Corporate Social Responsibility- Mainstreaming socially-responsible conduct by Businesses

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Defining CSR

Corporate social responsibility is at least in its name and formal recognition a relatively recent phenomenon. While there may be no single universally accepted definition of CSR, each definition that currently exists underpins the impact that businesses have on society at large and the societal expectations of them. The ECdefines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” [2]

The WBCSD defines CSR as“the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.” [3]

According to the UNIDO[4], “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. Philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

Provenance and the trajectory of growth

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[2]http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_ en.htm

[3]http://www.wbcsd.org/work-program/business-role/previous-work/corporate-social-responsibility. aspx

[4]http://www.unido.org/what-we-do/trade/csr/what-is-csr.html#pp1[g1]/0/

Thus Corporate Social Responsibility is the integration of business operations and values whereby the interests of all stakeholders including customers, employees, investors, and the environment are reflected in the company's policies and actions. Corporate Social Responsibility (CSR) is associated with the conduct of corporations and in particular whether corporations owe a duty to stakeholders other than shareholders. Whilst the phrase 'Corporate Social Responsibility' may be gaining momentum, the concept itself is not new, being the latest manifestation of the long-standing debate over the relationship between business and society. The question as to whether corporations owe duties to broader stakeholders has been debated at various times throughout the twentieth century.Since the rise of the corporation in its modern form in the late nineteenth century, the debate over the relationship between business and society has ebbed and flowed, through periods when corporations extend their control and periods in which society attempts to regulate the growth of corporate power and corporations attempt to re-establish their legitimacy in the face of public criticism.[5]

The consolidation of large corporations in the United States in the late nineteenth century led to the anti-trust movement and the regulation of utilities.[6]Demands that corporate power be reined in led major US companies to emphasize corporate responsibility as they 'sought to demonstrate that corporations could be good without the coercive push of governments and unions'.[7] The Great Depression of the 1930s contributed to a second wave of regulation, exemplified by Roosevelt's New Deal in the United States and the nationalizations and regulations of the postwar Labork government in the United Kingdom. At the international level, the proposed International Trade Organization's draft charter, signed at Havana in 1948, included measures that addressed international investment, employment standards and restrictive business practices; but it was never ratified by the United States.

A third period of increased efforts to regulate corporate activity occurred from the mid-1960s to the late 1970s. Within the United States the main focus was on consumer and environmental protection.[8]The activities of US corporations abroad also came under scrutiny with the ITT scandal in Chile in the early 1970s, when it was revealed that the US Company had been involved in attempting to overthrow the democratically elected Popular Unity government led by Salvador Allende. A number of bribery cases also resulted in the US Congress passing the Foreign Corrupt Practices Act in 1977.

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[5]Rhys Jenkins, Globalization, Corporate Social Responsibility and poverty, International Affairs, 81.3, 2005, p.526.
[6]J. Richter, Holding corporations accountable: corporate conduct, international codes, and citizen action (London: Zed, 2001), p. 18.
[7]J. Bakan, The corporation: the pathological pursuit of profit and power (London: Constable, 2004), p. 18.
[8]Richter, Holding corporations accountable, p. 19.

In the developing world, the late 1960s and 1970s saw increased efforts to regulate the activities of foreign investors. For the first time regulation of corporate activity became an international issue, with numerous attempts within the UN to establish codes of conduct for the activity of transnational companies (TNCs). These international codes were seen as supporting the efforts of developing-country governments to regulate TNCs at the national level. They emerged from a perception that the growth of giant international companies posed a threat to the sovereignty of small, poor states and represented an attempt to redress the balance between the growing power of TNCs and the vulnerable nation-state, particularly in the South.[9]Corporations and northern governments resisted global attempts at mandatory regulation of TNC activities, proposing self-regulation as an alternative. The 1980s saw a significant shift away from state intervention in both developed and developing countries. The increased mobility of capital enabledTNCs to exploit regulatory differences between states by (re)locating (or threatening to relocate) their production facilities in countries with more favorable regimes, a phenomenon that has been referred to as ‘regulatory arbitrage’.[10]These trends were reflected in developing country policies towards TNCs, which shifted dramatically from regulation of their activities to intense competition to attract foreign direct investment (FDI).[11] By the 1990s the heyday of neo-liberal policies had passed in the North, andcorporations started to attract criticism for their global environmental and labour practices. The growth of global ‘value chains’, in which northern buyers control a web of suppliers in the South, led to calls for them to take responsibility not only for aspects such as quality and delivery dates but also for working conditions and environmental impacts. At the same time the increased significance of brands and corporate reputation made leading companies particularly vulnerable to bad publicity. The developments in global communications which have enabled corporations to control production activities on an ever-widening scale have also facilitated the international transmission of information about working conditions in their overseas suppliers, contributing to increased public awareness and facilitating campaigning activities.[12]

Once more, companies responded to bad publicity surrounding their activities by espousing corporate social responsibility. Many firms sourcing consumer goods from developing countries adopted supplier codes of conduct following scandals about corporate practices.The mid-1990s saw further revelations concerning the use of sweatshops and child laborby US brands.

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[9]R. Jenkins, Corporate codes of conduct: self-regulation in a global economy, Technology, Business and Society Paper no. 2 (Geneva: United Nations Research Institute for Social Development, 2001).
[10]P. Dicken, Global shift, 4th edn (London: Sage, 2004), p. 277.
[11]R. Jenkins, ‘The changing relationship between emerging markets and multinational enterprises’, in P.J. Buckley and P. N. Ghauri, eds, Multinational enterprises and emerging markets: managing increasing interdependence (Oxford: Pergamon, 1999)
[12]This has been termed the ‘spotlight effect’ by D. L. Spar: ‘The spotlight and the bottom line: how multinationals export human rights’, Foreign Affairs77: 2, 1998, pp. 7–12.

In contrast to the 1970s when the demand for state regulation of TNCs emanated from the developing countries, the 1990s witnessed CSR initiatives coming largely from the developed countries where international trade unions, development NGOs, human rights organizations and environmental groups have all contributed to the demand for greater social responsibility, the concerns of such groups beingEnvironmental impacts, working conditions and human rights.

Global principles and guidelines

A comprehensive guidance for companies pertaining to CSR is available in the form of several globally recognized guidelines, frameworks, principles and tools. It must be noted that most of these guidelines relate to the larger concept of sustainability or business responsibility, in keeping with the fact that these concepts are closely aligned globally with the notion of CSR.The OECD Guidelines for Multinational Enterprises (the Guidelines), first adopted in 1976, are the longest standing initiative for the promotion of high corporate standards. The Guidelines contain voluntary principles and standards for responsible business conduct in areas such as human rights, supply chain management, disclosure of information, anti-corruption, taxation, laborrelations, environment, competition, and consumer welfare. The Guidelines aim to promote the positive contributions of MNEs to economic, environmental and social progress. While observance of the Guidelines is voluntary for companies, adhering governments make a formal commitment to promote their observance among MNEs. [13]

The Global Reporting Initiative (GRI), convened in 1997, was established to improve sustainability reporting practices, while achieving comparability, credibility, timeliness, and verifiability of reportedInformation. The Guidelines, first released in June 2000, and further revised subsequently seek to develop globally accepted sustainability reporting guidelines. These guidelines are also voluntary and are used by organisations in reporting on the economic, environmental, and social dimensions of their activities. The Guidelines are increasingly becoming a universally accepted method of harmonizing CSR reporting in various jurisdictions.[14]

UNGC is world’s largest corporate citizenship initiative with the objective to mainstream the adoption of sustainable and socially responsible policies by businesses around the world. The 10 principles of the UN Global

[13] ‘OECD Guidelines for Multinational Enterprises’ <http://www.answers.com/topic/oecd-guidelines-for-multinational-enterprises> at 25 June 2006.

[14] Global Reporting Initiative, Guidelines, <http://www.globalreporting.org/guidelines/2002/dannex1.asp> at 26 June 2006.

Compact have been derived from various UN conventions such as the Universal Declaration of Human Rights, ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on environment and development, and the UN Convention Against Corruption. These principles cover four broad areas: Human rights, Labor rights,EnvironmentGovernance (work against corruption in all forms, including bribery and extortion).[15]

The UN Guiding Principles on Business and Human Rights provide assistance to states and businesses to fulfill their existing obligations towards respecting and protecting human rights and fundamental freedoms and comply with the existing laws. These principles act as global standards for addressing the risk of human rights violation related to business activity. In circumstances when these laws are breached or the guidance is not adhered to, suitable remedies have also been recommended. The primary focus is on the protection of human rights by both, the state and the business enterprises, and the principles broadly outline the manner in which the framework can be implemented.[16]

CSR in India

CSR in India has traditionally been seen as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated.The practice of CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while CSR remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports.

The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR

[15]www.unglobalcompact.org/
[16]http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

needs to go beyond communities and beyond the concept of philanthropy**.**The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. By requiring companies, with a minimum net profit of 5 crore INR, to spend on CSR activities, the Companies Act, 2013 is likely to bring in many SMEs into the CSR fold. This will usher in a fresh set of challenges to a sector that is increasingly being asked by its B2B customers to comply with environmental and social standards, while remaining competitive in terms of price and quality. Thus, SMEs will have to quickly learn to be compliant with these diverse set of requirements. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India. 2013. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.[17]

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act. Some the highlights are as follows: Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure; The company can implement its CSR activities through the following methods: Directly on its own, through its own non-profit foundation set- up so as to facilitate this initiative, through independently registered non-profit organizations that have a record of at least three years in similar such related activities; collaborating or pooling their resources with other companies ; only CSR activities undertaken in India will be taken into consideration; activities meant exclusively for employees and their families will not qualify. [18]

CSR and globalization

Globalization is one of the most cited catchwords of our time and is used to describe a process of social change on the macro level of societies .With globalization "the modes of connection between different social contexts or regions become networked across the earth's surface as a whole."Globalization is weakening the power of (national) political authorities to regulate the activities of corporations that globally expand their operations. This

[17] http://www.pwc.in/assets/pdfs/publications/2013/handbook-on-corporate-social-responsibility-in-india.pdfs
[18] Ibid.

erosion of the regulatory power of (national) hard law opens a regulatory vacuum for transnationally expanded corporate activities.

Scherer and Palazzo (2007) claim that, in a globalized world, it is necessary a shift toward a new politically enlarged concept of CSR. In fact, globalization is weakening the power of (national) political authorities to regulate the activities of corporations that globally expand their operations: for instance, globalization forces national governments into a race to the bottom in order to win the competition with other countries for attracting corporate investments. Thus, they reason that corporations should be understood as both economic and political actors[19].

Davis, Whitman and Zald (2006) claim that, in addition to weak national boundaries that separate domestic from foreign companies, another crucial difference of the global competitive environment of the 21st century is the weak distinction between activities and transactions occurring inside as opposed to outside a corporate entity: while companies are moving part of their operations from the status of in-house activities to purchased goods and services, they are at the same time forming a variety of close relationships with suppliers and partners. This, together with the politicization of civil society in response to the smaller influence of national governments, has led to an important change in CSR practice: while CSR largely arose out of commitments by companies to their employees and to communities where they were located, now corporations are led accountable for their supply chain.[20] For example, after facing a consumer boycott following the news that its suppliers were exploiting child labour in several developing countries, Nike had to make substantial investments to promote improvements in the working conditions of its suppliers' factories.[21]

[19] Scherer, Andreas Georg and Palazzo, Guido, "Globalization and Corporate Social Responsibility". the oxford handbook of corporate social responsibility, A. Crane, A. McWilliams, D. Matten, J. Moon, D. Siegel, eds., Oxford University Press, 2008 Available at SSRN: http://ssrn.com/abstract=989565

[20] Davis, Gerald F., Whitman, Marina V.N. and Zald, Mayer Nathan, "The Responsibility Paradox: Multinational Firms and Global Corporate Social Responsibility" (April 2006). Ross School of Business Paper No. 1031 Available at SSRN: http://ssrn.com/abstract=899112

[21] Locke, R. (2006) "Does Monitoring Improve Labour Standards in Nike's Suppliers?" The Oxford-Achilles Working Group on Corporate Social Responsibility.Said Business School, Oxford. 30 Oct. 2006. http://sbscsr.typepad.co.uk/the_oxfordachilles_workin/2007/01/does_monitoring.html

Along this line, Amaeshi, Osuji and Nnodim (2006) argue that, even if a corporation is recognized as a legal person and the supply chain is a different entity so that the purchasing firm should not bear legally any responsibilities for the practices of its suppliers, there should be limits to responsibility. They argue that firms in a controlling position have the deontological duty to use power responsibly and influence the weaker parties by setting codes of conduct and standards.[22] This view does not only represent a theoretical change: indeed an increasing number of companies are acting in this direction. For example, Marks and Spencer decided to invest £200 million for social and environmental responsibility through collaboration with NGOs and suppliers.[23]

Finally, it is worth pondering over the mutual influence that exists between globalization and CSR. Following Ruggie (2003), today the role of the state can be interpreted as being performed by international organizations such as the IMF as well as multinational corporations (MNCs). On one side, globalization gives corporations the role of the state, and thus it calls for a corporate responsible behaviour; on the other side, a corporate social behavior is necessary for corporations to control the societal backlash against this new role. [24]

This shows how globalization has changed corporate social responsibility: the blurring of the boundaries between domestic and foreign companies as well as between in-house and outsourced activities has led to the view of the corporation as both an economic and political actor; as a consequence, multinational companies are being held responsible for their suppliers' CSR practice by an increasingly politicized society. Moreover, there is a mutual influence between CSR and globalization: on one side, multinational companies have taken the role of the state and thus they should behave responsibly; on the other side, a corporate socially responsible behaviour is necessary to protect this new role.

[22]Amaeshi, Kenneth M., Osuji, Onyeka K. and Nnodim, Paul, "Corporate Social Responsibility in Supply Chains of Global Brands: A Boundaryless Responsibility? Clarifications, Exceptions and Implications" (2006). Available at SSRN: http://ssrn.com/abstract=947583

[23] Stafford, K. (2007) "Marks and Spencer: No Plan B." The Oxford-Achilles working group on Corporate Social Responsibility.Said Business School, Oxford. 11 May 2007. http://sbscsr.typepad.co.uk/the_oxfordachilles_workin/2007/05/no_plan_b.html

[24]Ruggie J. G. (2003) "Taking Embedded Liberalism Global: The Corporate Connection" in "Taming Globalization: Frontiers of Governance", edited by David Held and Mathias Koenig-Archibugi, Cambridge Polity Press

The Role of the NGOs

Most attempts to regulate CSR have resulted from public international bodies and Non-Government Organizations (NGOs). Codes of conduct relating to CSR matters such as bribery, environment, labor and human rights are voluntary and not legally binding, however, may represent subtle diplomacy by NGOs towards a consensus amongst governments which in turn may be embodied in national legislation or universally accepted standards. When the NGOs are successful in urging the widespread adoption of standards, corporations may support agreements if they are able to share the costs while preserving individual benefits.[25]

The trend in developed nations is to support the reporting of CSR without introducinglegislation to mandate CSR practices, instead, governments appear to be content relying on initiatives introduced and championed by NGOs such as the OECD, UN and GRI.

Is responsible behavior just a differentiation strategy?TheChallenges

Some questions remain unanswered. For example, are all multinationals converging to CSR? Companies, like Wal-Mart, are still successful despite widespread charge of their irresponsible practices: by charging a lower price, these companies may simply compete differently. Moreover, there is no single commonly accepted definition of corporate social responsibility since CSR has local meanings. The clash over different local definitions can have practical consequences. For example, Nike Corporation was embroiled in a major scandal by paying workers in its Southeast Asian plants wages that were quite low but still in accordance with the local customs there. Elsewhere Nike paid substantially higher wages but again, wages that were in accordance with the local customs there. Thus, a scandal erupted that Nike was operating according to a double standard.[26]

International investment by MNEs is central to corporate globalization, which inevitably will lead to a desire to harmonize laws and reporting practices. The most difficult issues arising with regard to CSR occurs in poor countries with weak and sometimes corrupt governments with the MNE’s capability of abusing their power

[25] Jonathan P. Doh and Terrence R. Guay, Globalization and Corporate Social Responsibility: How Non-Governmental Organizations Influence Labor and Environmental Codes of Conduct, Management International Review, Vol.44. Special Issue 2004/2, p.11-12.

[26]Campbell J. L. Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility, Academy of Management Review, Volume 32, Number 3 / 2007

in host countries which are often either unable or unwilling to hold MNEs accountable for inappropriate conduct. Strengthening cross border corporate accountability and more effective international regulation of MNEs is necessary. In addition, developing countries should be encouraged to strengthen their political and economic systems to enable their governments to more effectively regulate the private sector. Steps need to be taken by home governments towards corporate liability with regard to inappropriate conduct by corporations abroad, especially where access to local justice is restricted. Thusthere still remains a gap pertaining to legal accountability relating to CSR practices, particularly in relation to MNE operations in jurisdictions outside their home state.

As at present constituted, CSR initiatives do not include poverty reduction as a major objective, focusing rather on environmental issues and labour and human rights. These are undoubtedly important issuse but the CSR agenda can be extended to incorporate poverty reduction as a key element, along with labor rights and environmental protection.

Conclusion

Despite the various arguments, much of the corporate industrialized world has attempted to find a balance with regard to the corporation's impact on a wider group of stakeholders, whilst also focusing on maximizing shareholder wealth. A recent global survey of corporate executives revealed that, overwhelmingly, executives embrace the idea that the role of corporations in society goes beyond simply meeting its obligations to shareholders.[27] This view is also supported by a recent survey of global investment managers which recognized that environmental, social and governance matters may be critical to investment performance.[28]Additionally, three quarters of the one hundred and fifty seven global corporate managers surveyed predicted that social or environmental corporate performance indicators would become mainstream investment considerations within ten years.[29] The traditional ethos of maximizing shareholder value without regard to other stakeholders is an outdated notion in today's global environment. CSR not only sits comfortably with the mantra of maximizing shareholder value, sustainable CSR practices enhance shareholder value.The challenge is to implement a workable mix of public and private initiatives which are consistently enforced and capable of ensuring

[27] 'The McKinsey Global Survey of Business Executives: Business and Society', The McKinsey Quarterly (December 2005), conducted the survey in December 2005 and received responses from 4,238 executives, more than a quarter of them CEOs or other C-level executives in 116 countries.
[28] Mercer Investment Consulting, '2006 Fearless Forecast – What do investment managers think about responsible investment' (March 2006) .
[29]Ibid

companies are encouraged to act in a socially responsible manner whilst being accountable in a legislative context for inappropriate conduct. Effective corporate governance can be achieved by building new corporate values within organizations and acknowledging the links that exist among environmental, economic, social, technological, and cultural values. Employees in both the public and private sectors should be educated about the importance of globalization, gender equality, and environmental protection, without any feelings of guilt that some of these ideas might contradict their traditional socio-cultural.

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