or an action are compared. The costs and benefits can be measured on any criteria such as economic, social, human, or even emotional. When all the costs are added and compared with the results, if the benefits outweigh the costs, then the action may be considered ethical.

Utilitarianism and egoism are similar in that both advocate judging actions by their consequences. However, unlike egoism, utilitarianism is concerned with ensuring the greatest good for the greatest number of people.

3.4.2 Deontology

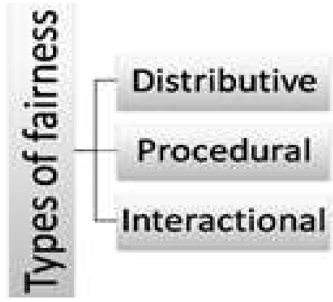
The word deontology originates from the Greek words for duty (deon) and study (logos). As opposed to the teleological theories, deontological theories focus on the morality of the means and not on the ends.

A deontological approach to decision making would, thus, not allow harming some individuals in order to help a larger number. To the deontologist, each person must be treated with the same level of respect and no one should be treated as a means to an end.

3.4.3 Justice

Justice implies fairness. Justice-based theories of ethics are concerned with determining the fairness of actions. Under this approach, any action that is fair to all affected parties and is in consonance with existing ethical or legal standards, is a just action.

Fairness of an action is often judged on three grounds–distributive, procedural and interactional. Each of these is briefly described below.



1) Distributive Fairness

Distributive fairness judges the outcomes of actions and perceptions of these outcomes that the parties affected by these have of them.

2) Procedural Fairness

Procedural fairness deals with the processes (for example: policies, procedures, rules, etc.) that are employed to reach decisions. Under this approach, the fairness of processes as well as outcomes of these processes is determined.

3) Interactional Fairness

This dimension of fairness is concerned with the treatment one receives in the administration of a decision making process. Basically, this deals with the respect and consideration shown towards the affected parties while taking decisions. It also deals with the explanations and justifications provided for the decisions.

3.4.4 Relativism

As opposed to the approaches discussed so far, all of which are based on the premise that principles of morality that are permanent and universal in nature, relativism states that there are no universal principles of ethics and that right and wrong must be determined by each individual or group. It thus takes into consideration differences in morality across time and cultures.

Activity 1

If a manufacturer chooses to produce its products in countries that have non-existent labour laws, will its action be considered ethical? Why?

....

....

....

....

....

....

Check Your Progress - 1

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Define corporate ethics.

....

....

....

....

....

2) Differentiate between ethics and law.

....

....

....

....

....

3.5 INDIVIDUAL ETHICAL DECISION MAKING

The most popular model of ethical decision making was developed by James Rest (Rest, 1984) and is called the four-step or four-stage model of individual ethical decision making.

The four stages of decision making, as proposed by the model are:

i) Ethical Issue Recognition

This is the first stage in the ethical decision-making process. In this stage, an individual identifies a situation and the ethical issues involved therein.

ii) Ethical Judgment

In the second stage of the process, after having identified the ethical issues involved, an individual would form a normative opinion about the rightness or wrongness of the issue.

iii) Ethical Intent

In the third stage, having identified the ethically correct courses of actions open to him/her, the individual decides what he or she will do (or not do) in regard to the perceived ethical dilemma. Research indicates that individuals do not always form intentions in accordance with their judgments, as various situational factors may act to influence the individual otherwise.

iv) Ethical Behaviour

This is the final stage of the decision-making process. Having identified the ethical issues involved, the ethically acceptable choices open and having formed an intent to behave in a particular way in the earlier three stages, the individual finally carries out his/her intent and acts in a particular manner.

3.5.1 Difficulties in Identifying the Scope of Ethics in Business

Businesses have to align their values and mechanisms to standards acceptable to not only their shareholders, but also to their customers, business partners, regulators, government and the community at large. Thus, the narrow theoretical view that seeks to limit all business activity to maximizing shareholder wealth is impracticable at best.

Similarly, the broader view that seeks to judge all business activity through an ambiguously defined test of morality is also defective as morals by definition are subjective and also dynamic. When the values of consumers and employees change and when a shared consensual culture is replaced by a more heterogeneous one, it is no longer possible to rely on implicit understandings.

Given the difficulties involved in identifying the scope of ethics in business, it is better to establish a written code of conduct that governs business practices in different scenarios. Unless business ethics are aligned to broader perceptions of ethical conduct, problems are bound to arise. Additionally, in a culturally fluid environment, a formal code of ethics is as essential as codes governing decision making in other dimensions such as financial transactions. However, at the same time, such a code of ethics needs to be both sophisticated and flexible, in order to be effective in handling different ethical dilemmas a business is likely to face across time, cultures and geographies.

Table 1.1 summarizes important ethical issues confronted by businesses from the 1960s onwards (adapted from Ferrell *et al* 2006)

Table 1.1: Important Ethical Issues Confronted by Businesses

1960s	1970s	1980s	1990s	2000s
Environmental issues	Employee militancy	Bribes and illegal contracting practices	Sweatshops and unsafe working conditions in Third World countries	Cyber crime
Civil rights issues	Human rights issues	Influence peddling	Rising corporate liability for personal damages	Financial management
Increased employee-employer tensions	Covering up of ethically questionable actions	Misleading advertising	Financial mismanagement, fraud	International corruption

Honesty	-	Financial fraud	-	Loss of employee privacy
Changing work ethics	-	Transparency issues	-	Intellectual property theft
Rising drug use	-	-	-	-

Although Table 1.1 lays out the issues from the perspective of American business history, many of the concerns highlighted above hold true for the Indian business environment as well. Questions such as privacy at the workplace, intellectual property theft, corruption and financial mismanagement are equally important in India as in rest of the world.

3.6 IMPORTANCE OF CORPORATE ETHICS

3.6.1 Why Corporate Ethics Matter?

Ethics matter because ethical conduct is the right conduct. However, in the absence of a time- culture, and context-neutral definition of 'right', it is very difficult to develop a code of conduct on this basis alone. It basically says that businesses avoid many risks and gain reputation by acting in an ethical manner.

A good ethics process, operationalized in such a way that all decision making procedures and structures support it on a day-to-day basis, will give an organization the best chance possible for finding out about potential problems early so that they can be dealt with before they become a disaster. There are also market advantages to be gained from an ethical reputation.

3.6.2 Ways in which Ethics are Important

Major scandals such as WorldCom, Enron, Lehman Brothers etc., in the US and Satyam in India tell us why ethical business practices are becoming increasingly important. There are several reasons why ethics are important to business:

1) To understand reasons behind increasing influence of corporates in society.
2) To ensure that no harm is done to society.
3) To meet ethical expectations more effectively.
4) To enable companies to identify employee and customer concerns at an early stage.
5) To improve the quality of a firm's relationships with its key stakeholders.
6) The government is interested in ensuring ethical business practices to ensure a basic level of integrity in the marketplace. This promotes international competitiveness of the economy and improves a country's image concerning ease of doing business.
7) Even domestically, predictable levels of ethical behaviour ensures that costs of business such as transaction costs, hedging and insurance etc., are kept to a minimum.
8) Unethical behaviour imposes costs on the government and taxpayers. Bad behaviour by a few impacts on all businesses and might also have an adverse impact on the country's international competitiveness.

9) Ethics can help improve decision making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.

10) Ethics help in analysing the reasons behind this, and the ways in which such problems might be dealt with by managers, and regulators in improving business ethics.

11) Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.

12) Business ethics also equips us with knowledge that goes beyond the traditional boundaries of business studies.

Activity 2

Illustrate a business case in which ethical practices have created a strong public image for the corporate.

....

....

....

....

....

3.7 GOVERNANCE: CASE STUDIES

Understanding ethical behavior in the context of corporate governance requires two levels of analysis: the internal concerns of corporate agency and the emergent effects on social welfare.

Corporate agency is based on the premise that employees, managers, and directors (i.e., agents) should behave in the best interests of owners or shareholders (i.e., principals). Two things get in the way of that ideal:

- First, managers' interests, while overlapping with those of shareholders, are distinct. Sometimes agents can help themselves in ways that hurt the firm and its shareholders. Examples include shirking, waste, and in extreme cases, fraud or other self-serving actions that can bring down the company, as have happened in numerous business scandals.

- Second, shareholders have neither the specific knowledge nor skills possessed by management. This can create dynamics where even well-intentioned managers may feel compelled to 'short-termism', i.e., acting in ways that look good to shareholders now, but actually undermine value creation over time. Various oversight, transparency, and incentive mechanisms have evolved, and continue to develop, to contain agency costs.

Social welfare is based on the premise that companies should engage in fair dealing with all of their stakeholders—including customers, employees, suppliers and communities, as well as shareholders—in accordance with the expectations of the larger society in which they operate. The debate about what is 'fair dealing' reflects the larger, ongoing debate about the purpose of corporations in society, but even a shareholder-centric model recognizes that companies benefit from at least nurturing their reputations among all stakeholders, and that minimizing their negative externalities (pollution, plant closures, etc.), preserves the freedom of companies to operate with otherwise minimal external constraints.

While traditional corporations are expected to prioritize shareholder interests above those of other stakeholders and, to a considerable extent, attempt to maximize shareholder value within their legal constraints, other corporate forms permit a more balanced approach between shareholders and vendors (cooperatives) or between shareholders and specified other constituencies (B-corporations).

*Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

CASE STUDIES

FAILURES

The Enron Scandal (Hodak, 2007): How a combination of perverse incentives and lack of transparency killed a highflying company?

Enron's collapse is generally viewed as a morality tale - the natural result of managerial greed, a clueless board, and feckless gatekeepers. It is a tale of how bad bets that resulted in good outcomes came to be viewed by top management and the board as bets kept repeating on an ever-larger scale. Early success in highly risky ventures were ramped up and duplicated, under perverse incentives, into a financial disaster. The firm then doubled down on that disaster with non-economic hedges developed by the finance group. The CFO (Chief Financial Officer), in a wholesale breach of his fiduciary responsibilities, including corruption of various gatekeepers, managed to cloak the poor quality of his hedges and his motivation in creating them. This duplicity prevented top management or the board from fully recognizing or acting upon the danger that those hedges posed to Enron's survival, until it was too late. The political and economic reactions to Enron are usefully viewed in terms of these distinguishing elements of its failure.

SUCCESSES

Progressive Insurance: Disclosure Strategy (Hutton Weber, 2001): How they won by not playing "the earnings game." An excellent example of voluntary disclosure yielding a competitive advantage.

Progressive Insurance had refused to play Wall Street's earning game. Progressive didn't manage reported earnings nor did management give guidance to analysts. Management then considered taking their unique disclosure strategy one step further to become the first to move to monthly reporting of operating results. Significant benefits had accrued from Progressive's refusal to play the earnings game. Management's time wasn't wasted manipulating reported results or talking to analysts and reported numbers didn't mislead internal or external decision making. However, there were significant costs, as well. Unguided analysts' forecasts were often well off the mark, causing Progressive's stock price to fluctuate widely around quarterly earnings announcements. Analysts' forecasting abilities seemed to be getting worse - during four consecutive quarters in 1999-2000, management felt compelled to give mid-quarter warnings that earnings would fall significantly below the First Call's consensus estimate. To eliminate the need for such mid-quarter warnings, management considered moving to monthly reporting of operating results. With this data, analysts presumably would be able to update their forecasts. Management must decide if the release of monthly results would give competitors information to use against Progressive, and if the release of monthly results would increase or decrease Progressive's stock price volatility.

Check Your Progress - 2

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the four stages of decision making?

....

....

....

....

....

2) Define corporate ethics. Why do ethics matter?

....

....

....

....

....

3.8 LET US SUM UP

Questions of ethics, or the right way to run a business, are inherent in all aspects of corporate governance and in every Board decision and action. Ethical choices are relevant within the core business strategies that Boards pursue and the way that direct the business as a whole to achieve them. Ethics is the first line of defense against corruption while law enforcement is remedial and reactive. Good corporate governance goes beyond rules and regulations that the government can put in place. It is also about ethics and the values which drive companies in the conduct of their business. It is therefore all about the trust that is established over time between companies and their different stakeholders. Good corporate governance practice cannot guarantee no corporate failures. But the absence of such governance standards will definitely lead to questionable practices and corporate failures which surface suddenly and massively. In making ethics work in an organization it is important that there is synergy between vision statements, mission statements, core values, general business principles and code of conduct confers a variety of benefits. An effective ethics programme requires continual reinforcement of strong values. Organizations are challenged with how to make its employees live and imbibe the organization's codes and values. To ensure the right ethical climate, a right combination of spirit and structure is required.

3.9 KEYWORDS

Corporate Governance : Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken.

Code of Ethics : A code of ethics document may outline the mission and values of the business or organization, how professionals are supposed to approach problems, the ethical principles based on the organization's core values and the standards to which the professional is held

3.10 BIBLIOGRAPHY AND SELECTED READINGS

Books & Reports

Fernando, A.C. (2011). *Corporate Governance: Principles, Policies and Practices*. Pearson Education India

Bhattacharya D. (2015). *Encoded Ethics-Social Responsibility of Indian Businesses*. Akansha Publishing House

Mallin C. (1998). The role of Institutional Investors in Corporate Governance of Financial Institution: The UK Case. In Balling M., Hennessy, E. and O'Brien, R. (Ed.), *Corporate Governance, Financial Markets and Global Convergence*. Springer

Taxmann (2015). *Corporate Governance*. Taxmann Publication

Dube, I. (2008). *Corporate Governance*. Butterworths Wadhwa

Carver, J. (2002). *On Board Leadership*. John Willey and Sons

Sampath, K.R. (2006). *Law of Corporate Governance: Principles and perspective*. Snow White. Publications Pvt. Ltd.

Sharma P.V. and Rajani, S. (2007). *Corporate Governance: Contemporary Issues and Challenges*. Kanishka Publishers.

Aggarwal, s. (2003). *Corporate Governance: Concepts and Dimensions*. Snow White Publications

SRI (1992). *Survey on Corporate Philanthropy*. ActionAid, New Delhi

Sundra, P. (2000), *Beyond Business: From Merchant Charity to Corporate Citizenship*. Tata McGraw-Hill, New Delhi

Online Search

https://hbr.org/product/progressive-insurance-disclosure-strategy/102012-PDF-ENG accessed on 15/11/18

Nucor Corporation (A) (Govindarajan1998)http://www.tuck.dartmouth.edu/people/vg/site/downloads/casestudies/20015_Nucor_A.pdf.

Government Reports

Bhattacharya D. (2012). 'Developing Code of Ethics for Indian Industry', (http://nhrc.nic.in/Documents/reports/misc_dev_code_of_ethics_ for_ indian_industry_ICSM.pdf)

https://www.ripublication.com/gjmbs_spl/gjmbsv3n10_08.pdfGovernment of India.

3.11 CHECK YOUR PROGRESS- POSSIBLE ANSWERS

Check Your Progress - 1

1) Ethics is "Moral principles that govern a person's behavior or the conducting of an activity". When we add the word 'corporate' before ethics, we obviously are trying to ensure that the day-to-day conduct of business concerns confirms to the existing norms of accepted behavior. By definition, ethics go beyond the rules of conduct laid down by laws.

2) While law is obligatory and violation of the law attracts penalties from the legal justice system, Ethics are more voluntary in nature. However, not acting ethically might lead to violation of laws, as most laws are in one way or another a codification of ethics.

Check Your Progress - 2

1) The four stages of decision making, as proposed by the model are: Ethical Issue Recognition, Ethical Judgment, Ethical Intent, and Ethical Behaviour

2) Corporate Ethics or Business Ethics has been defined as The study of business situations, activities and decisions where issues of right and wrong are addressed. (Crane and Matten: 2010). According to another definition "Business Ethics comprises the principles and standards that guide behaviour in the world of business" (Ferrell et al 2006).

   Ethics matter because ethical conduct is the right conduct. However, in the absence of a time, culture, and context-neutral definition of 'right', it is very difficult to develop a Code of Conduct on this basis alone. It basically says that businesses avoid many risks and gain reputation by acting in an ethical manner.