

## UNIT III

**SUBJECT: CORPORATE SOCIAL RESPONSIBILITY**

**SUBJECT CODE: GOCM16C**

**CLASS: I M.A. English**

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### UNIT III

CSR reporting trend in developing countries – timing and mode of release of CSR reports – CSR policy of a multi-product, multi-location Indian MNC's – constitutions of corporate social responsibility – dimensions of CSR – benefits of CSR to the company.

#### **Various drivers for CSR in developing countries**

Having sketched a broad overview of the ways in which the literature on CSR in developing countries can be classified, as well as giving a flavour of CSR in a regional context, I now want to address the central question of what makes CSR in developing countries different from its typical manifestation in the developed world, as defined by America and Europe. One powerful way to do this is by examining the various drivers for CSR in developing countries. Although they are not all unique to developing countries, together they build up a distinctive picture of how CSR is conceived, incentivized, and practiced in emerging economies. I have identified ten major drivers for CSR in developing countries, as illustrated in Figure 21.2 and discussed below. Internal drivers refer to pressures from within the country, while external drivers tend to have a global origin.

#### **Cultural Tradition**

While many believe CSR is a Western invention (and this may be largely true in its modern conception), there is ample evidence that CSR in developing countries



**Fig. 21.2 Drivers of CSR in developing countries**

draws strongly on deep-rooted indigenous cultural traditions of philanthropy, business ethics, and community embeddedness. Indeed, some of these traditions go back to ancient times. For example, Visser and Macintosh (1998) recall that the ethical condemnation of usurious business practices in developing countries that practice Hinduism, Buddhism, Islam, and Christianity dates back thousands of years. Similarly, Frynas (2006) notes that ‘business practices based on moral principles were advocated by the Indian statesman and philosopher Kautilya in the 4th century BC’ (p. 17).

In a Latin American context, Sanborn (2002), quoted in Logsdon *et al.* (2006) reminds us that ‘varied traditions of community self-help and solidarity stretch

back to the region's pre-Hispanic cultures, and include the mutual aid societies, trade unions and professional associations that emerged in the 19th and early 20th centuries' (p. 2). This is consistent with Logsdon *et al.*'s (2006) myths of CSR in Mexico that need debunking: 'One myth is that CSR in Mexico is new, another is that US firms brought CSR to Mexico, and a third is that CSR as practised by Mexican firms simply reflects the CSR patterns and activities of US firms' (p. 51).

Looking at more modern applications of CSR, in Vives's (2006) survey of over 1,300 small and medium-sized enterprises in Latin America, he finds that the region's religious beliefs are one of the major motivations for CSR. Similarly, Nelson (2004) shows how Buddhist traditions in Asia are aligned with CSR.

In Asia, Chapple and Moon (2005) reach a similar conclusion, namely that 'CSR does vary considerably among Asian countries but that this variation is not explained by [levels of] development but by factors in the respective national of CSR papers for the *Journal of Corporate Citizenship* special issue on CSR in Asia.

In an African context, Amaeshi *et al.* (2006) find that CSR in Nigeria is framed by socio-cultural influences like communalism, ethnic religious beliefs, and charitable traditions, while Visser (2005b) suggests that the values-based traditional philosophy of African humanism (*ubuntu*) is what underpins much of the modern, inclusive approaches to CSR on the continent.

### **Political Reform**

CSR in developing countries cannot be divorced from the socio-political reform process, which often drives business behavior towards integrating social and ethical issues. For example, De Oliveira (2006) argues that the political and associated social and economic changes in Latin America since the 1980s,

including democratization, liberalization, and privatization, have shifted the role of business towards taking greater responsibility for social and environmental issues.

In South Africa, the political changes towards democracy and redressing the injustices of the past have been a significant driver for CSR, through the practice of improved corporate governance (Roussouw *et al.*, 2002), collective business action for social upliftment (Fourie and Eloff, 2005), black economic empowerment (Fig, 2005), and business ethics (Malan, 2005). Visser (2005a) lists more than a dozen examples of socio-economic, environmental, and labor-related legislative reform in South Africa between 1994 and 2004 that have a direct bearing on CSR.

Likewise, more recently, the goal of accession to European Union membership has acted as an incentive for many Central and Eastern European countries to focus on CSR, since the latter is acknowledged to represent good practice in the EU (Baskin, 2006).

### **Socio-economic Priorities**

There is a powerful argument that CSR in developing countries is most directly shaped by the socio-economic environment in which firms operate and the development priorities this creates.

Amaeshi *et al.* (2006), for example, argue that CSR in Nigeria is specifically aimed at addressing the socio-economic development challenges of the country, including poverty alleviation, health-care provision, infrastructure development, and education. This, they argue, stands in stark contrast to many Western CSR priorities such as consumer protection, fair trade, green marketing, climate change concerns, or socially responsible investments.

Similarly, Schmidheiny (2006) questions the appropriateness of imported CSR approaches, citing examples from Latin America, where the most pressing issues like poverty and tax avoidance are typically not included in the CSR conceptions, tools, and methodologies originating in developed countries. By contrast, locally developed CSR approaches are more likely to respond to the many social and environmental problems in the region, such as deforestation, unemployment, income inequality, and crime (De Oliveira, 2006).

Michael Spicer, CEO of the South Africa Foundation and former senior executive for the mining conglomerate Anglo American, argues that having CSR guided by the socio-economic priorities of the country or region is simply good business. Furthermore, he suggests that companies in developing countries have to actively shape the socio-economic and political landscape in order to create an operating environment which is conducive for business (Middleton, 2005). The business response to the socio-economic challenge of HIV/AIDS is a case in point (Brennan and Baines, 2006).

### **Governance Gaps**

CSR as a form of governance or a response to governance challenges is discussed elsewhere in this book (Levy and Kaplan, Chapter 19). However, of particular relevance for developing countries is the fact that CSR is often seen as a way to plug the ‘governance gaps’ left by weak, corrupt, or under-resourced governments that fail to adequately provide various social services (housing, roads, electricity, health care, education, etc.).

Matten and Moon (forthcoming) see this as part of a wider trend in developing countries with weak institutions and poor governance, in which responsibility is often delegated to private actors, be they family, tribe religion, or, increasingly, business. Furthermore, ‘as many developing country government initiatives to

improve living conditions falter, proponents of [CSR and bottom of the pyramid] strategies argue that companies can assume this role’.

Such proponents of CSR, Blowfield and Frynas (2005) observe, see it as ‘an alternative to government’ (p. 502) which is ‘frequently advocated as a means of filling gaps in governance that have arisen with the acceleration of liberal economic globalisation’ (p. 508). A survey by the World Business Council for Sustainable Development (WBCSD 2000) illustrates this perspective: when asked how CSR should be defined, Ghanaians stressed ‘building local capacity’ and ‘filling in when government falls short’.

Moon (2002a) argues that this is part of a broader political shift towards ‘new governance’ approaches, whereby governments are increasingly seeking to share responsibilities and to develop new modes of operation, whether as a result of overload or of a view that they do not have a monopoly of solutions for society. This is often in the form of social partnerships with non-profit and for-profit organizations. Moon *et al.* (2005) cite this as an example of corporations acting in a ‘civic republicanism’ mode.

In addition to being encouraged to step in where once only governments acted, through the mechanism of either privatization or welfare reform, Matten and Crane (2005) also suggest that companies enter the arena of citizenship where government has not as yet administered citizenship rights, for example, improving working conditions in sweatshops, ensuring for employees a living wage, and financing the schooling of child laborers in the absence of legislation requiring this.

However, there are many critics of this approach. Hamann *et al.* (2005) argues that CSR is an inadequate response to these governance gaps and that more proactive involvement in moving local governance towards accountability and

inclusive-ness is necessary. Blowfield and Frynas (2005) also question the logic: 'Is CSR a stepping-stone on the path to better national regulation in developing countries? Or is it part of a longer term project for overcoming the weaknesses of territorially prescribed judicial and welfare mechanisms, that is, addressing the limitations of the nation-state in regulating a global economy?' (p. 509)

There are also serious questions about the dependencies this governance gap approach to CSR creates, especially where communities become reliant for their social services on companies whose primary accountability is to their shareholders. Hence, multinationals may cut expenditure, or disinvest from a region if the economics dictates that they will be more profitable elsewhere. There is also the issue of perceived complicity between governments and companies, as Shell all too painfully experienced in Nigeria (Ite, 2004).

### **Crisis Response**

Various kinds of crises associated with developing countries often have the effect of catalyzing CSR responses. These crises can be economic, social, environmental, health-related, or industrial. For example, Newell (2005) notes that the economic crisis in Argentina in 2001–2 marked a significant turning point in CSR, prompting debates about the role of business in poverty alleviation. Others see climate change (Hoffman, 2005) and HIV/AIDS (Dunfee, 2006) as crises that are galvanizing CSR in developing countries.

Catastrophic events with immediate impact are often more likely to elicit CSR responses, especially of the philanthropic kind. The corporate response to the Asian tsunami is a classic case in point (Fernando, 2007). However, industrial accidents may also create pressure for CSR. Examples include Union Carbide's response to the 1984 Bhopal disaster in India (Shrivastava, 1995) and Shell's response to the

## **Market Access**

The flipside of the socio-economic priorities driver is to see these unfulfilled human needs as an untapped market. This notion underlies the now burgeoning literature on ‘bottom of the pyramid’ strategies, which refer to business models that focus on turning the four billion poor people in the world into consumers (Prahalad and Hammond, 2002; London and Hart, 2004; Rangan *et al.*, 2007). As we have previously noted, this straying of business into the development arena is not without its critics or problems (Hardcourt, 2004).

CSR may also be seen as an enabler for companies in developing countries trying to access markets in the developed world. For example, Baskin (2006) identifies competitive advantage in international markets as one of the key drivers for CSR in Central and Eastern Europe and Asia. Similarly, Araya’s (2006) survey of CSR reporting among the top 250 companies in Latin America found that businesses with an international sales orientation were almost five times more likely to report than companies that sell products regionally or locally.

This is especially relevant as more and more companies from developing countries are globalizing and needing to comply with international stock market listing requirements, including various forms of sustainability performance reporting and CSR code compliance (Visser, 2005a). This is echoed in Chapple and Moon’s (2005) study of seven countries in Asia, which found that there is a strong relationship between international exposure, either in terms of international sales or foreign ownership, and CSR reporting.

CSR is also sometimes used as a partnership approach to creating or developing new markets. For example, the AED/Mark Partnership with Exxon Mobil was created on the basis of developing a viable market for insecticide-treated mosquito nets in Africa, while improving pregnant women’s access to these nets,



through the delivery of targeted subsidies (Diara *et al.*, 2004). Similarly, ABB used a partnership approach to CSR to deliver a rural electrification project in Tanzania (Egels, 2005).

### **International Standardization**

Despite the debate about the Western imposition of CSR approaches on the global South, there is ample evidence that CSR codes and standards are a key driver for CSR in developing countries. As already noted, Baskin's (2006) survey of CSR practices in emerging markets indicates growing adoption rates of ISO 14001 and the Global Reporting Initiative's Sustainability Reporting Guidelines.

Codes are also frequently used as a CSR response in sectors that are prevalent in developing countries, such as horticulture (Dolan and Opondo, 2005), cocoa (Schrage and Ewing, 2005), and textiles (Kaufman *et al.*, 2004), as well as to deal with pressing social issues in developing countries, such as child labor (Kolk and Van Tulder, 2002) or the role of women in the workplace (Prieto-Carron, 2004).

Often, CSR is driven by standardization imposed by multinationals striving to achieve global consistency among its subsidiaries and operations in developing countries. For example, the Asia study by Chapple and Moon (2005) found that 'multinational companies are more likely to adopt CSR than those operating solely in their home country, but that the profile of their CSR tends to reflect the profile of the country of operation rather than the country of origin' (p. 415).

### **Investment Incentives**

The belief that multinational investment is inextricably linked with the social welfare of developing countries is not a new phenomenon (Gabriel, 1972). However, increasingly these investments are being screened for CSR performance. Hence, socially responsible investment (SRI) is becoming another driver for CSR in

developing countries. As one indicator of this, Baskin (2006) notes that approximately 8% of emerging market companies on the Dow Jones World Index are included in the Dow Jones Sustainability Index, compared with around 13% of high-income companies.

In some developing countries, like South Africa, the SRI trend is well documented (AICC, 2002). In addition to featuring prominently in the SRI movement in the 1980s through the anti-apartheid disinvestment phenomenon, since 1992, South Africa has introduced more than 20 SRI funds nationally which track companies' social, ethical, and environmental performance (Visser, 2005a). According to research by the African Institute of Corporate Citizenship (AICC) (2002), the size of the South African SRI market in 2001 was already 1.55% of the total investment market. In a significant development, in May 2004, the Johannesburg Securities Exchange also launched its own tradable SRI Index, the first of its kind in an emerging market (Sonnenberg *et al.*, 2004). A similar index has also subsequently been introduced in Brazil.

Closely linked to the literature on SRI in developing countries is the debate about the business case for CSR. Although very few instrumental studies have been done, a Thailand survey by Connelly and Limpaphayom (2004) shows that environmental reporting does not negatively impact on short-term profitability and has a positive relationship with firm valuation. More generally, a report by SustainAbility (2002) uses case studies to illustrate various business benefits associated with addressing sustainability in developing countries. Furthermore, Goyal

(2006) contends that CSR may serve as a signaling device for developing countries seeking to assess foreign direct investment proposals by unknown foreign firms.

## Stakeholder Activism

In the absence of strong governmental controls over the social, ethical, and environmental performance of companies in developing countries, activism by stakeholder groups has become another critical driver for CSR. Lund-Thomsen (2004) describes this as ‘an outcome of micro-level struggles between companies and communities over the distribution of social and environmental hazards which are created when global political and economic forces interact with local contexts around the world’ (p. 106).

In developing countries, four stakeholder groups emerge as the most powerful activists for CSR, namely development agencies (Jenkins, 2005), trade unions (Kaufman *et al.*, 2004), international NGOs (Christian Aid, 2005), and business associations (WBCSD, 2000). These four groups provide a platform of support for local NGOs, which are not always well developed or adequately resourced to provide strong advocacy for CSR. The media is also emerging as a key stakeholder for promoting CSR in developing countries (Vivarta and Canela, 2006).

Stakeholder activism in developing countries takes various forms, which Newell (2001) classifies as civil regulation, litigation against companies, and international legal instruments. Of these, civil regulation is perhaps the most common and effective. Bendell (2000) describes this as the theory that ‘businesses are being regulated by civil society, through the dual effect of negative impacts from conflict and benefits from collaboration [which] provides new means for people to hold companies accountable, thereby democratising the economy directly’.

There are numerous examples of civil regulation in action in the developing world of which South Africa is a rather striking case in point (Visser, 2005a). This has

manifested itself mainly through community groups challenging companies over whether they are upholding the constitutional rights of citizens. Various landmark cases between 1994 and 2004 suggest that, although civil society still tends to lack capacity and resources in South Africa, this has been an effective strategy. Stakeholder activism has also taken a constructive approach towards encouraging CSR, through groups like the National Business Initiative and partnerships between business and NGOs.

Stakeholder activism can also be a source of criticism of CSR, arguing that it is an inadequate response to the social and environmental challenges of developing countries. The Christian Aid (2005) report *Behind the Mask: The Real Face of Corporate Social Responsibility* epitomizes this critical approach, and may be a driver for an enlarged conception and practice of CSR in developing countries.

### **Supply Chain**

Another significant driver for CSR in developing countries, especially among small and medium-sized companies, is the requirements that are being imposed by multi-nationals on their supply chains. This trend began with various ethical trading initiatives (Blowfield, 2003, 2004), which led to the growth of fair trade auditing and labelling schemes for agricultural products sourced in developing countries (Dolan and Opondo, 2005; Schrage and Ewing, 2005). Allegations of poor labor conditions and human rights abuses in several high profile multinational supply chains in the sporting and clothing sectors were also a significant catalyst for greater attention to CSR requirements (Hussain-Khaliq, 2004; Kaufman *et al.*, 2004; Nielsen, 2005).

One response has been the development of certifiable standards like SA 8000, which is now widely used as a screening mechanism for multinationals in selecting their suppliers in developing countries (Kolk and Van Tulder, 2002). Major

change has also been achieved through sector-based initiatives such as the Forest Stewardship Council for sustainable forestry and the Marine Stewardship Council for sustainable fishing. More recently, this driver has been scaled up due to the so-called ‘Wal-Mart effect’ whereby major global and national retailers are committing to promoting sustainability and responsibility through their suppliers (Johnson, 2004).

### **A CSR Pyramid for Developing Countries**

Having considered the various drivers for CSR in developing countries, the question is: Are current Western conceptions and models of CSR adequate for describing CSR in developing countries? If we consider the most popular model—Carroll’s (1991) CSR Pyramid, comprising economic, legal, ethical, and philanthropic responsibilities—this is almost entirely based on research in an American context. Even so, several empirical studies suggest that culture may have an important influence on perceived CSR priorities (Pinkston and Carroll, 1994; Edmondson and Carroll, 1999; Burton *et al.*, 2000).

Crane and Matten (2007a) address this point explicitly by discussing CSR in a European context using Carroll’s CSR Pyramid. They conclude that ‘all levels of CSR play a role in Europe, but they have different significance, and furthermore are interlinked in a somewhat different manner’ (p. 51). In the same way, I believe

Ethical Responsibilities

Legal Responsibilities

Philanthropic Responsibilities

Economic Responsibilities

Carroll's four-part pyramid construct can be useful to look at how CSR is manifested in a developing country context.

Taking this approach, my contention is that the order of the CSR layers in developing countries—if this are taken as an indicator of the relative emphasis assigned to various responsibilities—differs from Carroll's classic pyramid (Visser, 2006*b*). Hence, in developing countries, economic responsibilities still get the most emphasis. However, philanthropy is given second highest priority, followed by legal and then ethical responsibilities. This is illustrated in Figure 21.3. Each element will be briefly discussed in turn.

### **Economic Responsibilities**

It is well known that many developing countries suffer from a shortage of foreign direct investment, as well as from high unemployment and widespread poverty. It is no surprise, therefore, that the economic contribution of companies in developing countries is highly prized, by governments and communities alike. Fox (2004) argues that this should not be seen in a negative light, but rather as a more development-oriented approach to CSR that focuses on the enabling environment for responsible business in developing countries and that brings economic and equity aspects of sustainable development to the forefront of the agenda.

This is similar to the approach to economic responsibility taken by companies in Europe, in contrast to the more narrow focus on profitability in the USA (Crane and Matten, 2007*a*). Hence, in developing countries, CSR tends to stress the importance

of 'economic multipliers', including the capacity to generate investment and income, produce safe products and services, create jobs, invest in human capital, establish local business linkages, spread international business standards, support

technology transfer and build physical and institutional infrastructure (Nelson, 2003). For this reason, companies that operate in developing countries increasingly report on their economic responsibilities by constructing 'economic value added' statements.

It is worth re-emphasizing as a caveat that economic responsibility has two faces—economic contribution on the one side and economic dependence on the other. When communities or countries become overly dependent on multinationals for their economic welfare, there is the risk of governments compromising ethical, social, or environmental standards in order to retain their investment, or suffering huge social disruption if those businesses do decide to disinvest, as occurred with Anglo American in Zambia.

### **Philanthropic Responsibilities**

Crane and Matten (2007a) suggest that philanthropic responsibility in Europe tends more often to be more compulsory via the legal framework than discretionary acts of successful companies or rich capitalists as in the United States. In this respect, developing countries have more in common with the American model, although philanthropy generally gets an even higher priority as a manifestation of CSR (Arora and Puranik, 2004; Fig, 2005; Ahmad, 2006; Amaeshi *et al.*, 2006; Weyzig, 2006).

Partly, this is a result of strong indigenous traditions of philanthropy in developing countries, as previously discussed. However, there are several other reasons as well. In the first instance, the socio-economic needs of the developing countries in which companies operate are so great that philanthropy is an expected norm—it is considered the right thing to do by business.

Second, companies realize that they cannot succeed in societies that fail, and philanthropy is seen as the most direct way to improve the prospects of the

communities in which their businesses operate. HIV/AIDS is a case in point, where the response by business is essentially philanthropic (it is not an occupational disease), but clearly in companies' own medium- to long-term economic interest.

Third, over the past 50 years, many developing countries have become reliant on foreign aid or donor assistance. Hence, there is often an ingrained culture of philanthropy. And a final reason for developing countries' prioritization of philanthropy is that they are generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy, rather than embracing the more embedded approaches now common in developed countries.

### **Legal Responsibilities**

In developing countries, legal responsibilities generally have a lower priority than in developed countries. This does not necessarily mean that companies flaunt the law, but there is far less pressure for good conduct. This is because, in many developing countries, the legal infrastructure is poorly developed, and often lacks independence, resources, and administrative efficiency.

Many developing countries are also behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation (Mwaura 2004). Admittedly, there are exceptions and some developing countries have seen significant progress in strengthening the social and environmental aspects of their legislation (Visser, 2005*b*). However, government capacity for enforcement remains a serious limitation, and reduces the effectiveness of legislation as a driver for CSR.

Hence, several scholars argue that tax avoidance by companies is one of the most significant examples of irresponsible business behavior in developing countries,



often contradicting their CSR claims of good conduct (Christensen and Murphy, 2004).

### **Ethical Responsibilities**

Crane and Matten (2007a) suggest that ethical responsibilities enjoy a much higher priority in Europe than in the United States. In developing countries, however, ethics seems to have the least influence on the CSR agenda. This is not to say that developing countries have been untouched by the global trend towards improved governance (Reed, 2002). In fact, the 1992 and 2002 King Reports on Corporate Governance in South Africa have both led the world in their inclusion of CSR issues.

For example, the 1992 King Report was the first global corporate governance code to talk about ‘stakeholders’ and to stress the importance of business accountability beyond the interests of shareholders (IoD, 1992). Similarly, the 2002 revised King Report was the first to include a section on ‘integrated sustainability reporting’, covering social, transformation, ethical, safety, health, and environmental management policies and practices (IoD, 2002).

This progress is certainly encouraging, but in general, it is still the exception rather than the rule. For instance, in Transparency International’s annual Corruption Perception Index and Global Corruption Barometer, developing countries usually make up the bulk of the most poorly ranked countries. Furthermore, survey respondents from these countries generally agree that corruption still affects business to a large extent. The World Bank’s (2005) *Investment Climate Survey* paints a similar picture.

One of the attempts to address corruption in developing countries has been the UK-led Extractive Industries Transparency Initiative (EITI), which aims to increase transparency over payments by companies to governments and

government-linked entities, as well as transparency over revenues by those host country governments. This is clearly a step in the right direction, but the refusal of countries like Angola to even participate shows that there is still a long way to go in embedding ethical responsibilities in developing countries.

### **An Ideal CSR Pyramid**

The descriptive approach adopted in the previous sections was used to illustrate how CSR actually manifests in developing countries, rather than presenting an aspirational view of what CSR in developing countries *should* look like. For example, it is not proposed that legal and ethical responsibilities *should* get such a low priority, but rather that they do in practice.

By contrast, if we are to work towards an ideal CSR Pyramid for CSR in developing countries, I would argue that improved ethical responsibilities, incorporating good governance, should be assigned the highest CSR priority in developing countries. It is my contention that governance reform holds the key to improvements in all the other dimensions, including economic development, rule of law, and voluntary action. Hence, embracing more transparent, ethical governance practices should form the foundation of CSR practice in developing countries, which in turn will provide the enabling environment for more widespread responsible business.

### **Forms and Dimensions of Corporate Social Responsibility (CSR)**

#### **Forms and Dimensions of Corporate Social Responsibility (CSR)!**

Among the organizational researchers who have tried from time to time to identify and describe the various forms of CSR, probably the most established and accepted model of CSR which addresses the forms of CSR is the one called 'Four-Part Model of Corporate Social Responsibility' as proposed by Archie Carroll and subsequently refined later by Carroll and Buchholtz. According to

Carroll, CSR is a multi-layer concept consisting of four inter-related aspects of responsibilities, namely, economic, legal, ethical, and philanthropic. He presents these different responsibilities as consecutive layers within a pyramid.

Hence, he offers the definition of CSR in these words: “Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.”

Let us discuss, in brief, each of these four responsibilities in turn.

***i. Economic Responsibility:***

A corporation has to meet its economic responsibilities in terms of reasonable return to investors, fair compensation to employees, goods at fair prices to customers, etc. Thus, meeting economic responsibility is the first-layer of responsibility and also the basis for the subsequent responsibilities. The fact remains that meeting economic responsibility is must for all corporations to survive in the time.

***ii. Legal Responsibility:***

The legal responsibility of business corporations demands that businesses abide by the law of land and play by the rule of the game. Laws are the codification of do's and don'ts do's in the society.

Abiding by laws is the prerequisite for any corporation to be socially responsible. Corporate history is replete with instances where violation of laws disallowed corporations to run any longer. Enron, Union Carbide, Global Trust Bank, etc. are some of such illustrative corporate cases of social rejection and boycott.

***iii. Ethical Responsibility:***

These responsibilities refer to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not

make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social well being is called ethical.

Hence, corporations have an ethical responsibility to do, even going beyond law and rule and regulations, what proves good for the society. In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.

#### ***iv. Philanthropic Responsibility:***

The Greek word ‘philanthropy’ means literally ‘the love of the fellow human.’ The use of this idea in business context incorporates activities that are, of course, within the corporation’s discretion to improve the quality of life of employees, local communities, and ultimately society at large.

Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations. It is important to note that the philanthropic activities are desires of corporations, not expected by the society.

#### **Dimensions of CSR:**

The facets and dimensions of corporate social responsibility include the obligations a business has to its interest groups also called ‘stakeholders.’ The stakeholders in a business include shareholders / owners, consumers, employees, government, society, etc.

#### **Shareholders:**

It is the primary responsibility of every business to see that the owners or shareholders get a fair rate of dividend or fair return on capital invested. This is a legitimate expectation of owners from business. Naturally the expectations have to be reasonable and consistent with the risks associated with the investment.

Owners also expect economic and political security of the capital invested. If such security is not ensured, the inevitable consequence is withdrawal of capital and search for alternative channels other than business.

***Employees:***

As regards responsibility towards employees, the major issues governing the employer-employee relationship pertain to wages and salaries, superior-subordinate relations and employee welfare. It is the responsibility of management to provide for fair wages to workers based on the principal of adequacy, equity and human dignity.

Maintaining a harmonious relationship between superiors and subordinates and providing for welfare amenities for employees are also the responsibilities of management. There are specific laws in India governing factory employment under which provision of satisfactory working conditions for safety, health and hygiene, medical facilities, canteen, leave and retirement benefits are obligations on the part of employer.

There are other laws as well providing for the security of workers against the contingencies of sickness, maternity, employment injury and death, provident fund and pension for employees.

However, employee welfare cannot be viewed within the narrow limits of legal requirement. Employee welfare is best secured if the management accepts the obligation to secure and maintain a contented work force, and the employees have the opportunity of developing their potential abilities through training and education.

Consumer interests are generally expected to be taken care of in a competitive market through forces of demand and supply. However, perfect competition does not actually prevail in all product markets. Consumers are also victims of unfair

trade practices and unethical conduct of business. Consumer protection has, thus, been sought through legislation, and non-government organizations (NGOs) have enlarged their activities for upholding consumer interests.

These compulsions are avoidable if management assumes the responsibility of satisfying consumer needs and desists from hoarding, profiteering, creating artificial scarcity, as also false, misleading and exaggerated advertisements. Besides, it would be in the long-run interest of business if goods of appropriate standard and quality are available to consumers in adequate quantities and at reasonable prices.

***Government:***

**Social responsibility of business towards government requires that:**

- (i) the business will conduct its affairs as a law-abiding unit, and pay all taxes and other dues honestly,
- (ii) management will desist from corrupting public servants or the democratic process for selfish ends, and no attempt will be made to secure political support by money or patronage.

***Community:***

Arising out of their social responsibility towards the community and public at large, businessmen are expected to maintain a balance between the needs of business and the requirements of society. In general, business should be so managed as to make the public good become the private good of the enterprise rather than the old doctrine that “what is good for the business is good for the society”.

The social responsibility of business firms should be reflected in their policies with respect to environmental protection, pollution control, conservation of natural resources, rural development, setting up industrial units in the backward

regions, employment of the socially handicapped and weaker sections of the community, and providing relief to victims of natural calamities.

### **Benefits of Corporate Social Responsibility**

The benefits of CSR speak volumes about how important it is and why you should make an effort to adopt it in your business.

Some clear benefits of corporate social responsibility are:

- **Improved public image.** This is crucial, as consumers assess your public image when deciding whether to buy from you. Something simple, like staff members volunteering an hour a week at a charity, shows that you're a brand committed to helping others. As a result, you'll appear much more favourable to consumers.
- **Increased brand awareness and recognition.** If you're committed to ethical practices, this news will spread. More people will therefore hear about your brand, which creates an increased brand awareness.
- **Cost savings.** Many simple changes in favour of sustainability, such as using less packaging, will help to decrease your production costs.
- **An advantage over competitors.** By embracing CSR, you stand out from competitors in your industry. You establish yourself as a company committed to going one step further by considering social and environmental factors.
- **Increased customer engagement.** If you're using sustainable systems, you should shout it from the rooftops. Post it on your social media channels and create a story out of your efforts. Furthermore, you should show your efforts to local media outlets in the hope they'll give it some coverage. Customers will follow this and engage with your brand and operations.

- **Greater employee engagement.** Similar to customer engagement, you also need to ensure that your employees know your CSR strategies. It's proven that employees enjoy working more for a company that has a good public image than one that doesn't. Furthermore, by showing that you're committed to things like human rights, you're much more likely to attract and retain the top candidates.
- **More benefits for employees.** There are also a range of benefits for your employees when you embrace CSR. Your workplace will be a more positive and productive place to work, and by promoting things like volunteering, you encourage personal and professional growth.

### **CSR Or Sustainability Report: Definition, Meaning, Benefits & Examples From Companies**

A **CSR**, corporate social responsibility or **sustainability** report is a periodical (usually annual) report published by companies with the goal of sharing their corporate social responsibility actions and results.

The report synthesizes and makes public the information organizations decide to communicate regarding their commitments and actions in social and environmental areas. By doing so, organizations let stakeholders (i.e., all parties interested in their activities) aware of how they are integrating the **principles of sustainable development** into their everyday operations.

#### **Purpose of a CSR Report**

The main intention of a CSR or **sustainability** report is to improve the transparency of organizations' activities. The goal is twofold:

On one hand, CSR reports aim to enable companies to measure the **impact** of their activities on the environment, on society and on the economy (the famous triple-bottom-line). In this way, companies can get accurate and insightful data



which will help them improve their processes and have a more positive impact in society and in the world.

On the other hand, a CSR or sustainability report also allows companies to externally **communicate with their stakeholders** what are their goals regarding **sustainable development** and CSR. This allows stakeholders such as employees, investors, media, NGOs, among other interested parties, to get to know better what are the short, medium and long-term goals of companies and make more informed decisions. These decisions can spread from investing in a business, buying its products, writing positive (or negative) reviews, protesting in the streets against the intentions or actions of an organization

### **Definition of a CSR Report**

According to the Global Reporting Initiative, a CSR report can be defined as: *“A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization’s values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.”*

### **CSR Reporting Importance, Benefits of Communicating Sustainable Practices:**

As discussed above, CSR and sustainability reports can be used to achieve both internal and/or external goals.

#### **The Internal Organizational Benefits of a Sustainability Report**

Internally speaking, CSR reports are important because they allow companies to estimate the impact their operations have on the environment, society, and the economy. Through the (supposedly) detailed and meaningful data collected (or simply gathered) for the sustainability report, companies have a chance to improve their operations and to reduce operational costs. Not only do they

become better prepared to optimize and reduce their energy consumption; as a result of reviewing their waste cycles product innovation strategies or **circular economy** opportunities can be found.

At the same time, collecting this data requires joint efforts from different departments. As a result of the hype that's created, employees often end up becoming more conscious the company is focusing on CSR and sustainability, which leaves them proud – increasing employee retention and decreasing turnover (and its costs). It's good news for **employer branding**.

### **The External Organizational Benefits of a Sustainability Report**

When it comes to external benefits, a CSR and sustainability report can help companies engage better with their interested parties. By letting their stakeholders know about the organization's short, medium and long-term project decisions, companies can be better understood which may have positive financial outputs.

For instance, a sustainability report helps stakeholders become aware of whether a company is positively contributing to minimizing the negative impacts of an environmental hazard or that it is only focused on growing profits for its managers and investors. Silence is also a way of communication and if no sustainability report is found the odds are people will focus on the second option just mentioned. In this way, consumers can decide whether they want to buy from a brand that protects orangutans by sourcing sustainable palm oil or one that produces clothes locally with little environmental harm and paying fair wages. Investors can anticipate if companies are becoming more **resilient** to face consequences of **climate change** and decide whether to invest in them or not. Journalists can share best case practices from companies leading the way on topics such as **microplastics pollution** or **ocean acidification**. NGOs can exert pressure and expose irresponsible practices...

## **CSR Reports Mandatory**

It isn't (at least yet) mandatory for all companies to make their own CSR or sustainability reports. Yet, **directive 2014/95** from the European Union demands large companies to reveal certain non-financial information about how they operate and run their social and environmental challenges. This means it is mandatory for large public interest entities to disclose non-financial information. Specifically, it's mandatory that these organizations give insights about how they're taking care of environmental, social and personnel concerns. Diversity and inclusion, respect for human rights, and the fight against corruption and bribery inside businesses and within value chains are issues that must be contextualized too. Consequently, specific organizational data needs to be provided about the policies being pursued, as well as their outcomes. The main organizational risks identified and how they're being managed, together with the financial indicators used must be presented as well.

This kind of information helps consumers, investors, policymakers and other stakeholders to evaluate the non-financial performance of large companies and encourages organizations to develop **sustainable business strategies** that can be up to the expectations.

Due to the benefits mentioned earlier, many companies choose to report their CSR and **sustainability** information. But how do they know what or how to report?

## **Content of Sustainability Report**

There's is no one-size-fits-all approach to designing a sustainability report. While some (medium-large) organizations choose to write a standardized report that becomes along with certification, others opt instead for a free-style sustainability report. Either way, what is often included in a sustainability report is:

1. A CEO statement that briefly introduces the vision and the drivers behind the sustainability report;
2. A presentation of the organization's governance structure and business model;
3. The sustainability context, i.e., kind of a SWOT analysis explaining what's happening at the market and industry levels;
4. Inspired by the SWOT analysis, an impact assessment can be done to identify the organization's main negative impacts and business risks (in which indicators to measure progress are also identified);
5. An identification of the organization's main stakeholders and the issues that worry them the most;
6. A materiality analysis in which the main worries of the organization (4) and stakeholders (5) are identified as the priorities;
7. An overview of performance over time in which progress over time is shared – via key indicators and metrics;
8. Some stories and appealing pictures of how the sustainability strategy is leaving employees more motivated to work, investors more willing to invest or NGOs collaborating in strategic projects;

### **Standardized Vs. Personalized CSR Reports: How To Write A Sustainability Report**

One of the ways for companies to share their **CSR** and **sustainability** policies, both internally, but above all, externally, is comply with strong standards and apply for certifications such as the **ISO 26000**, the **Global Reporting Initiative (GRI)**, the **Integrated Reporting**, the **B-Corp Certification** or the **FTSE4GOOD Index**. They are great in terms of the truly impactful changes they demand and the reputation that comes along. Nonetheless, the sustainability proof or report submitted to get these certifications, sometimes used as a sustainability report, is usually very long and exhaustive and therefore, it might not be the best way to share sustainability practices with common,

environmentally-worried consumers, who just want to get to know some sustainability highlights.

In this way, another approach organizations can take is to create a personalized sustainability report template. In this way, they can brief their stakeholders with the highlights of their sustainability strategies, letting them know about the risks and opportunities involved, the policies that are being undertaken and the outcomes achieved so far. Nevertheless, since it doesn't respect any specific structure, this approach has the downside that readers must be more critical about the information they are offered.

Because if companies present data without showing how they got their numbers, or talk about random eco-friendly initiatives that don't seem to be integrated within a global strategy, they might be trying to show that they have CSR and **sustainability** concerns, when in fact, they are mostly showing off and **greenwashing**.

Face with this, many companies end up doing both types of reports. They write a standardized report following the guidelines of, for instance, the *global reporting initiative integrated with the SDGs (sustainable development goals)*. After finishing it, they extract the main points of these long reports and create an appealing design on which they advertise their sustainability practices. In some cases, the most curious people can find links in the short CSR report that redirects them to the online version of the long report – which is positive as it allows a deeper dive into an organization's specific actions, data, or processes.

### **Examples Of Companies With Good CSR Reports**

- **Example of Sustainability or CSR Reports: the European Investment Bank**
- **Patagonia – Examples of CSR and Sustainability Reports**
- **IKEA – CSR and Sustainability Report**
- **Unilever – CSR and Sustainability Reports**

- **Bloomberg – CSR and Sustainability Report**
- **Nike – CSR and Sustainability Report**

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