



M.COM.
SEMESTER - I (CBCS)

**BUSINESS ETHICS AND
CORPORATE SOCIAL
RESPONSIBILITY**

SUBJECT CODE : 71804

Prof. Suhas Pednekar

Vice-Chancellor,
University of Mumbai,

Prof. Ravindra D. Kulkarni

Pro Vice-Chancellor,
University of Mumbai,

Prof. Prakash Mahanwar

Director,
IDOL, University of Mumbai,

Programme Co-ordinator : Prof. Rajashri Pandit

Asst. Prof. in Economic,
Incharge Head Faculty of Commerce,
IDOL, University of Mumbai, Mumbai

Course Co-ordinator : Mr. Sambhaji Shivaji Shinde

Assistant Professor, IDOL,
University of Mumbai, Mumbai

Course Writer

: Dr. Shripad Joshi

Ghanshyamdas Saraf College of
Arts & Commerce
Malad (W), Mumbai - 400064

: Dr. Rupa Shah

Ghanshyamdas Saraf College of
Arts & Commerce
Malad (W), Mumbai - 400064

: Mr. Sambhaji Shivaji Shinde

Assistant Professor, IDOL,
University of Mumbai, Mumbai

Editor

: Mr. Vinayak Vijay Joshi

Assistant Professor, IDOL,
University of Mumbai, Mumbai

April 2021, Print - 1

Published by : Director,
Institute of Distance and Open Learning ,
University of Mumbai,
Vidyanagari, Mumbai - 400 098.

DTP Composed : Ashwini Arts
Vile Parle (E), Mumbai - 400 099.

Printed by :

CONTENTS

Unit No.	Title	Page No.
SEMESTER - I		
MODULE - 1		
1	Introduction to Business Ethics	1
MODULE - 2		
2.	Indian Ethical Practices & Corporate Governance	31
MODULE - 3		
3.	Introduction to Corporate Social Responsibility	54
MODULE - 4		
4.	Areas of CSR & CSR Policy	88



Revised Syllabus
Master of Commerce (M.Com)
SEMESTER - I
Core Courses (CC)
BUSINESS ETHICS AND CORPORATE SOCIAL
RESPONSIBILITY
Modules at a Glance

S.N.	Objectives
1.	To familiarize the learners with the concept and relevance of Business Ethics in the modern era
2.	To enable learners to understand the scope and complexity of Corporate Social responsibility in the global and Indian context

Sr. No.	Modules / Units
1.	Introduction to Business Ethics
	<ul style="list-style-type: none"> • Business Ethics – Concept, Characteristics, Importance and Need for business ethics. Indian Ethos, Ethics and Values, Work Ethos, • Sources of Ethics, Concept of Corporate Ethics, code of Ethics-Guidelines for developing code of ethics, Ethics Management Programme, Ethics Committee. • Various approaches to Business Ethics - Theories of Ethics- Friedman's Economic theory, Kant's Deontological theory, Mill & Bentham's Utilitarianism theory • Gandhian Approach in Management and Trusteeship, Importance and relevance of trusteeship principle in Modern Business, Gandhi's Doctrine of Satya and Ahimsa, • Emergence of new values in Indian Industries after economic reforms of 1991
2.	Indian Ethical Practices and Corporate Governance
	<ul style="list-style-type: none"> • Ethics in Marketing and Advertising, Human Resources Management, Finance and Accounting, Production, Information Technology, Copyrights and Patents • Corporate Governance: Concept, Importance, Evolution of Corporate Governance, Principles of Corporate Governance,

II

	<ul style="list-style-type: none"> • Regulatory Framework of Corporate Governance in India, SEBI Guidelines and clause 49, Audit Committee, Role of Independent Directors, Protection of Stake Holders, Changing roles of corporate Boards. • Elements of Good Corporate Governance, Failure of Corporate Governance and its consequences
3.	Introduction to Corporate Social Responsibility
	<ul style="list-style-type: none"> • Corporate Social Responsibility: Concept, Scope & Relevance and Importance of CSR in Contemporary Society. • Corporate philanthropy, Models for Implementation of CSR, Drivers of CSR, Prestigious awards for CSR in India. • CSR and Indian Corporations- Legal Provisions and Specification on CSR, A Score Card, Future of CSR in India. • Role of NGO's and International Agencies in CSR, Integrating CSR into Business
4.	Areas of CSR and CSR Policy
	<ul style="list-style-type: none"> • CSR towards Stakeholders-- Shareholders, Creditors and Financial Institutions, Government, Consumers, Employees and Workers, Local Community and Society. • CSR and environmental concerns. • Designing CSR Policy- Factors influencing CSR Policy, Role of HR Professionals in CSR • Global Recognitions of CSR- ISO- 14000-SA 8000 – AA 1000 – Codes formulated by UN Global Compact – UNDP, Global Reporting Initiative; major codes on CSR. • CSR and Sustainable Development • CSR through Triple Bottom Line in Business

Reference Books

- *Sharma J.P ' Corporate Governance, business ethics and CSR, Ane Books Pvt Ltd, New Delhi*
- *Sharma J.P. Corporate Governance and Social Responsibility of business, Ane Books Pvt Ltd, New Delhi*
- *S.K.Bhatia, Business Ethics and Corporate Governance*
- *William Shaw, Business Ethics, Wordsworth Publishing Company, International Thomson Publishing Company.*

III

- *Corporate Crimes and Financial Frauds*, Dr. Sumit Sharma, New Delhi India
- *R.C. Sekhar, Ethical choices in Business*, Sage Publications, New Delhi
- *Business Ethics*, Andrew Crane and Dirk Matten, Oxford University Press.
- *Business Ethics, Text and Cases*, C.S.V. Murthy, Himalaya Publication House.
- *Mallin, Christine A. Corporate Governance (Indian Edition)* Oxford University press. New Delhi
- *Blow field ,Michael and Alan Murray, Corporate Responsibility*, Oxford University Press,
- *Philip Kotler and Nancy Lee, CSR : doing the most good for Company and your cause* , Wiley 2005
- *Beeslory, Michel and Evens, CSR* , Taylor and Francis, 1978
- *Subhabrata Bobby Banerjee, CSR: the good, the bad and the ugly*. Edward Elgar Publishing 2007
- *Joseph A. Petrick and John F. Quinn, Management Ethics- Integrity at work* , Sage Publication , 1997
- *Francesco Perrini, Stefano and AntanioTencati, Developing CSR- A European Perspective* , Edward Elgar.
- *William B. Werther, Jr. David Chandler, Strategic Corporate Social Responsibility, stakeholders' a global environment*, Sage Publication, 2009.
- *Ellington. J. (1998), Cannibals with forks: The triple bottom line of 21st Century business*, New Society Publishers.
- *Crane, A. Et al., (2008), The Oxford handbook of Corporate Social Responsibility*, New York: Oxford University Press Inc.



IV

Scheme of Examination:

The performance of the learners will be evaluated in two components. One component will be the Internal Assessment component carrying 40% marks and the second component will be the Semester End Examination component carrying 60% marks.

Internal Assessment:

The Internal Assessment will consist of one class test of 40 marks for each course excluding projects. The question paper pattern will be shown as below:

Question Paper Pattern (Internal Assessment)

Maximum Marks: 40 marks

Questions to be set: 03

Duration: 1 hours

Question No.	Particular	Marks
Q - 1	Objective Questions Students to answer 10 sub questions out of 15 sub questions. <i>(*Multiple choice/ True or False/ Match the columns/ Fill in the blanks)</i> OR Objective Questions A) Sub Questions to be asked 08 and to be answered any 05 B) Sub Questions to be asked 08 and to be answered any 05 <i>(*Multiple choice/ True or False/ Match the columns/ Fill in the blanks)</i>	10 Marks
Q - 2	Concept based short questions Students to answer 5 sub questions out of 8 sub questions.	10 Marks
Q - 3	Practical problems or short questions Students to answer 02 sub questions out of 03 sub questions	20 Marks

**Question Paper Pattern
(Theoretical Courses)**

Maximum Marks: 60

Questions to be set: 04

Duration: 2 hours

All Questions are Compulsory Carrying 15 Marks each.

Question No.	Particular	Marks
Q - 1	Full length Question	15 Marks
	OR	
Q - 1	Full length Question	15 Marks
Q - 2	Full length Question	15 Marks
	OR	
	Full length Question	15 Marks
Q - 3	Full length Question	15 Marks
	OR	
	Full length Question	15 Marks
Q - 4	Objective Question (Multiple Choice/ True or False/ Fill in the Blanks/ Match the Columns/ Short Questions.)	15 Marks
	OR	
	Short Notes (Any three out off Five)	15 Marks

Note :

Full length question of 15 marks may be divided into two sub questions of 08 and 07 marks.

VI

Sr.	Particular
01	<p>Standard of Passing</p> <p>The learner to pass a course shall have to obtain a minimum of 40% marks in aggregate for each course where the course consists of Internal Assessment & Semester End Examination. The learner shall obtain minimum of 40% marks (i.e. 16 out of 40) in the Internal Assessment and 40% marks in Semester End Examination (i.e. 24 out of 60) separately, to pass the course and minimum of Grade E in the project component, wherever applicable to pass a particular semester. A learner will be said to have passed the course if the learner passes the Internal Assessment & Semester End Examination together.</p>
02	<p>Allowed to Keep Terms (ATKT)</p> <p>1) A learner shall be allowed to keep term for Semester II irrespective of number of courses of failure in the semester I.</p> <p>2) A learner shall be allowed to keep term for Semester III if he/she passes each of the semester I and Semester II OR a learner fails in not more than two courses of Semester I and not more than two courses of Semester II.</p>



Unit-1

INTRODUCTION TO BUSINESS ETHICS

Unit Structure :

- 1.0 Introduction to Business Ethics
- 1.1 Ethics
- 1.2 Approaches to Business Ethics
- 1.3 Gandhian approach of Trusteeship
- 1.4 Emergence of new values in Indian industries after economic reforms of 1991
- 1.5 Summary
- 1.6 Exercise

1.0 INTRODUCTION TO BUSINESS ETHICS

Business Ethics – The concept came into existence in 60's in the USA which denotes fundamental or principle values in business. When business practices and more associated with consumers then most of the consumer centric corporations in US showed concerns about business environment, social values. It directs ultimately to the welfare of the society as a whole.

ETHICS

The word "Ethics" means fundamental values or moral rights. It emphasises values or character that leads to the category of the segment or group or society of the segment, or group or society as a whole. It studies what is right or wrong in leading a good Life based on certain concrete assumptions. Such assumptions are interchangeable.

In reality there is a difference between ethics and morality. Morality is one of the aspects of ethics and study of ethics will enhance the outcome of morality. Morality basically consist on what is right or wrong through a process of justification or valid reasoning. So ethics follow the process of justification whereas morality gives us an idea or attempt of moral judgement.

DEFINITION OF BUSINESS ETHICS

a) Andrew Crave :

"Business ethics is a study of business situations, activities and decisions where issues of right and wrong are addressed."

b) Robert Ginner:

"Business ethics may be defined as those principles, practices and philosophies that are concerned with moral judgements and good conduct as they are applicable to business."

c) Krik O Hanson :

"Business ethics is the study of standards of business behaviour which promote Human Welfare and the good."

d) Investopedia :

"Business ethics is the study of proper business policies and practices regarding potentially controversial issues such as Corporate Governance, insider trading bribery, discrimination, Corporate Social responsibilities.

FEATURES OF BUSINESS ETHICS

- a. Ethical Values
- b. Code of conduct
- c. Subjective Term
- d. Protection of Interest of the Stakeholders
- e. Respect with dignity
- f. Proper set-up
- g. Based on Principles
- h. Universal Applications
- i. Self Discipline
- j. Different Approach from CSR
- k. Different from Business Law practices

a. Ethical Values :-

Morality is the soul of business ethics. Modern world is more aware about the rights, duties, buying, selling process is legal awareness has increased tremendously; so business world has tried its level best to attain the welfare of the society therefore business render its activities on self conscious 'ethical' values.

b. Code of conduct :-

Morality and quality judgement are the core factors for conduct of business activities. Ethical business will lead the foundation for moral business. Self check and self control are other two parameter which will carry out company's mission successfully.

c. Subjective Term :-

Ethics differs from business to business. Its perceptions are based on moral and social grounds while conducting the business. There are no concrete rules and regulations for business activities. The soul aim is to attain welfare of the society as a whole.

d. Protection of the Interest of the Stakeholders :-

Every business should give priority to the Society's Welfare. After attaining the interest of the society, it has social binding to protect the interest of macro environmental factors such as Stakeholders government, suppliers etc.

e. Respect with dignity :-

Business should not discriminate society on the grounds of income, class, creed, religion etc. Ethical business should create confidence in the society about opinions, equality etc.

f. Proper set-up :-

Business community is bound by social, ethical rules and regulations within the legal framework they should operate administer their business policies. The ultimate aim is to achieve the interest of the society.

g. Based on Principles :-

Like code of conduct, professional ethics business communities are based on legal, social, cultural, environmental principles. Once principles are laid down properly, it will be easy to pursue plans and policies of business effectively and efficiently

h. Universal Applications :-

Business operations in the world are more or less based on Standard Operating Procedure (SOP). Irrespective of size of business, plans, policies, legal frame work etc. are generally based on proper code of conduct; In some cases business ethics may differ from country to country because of the forces of macro environmental factors.

i. Self Discipline :-

Initially business system was mainly focused to the general welfare of the Stakeholders but afterwards awareness respect to social attitude, environmental aspects human relations etc. was very much inculcated among business communities. Ultimately at one point of time majority business communities started taking precautionary measures about business and concerned aspect of awareness.

j. Different approach from CSR

CSR is mainly associated with the functioning of administrative aspects of the enterprise whereas business ethics are mainly focusing on motivational and behavioural aspects. This goes on changing as social and environmental factors gets changed.

k. Different from Business Law :-

Ethics provides set of guidelines based upon value judgement and morality. As business laws stress on fair conduct of

business practices which is mandatory whereas practices of ethical business is optional. Apart from this ethics are abstract in general and laws are expressed and published in proper format.

NEEDS AND IMPORTANCE OF BUSINESS ETHICS

Need & importance of Business Ethics. Real need of business ethics is felt in recent years following are the points which will stress out need & importance of business ethics :-

1. Survival :-

Business needs to follow moral values and ethics for its survival and growth. Unethical gains are for short term they are not viable or fruitful for survival. To make business prosperous, ethical values and its implementation is essentials.

2. Consumer rights :-

Implementation of consumers rights itself is an ethical way of conducting the business. This gives strength of individual consumer against the powerful business. Implementation of consumer rights will get control on unethical malpractices in business such as food adulteration, malpractices on weights and measurement.

3. Welfare of the Society :-

Ethical business always protect societal interest. Production of goods and services are produced delivered with the intention of social welfare, business will always protect consumer interest by taking possible efforts by producing eco friendly products.

4. Protection of S.S.I. & Cottage Industry:-

In India SSI and Cottage Industry plays on active role. To safeguard the interest of SSI and cottage industries big business units should handle their business operations ethically so as to safeguards the interest of SSI & cottage industries.

5. Mutual benefits:-

B. E. benefits business and society. By rendering ethical services for the society business firms gain goodwill and reputation. Society also recognises the importance of fair & ethical business practices.

6. Growth and Expansions:-

B. E. encourages for growth and expansion of business. It enables for the firm to gain reputation and goodwill, trust and confidence of micro and macro environmental forces.

7. Decision making:-

After adopting /accepting to implement ethical practices, it will enable the business firms to incorporate ethical values based on moral consideration for eco-social environment. It ultimately

leads to quality improvement and economies of scale in operation system.

8. Boosting Economy:-

Ultimately incorporating ethical practices in business will lead to increment in overall productivity which inturn leads to increase in national income. Acceleration in economy will enhance more circulation of goods and services more economic fluctuations will result in positive income and its distribution.

INDIAN ETHOS

The Greek word “Ethos” denotes character. It characterises guiding beliefs for the community.

It emphasises spirit and beliefs of the community which may vary from culture to culture of the society.

It is moral ideas or attitude that particular community or society observes. It examines individual morality or ethical standards where particular society exists.

Other side of the ethos speaks about expected values of standards that individuals or group must observe to attain social welfare. It is based on set of beliefs ideas attitude of individuals; so it differs from person to person.

In India, in general society believes the following standards or norms of ethics.

- Accepting accommodative attitude rather than conflicts.
- More focus on duties rather than always asking for rights.
- More dependence on self control rather than external control.
- Instead of materialistic attitude there is willingness for spirituality.
- Instead of ego assertion, accepting ego sublimation.
- Accepting flexibility rather than static approach.
- No dominance over nature, accept smooth living concepts.
- Respecting elders and avoid conflicts with them.
- More inputs should be given for substance rather than form.
- Instead of sceptical approach adopt the concept “Trust”.

FEATURES OF INDIAN ETHOS AND VALUES

1. Meaningful Living:

Indian ethos strongly believes on Supreme Power. Ideology of supreme power is having different perception in the society as

Indian culture is having multidimensional face. Everything is interconnected with two types of truth.

1. Love
2. Sacrifice

After creating the base of there truth it emerges in meaningful living.

2. Godliness of Individual:

Divinity of human being is not idea or belief. It is a truth that every individual experiences.

3. Understanding Self:

It is a vital concept individual has to understand self by keeping away selfishness. Person has to be focused about individual ideology, concepts and its acceptance.

4. Cosmic Consciousness:

It is based on divine element of an individual. Indian ethos speaks about the element of interconnectivity which gives us an idea of universal concepts.

1. Give respect take respect.
2. Give support accept support.

5. Values:

Indian ethos speaks about spiritual values. The base of such values is Indian scriptures which provide us eternal truth or knowledge. Each and every work or job is respectable one has to maintain its dignity. It also stresses on duties to be performed and responsibilities lying with it.

6. Work worthiness:

Each job or work is worthy and it should be honoured by everyone. Apart from a small or big job or occupation dignity simplifies its worth.

7. Result oriented:

Indian ethos focuses more on process associated work culture rather result or outcome oriented work culture. To achieve the end result should be the aim.

8. Base of Indian scriptures:

Base of Indian ethos is Indian scriptures. It provides eternal. Knowledge, Dignity of work; its value is worthy and widely acceptable. No work is underestimated as per Indian ethos.

9. More focus on rights, duties and responsibilities:

The span of Indian ethos is acceptable to all walks of Life. Right from business, educational, social, political organisations, Indian ethos emphasis on rights duties and responsibilities. With proper discipline all ethical values are applied from time to time.

ETHICS & VALUES

As we have seen ethics deal with the ideas of good and bad behavioural aspects.

Values are standards or principles on one's judgement are based. Values are important in every walk of life.

About right or wrong behaviour values determine whereas ethics relate.

Value is a belief and ethos are guideline for ideal behaviour but ethical values are prescriptive belief or idea. Values are based on belief or perceived outcomes. It gives shape for perceptions, attitudes, and actions in turn personality of individual.

Difference in Ethics and Values:-

Sr. No.	Ethics	Sr. No.	Values
(1) MEANING			
(i)	It is moral code of conduct which decides good or bad behaviour	(i)	Values are guidelines or principles on which individuals' value system is based.
(2) JUSTIFICATION			
(ii)	Ethics are uniform for entire society.	(ii)	Values differ from person to person, society, community.
(3) APPROACH			
(iii)	It restricts person or individual from doing unethical things and directs.	(iii)	It motivates or directs to act in a better way in the society.
(4) FORMULATION			
(iv)	Ethics are guidelines set up for the organisation or society after thoughtful process.	(iv)	Individual can formulate his own set of values or behavioural pattern.

(5) NATURE			
(v)	It is a branch of philosophical science which deals with wellbeing of the human behaviour.	(v)	It is an embodiment of individual standards. It is the basis for the behaviour.
(6) OUTCOME			
(vi)	It formulates harmony in society as they form a set of policies, rules etc. for sustainable development	(vi)	It brings harmony in relationship which leads to proper balance in day to day life.
(7) SOURCES			
(vii)	Indian scriptures, cultural taboos, ethical laws etc. are the sources for ethics.	(vii)	Generic sources, micro and macro environmental forces, behaviouristic. Pattern of elders etc. are the sources for values.
(8) EXAMPLES			
(viii)	Fair deals in day to day business activities, ethical advertising, fair pricing etc.	(viii)	Human values judgemental aspects which motivates individual to act in right way.

WORK ETHOS

Meaning:

It refers to the norms of the behaviour of an employee in the organisation to achieve organisational goals and objectives. It is applicable to all level of employees in the organisation. It is a set of moral approaches or principles which are acceptable to workers. It is value based on hard work and diligence.

Factors / features of work ethos:-

Workers in the organisation should work on the basis of common – sense and wholehearted devotion for the work which they carry out. They should work in disciplined manner which will be helpful for both organisation and workers. It increases moral inturn productivity of the organisation. It gives recognition and reward for their sincere efforts for the organisation.

Loyalty and integrity:

At working place employees should be loyal to the organisation. They should always take creative efforts to increase the reputation and goodwill of the organisation. This will be possible when they are self-disciplined and sense of belonging. Employees should work with integrity in the interest of the organisation. Loyalty

and integrity will develop the trust at every level in organisational set up.

Attitude:

Employees should always carry positive attitude while working in the organisation. Attitude is a tendency or way of behaviour having positive attitude will help to bring punctuality, dedication in work-life balance.

Passion:

Workers having enthusiastic attitude may work with passion. It brings novel ideas, concepts, principles which will help to boost up the organisation to achieve goals.

Humility:

It brings group cohesiveness in the organisation. Accepting drawbacks is very important because it is a basic step for positive learning. Giving appreciation for others work is also very important. Humility brings life long learning process.

Equity:

To have fair and just treatment every manager must adopt the principle of equity. It is totally different from equality. Justice and kindness are the pillars of equity. Equity policy can be changed depending upon the circumstances.

Team spirit:

Top level management must take initiative for team spirit among the subordinates. It leads to commitment, dedication, and loyalty of the organisation. It brings group cohesiveness and avoids conflicts in the organisation.

Ethical administrative and personnel policies:

Proper administrative and personnel policies will bring harmony in work culture ethical policies will have a positive impact especially in Recruitment and selection, placement and training, promotion and performance appraisal incentives and compensation etc.

Functional area and ethical practices:

Right from production till distribution ethical practices will bring sincerity, loyalty, dedication etc. which results in reputation and goodwill of the organisation.

Work culture:

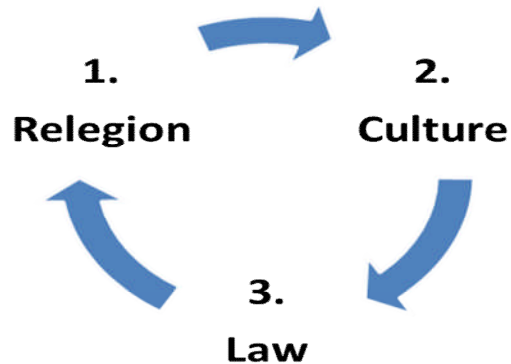
Managers should adopt complete professionalism in decision making process to come for the right conclusion. It is essential to have proper data, its suitable analysis.

1.1 ETHICS

So far we have seen ethics means a system of good and bad, moral and immoral, fair and unfair code of conduct within the set up of organisation.

Ethics - Sources:

Following are the sources of ethics:-



Religion

- Oldest foundation of standards of ethics.
- It is testimony of divine.
- It draws a line of demarcation between good and bad.

It depends upon religious influence which varies from time to time. There are different segments in religion -

- a) orthodox
- b) Moderates

Under the segment of orthodox degree of influence of religion is very high and vice a versa in case of moderates.

Every religion speaks about ethical and unethical norms in all walks of life. Exchanging things with others for mutual benefits is seen or observed in all religions. This is known as "Principle of Reciprocity."

From childhood everyone follows religion and it is deeply rooted in the behaviour of individual. One can understand the difference between ethical and unethical.

All the religions preach the need for orderly social system which mainly focuses on sense of social responsibility and sense of behaviour which helps to attain welfare of the society.

Every religion has its own code of conduct which gives emphasis on social responsibility, sense of behavioural understanding and welfare of the society in general.

Culture:-

It is another source of business ethics which every individual follows as per certain guidelines prevalent in the society.

It is a set of values beliefs, expectations, attitudes, rituals, social norms etc.

All members in the community learn and share it from generation to generation. Cultural taboos are different from religion to religion hence it shows distinctiveness among the groups in the society culture gives.

- guidelines
- shapes the behaviour
- Develops the attitude of the people in the society.

In organisations; it reflects values and beliefs, mission as well as goals of the organisations.

It gives -

- Sense of identity of to the members of the organisation.
- Individual standing is based on the cultural merits of the organisation.

Culture teaches us -

- What is acceptable, in general for the society?
- Moral code of conduct.
- Sense of belonging, understanding and virtues.

Law:-

It is a statutory code of conduct by the statutory body say government which has to be followed by individual as well society for maintaining social interest. It guides about laws and order and human behaviour in the society as a whole.

Ethical principles which the law defines are binding on the people in the society. Business organisations in India must adhere to various laws which are applicable while conducting business activities.

- Partnership Act 1932
- Foreign Exchange Management Act 1999
- Indian Contract Act 1872 etc.

It is expected that Business firm must follows these acts in day to day business activities. In practice we observed that many business units are engaged in unethical practices such as tax evasion, quality compromise brand piracy etc.

CONCEPT OF CORPORATE ETHICS

Corporate ethics are also known as business ethics which examines ethical principles which are applicable in day to day business practices.

It refers to application of ethical values on the part of organisation units. It involves:

- Cooperate citizenship behaviour
- Dependency
- Concern about society
- Caring approach
- Good governance
- Honesty, equity – Integrity
- Social respect
- Social Responsibility
- Trustworthiness

From macro level indicates various sections of the society where corporate ethics are to be fulfilled.

It can be visualised by tree diagram as follows:-

It refers to application of ethical values on the part of organisation units. It involves:

Corporate ethics

TREE DIAGRAM

Employers	Customers	Dealers	Fin. Institution	Govt. Agency	Shareholders & Stakeholders	Society social responsibility
<ul style="list-style-type: none"> - Proper wages - Service conditions - Working conditions - Proper selection - Approval - Training & Dev. - Placement - Performance Appraisal - Promotions, transfer - Career Development 	<ul style="list-style-type: none"> - Quality Production - Right Price - After Sales Service - Specific handling instruction about production - Quick consideration about queries 	<ul style="list-style-type: none"> - Stock online - Proper Payment - Assistance in case of need 	<ul style="list-style-type: none"> - Regular periodic - Payment of loans and interest. - Proper records of financial statement - Approved sets of financial records 	<ul style="list-style-type: none"> - Proper records - Authentic registration process - Periodical tax payment - Compliance with SEBI - DGFT etc. 	<ul style="list-style-type: none"> - Proper payment of dividend - supply of - Proper and valid reports from time to time 	<ul style="list-style-type: none"> - Sponsorship - Assistance to weaker section of the service

Employers

- Proper wages
- Service conditions
- Working conditions
- Proper selection
- Approval
- Training & Dev.
- Placement
- Performance Appraisal
- Promotions, transfer
- Career Development

Customers

- Quality Production
- Right Price
- After Sales Service
- Specific handling instruction about production
- Quick consideration about queries

Dealers

- Stock online
- Proper Payment
- Assistance in case of need

Fin. Institution

- Regular periodic
- Payment of loans and interest.
- Proper records of financial statement
- Approved sets of financial records

Govt. Agency

- Proper records
- Authentic registration process
- Periodical tax payment
- Compliance with SEBI
- DGFT etc.

Shareholders & Stakeholders

- Proper payment of dividend supply of
- Proper and valid reports from time to time

Society social responsibility

- Sponsorship
- Assistance to weaker section of the service

CODE OF ETHICS

It is set of guidelines or principles which are observed in day to day business practices.

It works in conjunction with company's vision and mission.

These principles are designed to help the business professionals to conduct business honesty with proper dedication and integration.

Code of ethics is a set of principles of ethics which designs the outline of vision and mission. It results inculcating the value of business practices. It governs the principles and guidelines governing the behaviour of individuals and organisations in internal auditing.

It gives us the guidelines about minimum requirement for conduct and behavioural aspects.

Ethical codes are adopted by companies to explain the distinction between "correct" and "incorrect".

The set of documents under code of ethics is based on codes of:-

- Business ethics
- employees
- Professional practices

It is important because it clearly lines upon lay out the rules for behaviour and it provides pre-emptive instructions 'Violations of Code of business ethics results in strict action such as termination or dismissal from the company.

Generally the ethical code is broadly divided into two groups:-

- Compliance based ethics
- Value based code of ethics

Guidelines for developing code of ethics:

In general code of ethics is prepared by top level management. Top officials should understand the genuine problems faced by middle level and lower level management. So while drafting the code of ethics it is essential to have consideration towards employees in drafting code of ethics.

Code of ethics may vary from organisation to organisation but in general following guidelines should be considered while drafting code of ethics.

Business Ethics & CSR:-

Orderliness:-

1) Customization of Code of ethics:-

As per the specifications of organisation code should be custom – made. In this suppose if deviations are found, then necessary charges are to be made.

2) Employee Involvement:-

Officials who will be instructed or guided by the code of ethics should be actively involved in writing it.

In case of wide span of an organisation each & every employee should be actively involved. This is essential because documentation should be of that worth where higher level of acceptance can be easily acquired.

3) Consultation with stakeholders:-

Stakeholders such as customer's suppliers and low community groups should be consulted before drafting code of ethics. It helps to expedite Key obligations, ideas, range of issues that might confront the organisation.

4) Careful outsourcing:-

When organisation appoints consultants, it is expected that there should be value additions in respect of knowledge experience. It helps then to remove discrepancies from the organisation and then only it will represent clearly organisation's principles, goals, objectives, vision, mission and aspiration.

5) Clarity about vision and mission:-

Code of ethics should cover each & every aspect from lower level to top level management everyone should follow it seriously and sincerely. It is not to be taken lightly as it ultimately focuses on goals and objectives of the organisation.

6) Revision of code:-

In due course it is essential to revise the code. As times changes it reflects different aspects connotations, principles in different ways. New issues, concept should get proper weightage in the organisation. Generally the compliance officer is monitoring the updates of the code of ethics.

ETHICS MANAGEMENT PROGRAMME

It consists of

- Plan
- Policies
- Procedures
- Education
- Training and Development

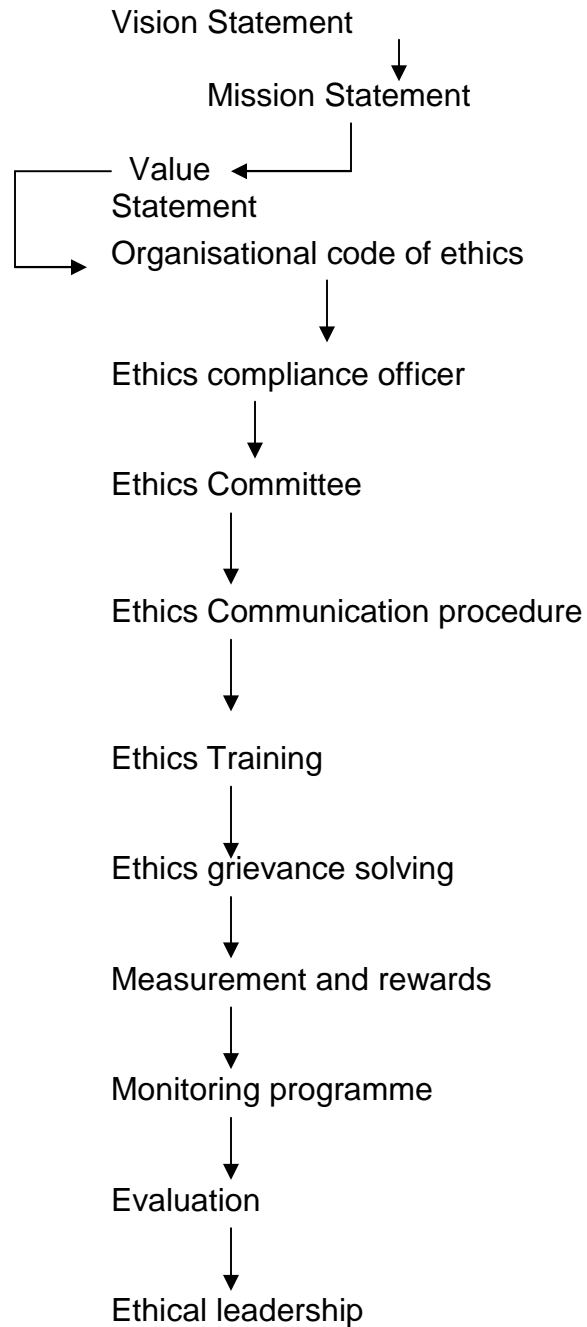
Which explains the importance of organisations code of ethics.

Every organisation should have best ethics management programme to ensure that workers from the organisation and understanding properly its value and comply the code of ethics so as to maintain harmony in the organisation.

Apparently we find it somewhat easy but in reality the implementation of ethics programme is most difficult aspect.

If its execution is done systematically it can lead to positive influence on the organisations overall performance. Involvement of customers, stakeholders is very critical for successful implementation of ethics programme group cohesiveness and positive contribution from executive management will show contribute improvement of good governance of the organisation.

Elements of Best Practices Ethics Programme:-



Following is the discussion in brief for effective practices ethics programme.

Vision and mission statement:

Vision statement defines long-term desirable goals of the organisation. It gives guidelines for problem solving approach decision making.

ETHICS COMMITTEE

There are no specific guidelines laid down in companies Act 2013 or listing agreements and SEBI regulations. Organisation of its own should use its discrete powers to constitute ethics committees.

It is advisable that ethics committee should constitute with the independent non executive directors to ensure employees compliance with reference to code of ethics.

It is always suggested that there should be stand alone committee to ensure optimise implementation so as to judge its effectiveness.

Purpose of ethics committee:-

- To inculcate ethical values throughout organisation.
- To create awareness among directors about ethics and values of the organisation.
- To inculcate seriousness among employees about administering ethics and values.
- To built up constant rape or communication and demonstrations
- To built reinforcement of an ethical culture.

General responsibilities of Ethics Committees in nutshell:-

- It frames with necessary inputs about Code of Ethics which must be adhered to by all employees.
- Relating to ethical values and business practices of an organisation; effective training has to be ensured.
- Effective dialogues or communication reinforces ethical values and business practices.
- It is the sole responsibility of an ethical committee to ensure proper setting up of monitoring, reporting and concern accountability systems.
- It creates helplines and proper mechanism to provide assistance relating to implementations of code of ethics.
- It has proper assessment reports, if any deviations are observed; subsequent actions are taken in connection with violations of code of ethics, allegations of misconduct etc.
- It is essential to review the effectiveness and updating effectiveness.
- It acts as a liaison with stakeholders to ensure that various macro environment factors are observing code of ethics while dealing with an organisation.

- It ensures due diligence relating to ethics prior to mergers or acquisitions.
- It creates conducive environment to implement principles of ethics.
- It is responsible for presenting and promoting ethical policies and practices.

1.2 APPROACHES TO BUSINESS ETHICS

There are different approaches to business ethics; in different control different theories arise as problems differ from organisation to organisation they also state some ethical principles in general.

ETHICAL THEORIES

In general there exist two major kinds of ethical theories.

- 1) Deontological theories which emphasize more in duty.
- 2) Teleological ethical theories which focus on consequences.

(1) Deontological theories which emphasize more in duty:-

Under these theories actions are judged on ethical or unethical basis and this is based on duty or intentions of a doer. The reasoning of deontology is based on the rule.

“Do unto others as you would have them to do unto you.”

Important defender of deontological ethics was Immanuel Kant who developed this theory in 1788. It includes:-

- Duty without regard to human happiness
- Human being as having the unique capacity for rationality.
- No other animal possesses such a propensity for rational thought.

(2) Teleological ethical theories which focus on consequences:-

Teleology, the word is derived from ‘Greek Language’ ‘telos’ which means ends or purposes. This theory holds that consequences of an act determine whether the act is good or bad. This is also known as consequential ethics. Business community thinks this approach from the M.B.O. (Management by Objective) point of view. It gives full considerations of stakeholders in any business decision for entire corporate structure i.e. from top level to lower level of management.

(3) Utilitarian Approach:-

It is an ethics of welfare. Mr. Jeremy Bentham is considered as a founder of traditional utilitarianism. Business guided by this

particular approach mainly focuses on behaviour and its results. It prescribes ethical standards for managers in the area of goals of the organisation. Such as profit maximisation, optimum utilisation of resources, productivity, efficiency etc. It prescribes moral worth of an action. It is correlated with happiness and satisfaction. This approach holds an evaluation of actions and policies on the basis of costs. Maximisation of utility is the fundamental feature of utilitarianism.

(4) Virtue Theory:-

It is very old concept since the time of Aristotle and under this theory there are variety of theories which are more concerned with how to live best life and how to be a humanitarian.

According to Aristotle "Virtue is a character trait that manifests itself in habitual action."

Example: - I am a loving person means it is not simply for telling others but it is truth which can be observed in general practice.

Virtues should contribute to the ideas for better life. It is one of the constituents for happiness.

(5) Modern Virtue Theory:-

After Kantianism and utilitarianism's advent; virtue theory went out of favour. In 1958 Elizabeth Anscombe published her paper stating following facts -

- What we ought to do is an obligation.
- This obligation now should be waived out and ethics and practices should be reinstated.
- 'Ought' needs to be emphatic and it should be therefore replaced as an act of performance in a right way and one can find out the difference between 'Just' and 'Unjust'.
- Virtues can't be applied for day to day business unconditionally.
- Concealment is justified and acceptable in every business organisation.
- Honesty in business will not be same in other Spheres of Life.

(6) Justice Theory:-

Main points to be noted:-

- It is also known as fairness approach.
- All equals to be treated equally. Here one should note that all equals not all persons.
- Justice depends on principle of equity not on consequences.
- Later on John Rawls defends the conception of fairness approach.
- According to him justice can not be measured on utilitarianism because it is consistent with intuitively, majority can be enjoy

with a particular aspect whereas minority may be deprived from this.

- Each person should have an equal right to the most extensive basic liberty compatible with similar liberty for others.
- Social and economic inequalities are to be rearranged on the grounds of greatest benefit and fair equality of opportunity.

(7) Theory of egoism:-

Main points:-

- 'I' means ego.
- It holds that good is based on pursuit of self-interest approach.
- It counts, harms, benefits and rights for individual welfare.

Any act which is morally correct and if it is beneficial for individual but not harming others and such benefits are counterbalance without unintentional harms that ensue.

Example: - College grants scholarship for students for 3 years; then students are expected to work for college for 3 years as per requirements for college and the student's capacity.

(8) Theory of Relativism:-

- It inculcates the idea of elements culture.
- It considers that there are no absolute truths in ethics.
- What is morally right or wrong varies from person to person.
- Killing animals in a particular religion is not acceptable whereas in other religion it is acceptable and believable.

FRIEDMAN'S ECONOMIC THEORY

Pointwise Explanation -

- Introduction -

'Milton Friedman - an American economist whose research is based on consumption analysis monetary history and complexity of stabilization policy.

- He promoted two principles.

- Capitalism
- &
- Freedom

- Capitalism is connected with proper role and use of company's profits.
- Freedom is directed for moral foundation for stable society.

* It is to be noted that capitalism is accepted in general without freedom approach is totally unfortunate.

- **He stated further:-**
- Social responsibility of business is to increase the profits of company.
- Social aspects without the element of profit should not be considered.
- There is only one social responsibility is to say, engages in open and free competition without any deception or fraud.
- Companies should focus effectively an activities related to company's profit and effectively exclude charitable activities. It at all charity is concerned then legitimate activities should be done with government **apex bodies**
- avoid deception and fraud can be done through effective implementation of monetary aspects for the society within jurisdiction of laws. It does not means that directors of the company can act in any way to follow for maximisation of profits. They have to act within ethical custom.
- It excludes corporate social responsibility on ethical spending - by -
 - Wisely spent.
 - Spend wisely but it should be challenging.
 - Spend society's money on yourself and give vary rare incentives to economies.
- He proclaimed on Rate of Investment.
 - Directors of the company should always give fair and enough justice to Stakeholders investment.
- Counterpoint of his theory is socio-economic school. It states that business community should oversee the operation of an economic system which fulfils the expectations of the society in general.
- **Conclusion of this theory:-**
 - Shareholder's fund should not be mis-utilised on the grounds of CSR.
 - Company should do best with its capacity to fulfil the socio-economic norms.
 - Directors can not cross the boundaries of their pursuit for maximisation of profit.

Kant's Deontological Theory:- Theory in points -

- **Introduction:-**

Kant was a German philosopher who proposed duty based theory which states that what is morally right that person should perform.

- One should have moral duties to one-self and others such as developing one's talent, and fulfilling promises made to others.

It provides following elements:-

- Method for deriving moral rules and guidelines.
- For moral values and human action, he provided justification and criteria.
- He promoted Principles of Categorical Imperative: - It is nothing but an appeal to reason based on certain conditions.

These conditions are:-

- Act according to ethical guidelines which can become in due course universal law.
- One can act as per the needs of requirement.
- Treat Humanity always as means as well as an end.

Utilitarianism Theory:

Points are to be discussed with two angles:-

- 1) Jerry Bentham's view.
- 2) J. S. Mill's view.

(1) J. Bentham's approach:-

- Recognition the fundamental role of pain and pleasure in human life.
- approve or disapprove the action on the basis of above aspects.
- equates good with pleasure and evil with pain.
- Ascertainment of capacity of pleasure and pain.
- Pleasure and pain are merely types of sensations they may differ on the following grounds -

Extent, intensiveness, time duration, propinquity, certainty, fecundity and purity.

(2) J. S. Mill's view:-

His views are based on:-

- **Hedonism** - means - pleasure is supreme end of life and it is freedom from pain. According to him character, health, respect

etc. will ultimately lead to happiness. He classified hedonistic description of good and evil.

- **Psychological hedonism:-**

According to him what is implied is that we always desire only that object which is pleasant.

- **Logic of ethical hedonism:-**

- The only proof that a sound is audible is that if people will hear it.

- **Altruism:-**

It means standard of utilitarianism is not maximum pleasure but it is maximum yield. He criticised the Bentham's approach of general happiness is an ultimate end.

- Person's happiness is good to that person and general happiness is aggregate of all people. He explains this statement with the help of Human Psychology.

1.3 GANDHIAN APPROACH OF TRUSTEESHIP

Introduction

Trusteeship is a socio-economic philosophy where Trustee is the holder of property in trust for others. It is an application to the law of human society. It provides means by which rich people will be trustees of 'Trust' which should always look after as a form of welfare of the society.

Here, according to him making money should be fair and ethical but on what grounds this has been accumulated should also be taken into consideration by way of returning of wealth in certain proportion to the society.

Analytical review of Trusteeship

Analytical review of Trusteeship on the ground of

Do's:-

- Be fair in dealing with internal and external constituents i.e. micro and macro business environmental factors.
- Do protect the interest of investors, stakeholders and ultimate efforts and care should be taken to create wealth for them through legitimate means.
- Be honest in financial accounting and reporting upto the mark in each and every aspect.

- Be act within the jurisdiction of the law in respect of operations, suggestions, modification etc.
- Be active in social development process and disclose fully, actual facts as they are.
- Be faithful towards, society where you operate your business.

Don'ts:-

- No indulgement in deception, poaching into created wealth.
- No violation of rights of employees, society and pre-empt workplace harassment and safety breaches.
- Do not be cruel towards animals and non-human's in fact give caring treatment to ensure least pain to animals.
- Do not make any damage in any form to the environment on the grounds of development; do seek concurrence from the affected transparent disclosures.
- Do not keep and maintain silence against injustice, within your means try to make efforts to overcome them or bring it before judicial systems.

Doctrine of 'Satya' and 'Ahimsa'

Mahatma Gandhi's principle of Ahimsa is based on ethics of ahimsa propounded by Lord Gautam Buddha. It gives a new outlook on life based on social, economic and political problems. It gives new orientation to the problems that face humanity today with new solutions.

- presenting for acceptance is truth and Ahimsa in day to day life. Principle of Life is based on truth as per his philosophy.
- The word 'Satya' is combination of
 - 'Sat' —→ being
and nothing exists in reality except 'Truth'.
 - Truth always follows pure knowledge and it leads to bliss.
- According to Mahatma Gandhiji God is an impersonal, omnipresent power. God is Truth, lone and bliss. God is an end. He can be known through truth and love.
- **Ahimsa :-**
- It is supreme kind approach and self sacrifice. It is neither denial from killing nor doing harm. It is an abstinence from causing pain through.

- ill words
 - thoughts
 - resentment
-
- It is non violence in every form.
 - It has positive aspect with overflowing love and affection with each one.
 - It is based on non injury and love.
 - It is the basis of search of truth. The only resource for realisation of truth is Ahimsa.

1.4 EMERGENCE OF NEW VALUES IN INDIAN INDUSTRIES AFTER ECONOMIC REFORMS OF 1991

Introduction :

After 1991, Industrial sector has drastically changed on account of L P G. Following one the main aspects.

- Tiny and small sectoral entrepreneurship was promoted.
- micro finance and self help group came into force.
- Initiatives such as 'Make in India', 'Start-up India', 'and Digital India' came into action force.

Measures introduced by Government

Apart from these reforms, Government of India has introduced several measures for -

- Improvement in efficiency
- face the competition
- curbed corruption in the industrial sector.
- Emergence of new values in industries came into force. They are as under :-

(1) Professionalism :-

Managers or top level management adopted this concept for their day to day administration. They have adopted systematic approach in decision making and coordination and controlling through obtaining right ideas, research apt, analytical approach, right decision for the interest of the organisation.

(2) Systematic personnel policies :-

After 1991, Managers adopted following practices with respect to -

- Recruitment and selection.
- Training and Development aspect
- Proper placement
- Performance Appraisal at 360°

- Promotion based on merit at the higher levels and seniority at the lower levels.
- Compensation with regards to wages, salaries and incentives etc.

(3) Ethical practices in functional areas :-

It is an important part for improvement in efficiency and productivity of an organisation with respect to -

- Production process
- Marketing aspects
- Financial areas
- H R Policies

(4) Employee - Rewards and recognition :-

Positive reinforcement was observed through this for ensuring constant improvement with quality performance. These can be in form of financial benefits such as, increment merit pay, promotion, high status and pay etc. while recognition may be in form of thanks rewards, award of merit, hosting lunch and dinner declaring best reviews etc.

(5) Customer oriented :-

Managers, after 1991 emphasised on their internal and external customers internal customers include - employees, whereas external customers includes macro supporters. Focus of marketing Research, R & D, etc.

(6) Zero defect Approach :-

Defect free approach was the prime activity of managers for most of the time Basic idea behind this is to stress for perfection in work, efficiency and increment in productivity.

(7) Team Spirit :-

Nowadays after 1991, synergy in team work is generally behind by managers from top to lower level all look upon on equals and communicate easily and can create synergetic partnership.

(8) BPR Concept :-

It is Business Process Re-engineering of practicing, rethinking and redesigning the work, culture. It is essential to achieve organisation's vision and mission.

(9) Proper Administrations :-

Managers, nowadays have adopted systematic approach for managing business and improving efficiency and performance of the organisation.

(10) Good Governance :-

Nowadays managers believe to give more emphasis on good corporate governance which involves :-

- Balancing interest of company affairs.
- Proper attainment in micro and macro business environmental factors.
- Good practices to be incorporated for avoiding financial frauds and scams.

(11) Provide Best Work Cultures :-

Nowadays employees are treated as partners of the business organisations, corporations tries their level best to balance between working conditions and service conditions for their employees. It leads to satisfaction, efficiency and productivity and inturn increment of profit of organisation.

Relevance of Trusteeship Principle**Introduction :-**

Principle of Trusteeship is relevant and important for business firms for long term. After distributing reasonable profits among stakeholders; balance of profits should be utilised for productive purposes; which may be classified as follows :-

(1) Corporate Image :-

Corporation may lead to improve its overall efficiency and performance on this base. It can create favourable image in the minds of micro and macro business environmental factors.

(2) Customer's loyalty :-

On the basis of trusteeship customers can keep trust and show confidence on such firms by -

- Repeat purchases.
- Repeat orders.
- Recommendations to others.

(3) Competitive advantage :-

In the market, on the basis of trusteeship, it enables the firm to enjoy competitive advantage by having optimum utilisation of resources. To progress on high-way of profits - corporations can

very well go for R & D, training and development, Upgradation of techniques of productions which results in improvement in overall quality.

(4) C. S. R. :-

Corporate Social Responsibility enables the firm to create integrated business model. It ensures active compliance with the spirit of law, ethical standards and international norms.

(5) Good Corporate Governance :-

By accepting a path of trusteeship firm can show healthy signs towards corporate governance. It implies that company or firm should utilise its reserves and surplus for the interest of the society as well shareholders.

(6) Growth and expansion of business :-

This principle enables the organisation to expand its business activities by way of conducting R & D, marketing research etc. By doing so, companies can enter into new ventures or can expand the markets as well.

(7) Employee Welfare :-

Trusteeship path make progressive use of resources for its internal customers by way of providing best working conditions and service conditions.

(8) Survival :-

Trusteeship ensures business survival in ethical manner, such organisation can gain goodwill and reputation in long run and can gain the confidence and trust among, customers and other stakeholders.

1.5 SUMMARY

This module discusses the evolution of ethics and its importance in corporate scenario. It also throws light on classical theories of ethics and trusteeship and how it is applicable to governance in corporates. Religion, culture and ancient literatures also form an evitable part of business ethics. This helps the organizations to align its decisions with the human values. The module also underlines the effects of ethical practices on fairness, employees welfare, customer welfare and society at large.

1.6 EXERCISE

- Q.1. What are features of ethics?
- Q.2. What are needs and importance for ethics?
- Q.3. What are features of Indian ethos?
- Q.4. Compare ethics and value.
- Q.5. What are the sources of ethics?
- Q.6. What is meaning of code of ethics? How to develop such codes?
- Q.7. Briefly explain ethics management programme.
- Q.8. Briefly explain the ethical theories.
- Q.9. Briefly explain the Doctrine of 'Satya' and 'Ahimsa'
- Q.10. State the relevance of Trusteeship principle in Business.



Unit - 2

INDIAN ETHICAL PRACTICES & CORPORATE GOVERNANCE

Unit Structure :

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Ethics in Functional areas
- 2.3 Corporate Governance
- 2.4 Regulatory Framework in India
- 2.5 Summary
- 2.6 Exercise

2.0 OBJECTIVES

After studying this chapter the student will be able to:

- Define the term Ethics in Marketing and Advertising
- Explain the importance Ethics in Functional Areas.
- Define the concept Corporate Governance
- Understand the significant of Corporate Governance.
- Understand the meaning and Significance of Regulatory Framework in India.

2.1 INTRODUCTION

Marketing is a vital functional area of a business organisation. The success of a business largely depends on the performance of marketing departments. Marketing is about identifying the needs of the customers and satisfying their requirements. Advertising is a tool in Marketing and is used to promote goods and services to the customers. Ethics promotes honesty, fairness and maintaining values in various advertising and marketing efforts of the organisation.

Business ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer. Many businesses have gained a bad reputation just by being in business. To some people, businesses are

interested in making money, and that is the bottom line. Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behaviour. Many global businesses, including most of the major brands that the public use can be seen not to think too highly of good business ethics. Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor. If a company does not adhere to business ethics and breaks the laws, they usually end up being fined. Many companies have broken anti-trust, ethical and environmental laws and received fines worth millions. The problem is that the amount of money these companies are making outweighs the fines applied.

2.2 ETHICS IN FUNCTIONAL AREAS

I) Ethical Marketing

Ethical marketing is less of a marketing strategy and more of a philosophy that informs all marketing efforts. It seeks to promote honesty, fairness, and responsibility in all advertising. Ethics is a notoriously difficult subject because everyone has subjective judgments about what is “right” and what is “wrong.” For this reason, ethical marketing is not a hard and fast list of rules, but a general set of guidelines to assist companies as they evaluate new marketing strategies. American Marketing Association promotes the professional ethical norms and values for its members. Norms are established standards of conduct and values for its members.

- All marketing communications share the common standard of truth.
- Marketing professionals abide by the highest standard of personal ethics.
- Advertising is clearly distinguished from news and entertainment content.
- Marketers should be transparent about who they pay to endorse their products.
- Consumers should be treated fairly based on the nature of the product and the nature of the consumer (e.g. marketing to children).
- The privacy of the consumer should never be compromised.
- Marketers must comply with regulations and standards established by governmental and professional organizations.
- Ethics should be discussed openly and honestly during all marketing decisions.

II) Ethical Issues in Advertising

Advertising constitutes a vital stream among the marketing functions of a business; it being a major driver of the firm's integrated promotions for pushing sales in today's highly competitive business environment. Sales and especially advertising are two areas which are directly connected to the external network of a firm. While most companies revere the pursuit of their businesses on a regular moral understanding, there are some firms which continue to follow both good and bad business practices. The issue of ethics in advertising bears great concern to all firms engaged in business worldwide, and to consumers likewise. Advertising is the medium that conveys an organization's communications about its offerings to the market available for a sale, and hence, it possesses the innate ability to influence the consumer. Ethical Issues in Advertising is a highly visible business activity and any lapse in ethical standards can often be risky for the company. Some of the common examples of ethical issues in advertising are given below:

1. Vulgarly / Obscenity used to gain consumers' attention: Nowadays many a times, advertisements use false statements and misrepresentations about their products. They show such scenes or ads which are not very rightfully projected and should not be watched.
2. Misleading information and deception
3. Puffery
4. Racial issues
5. Controversial products (e.g. alcohol, gambling, tobacco etc.)

III) Ethics in Human Resource Management

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, tradeization.

- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.
- Occupational safety and health.

Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance - related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

IV) Ethics in Finance and Accounting

Finance and Accounting Ethics is primarily a field of business ethics. To prevent fraudulent accounting, various accounting organisations and governments have developed regulations and remedies for improved ethics among the accounting profession.

Importance of Finance and Accounting Ethics:

The nature of the work carried out by the accountants and auditors requires a high level of ethics. Shareholders and other users of financial statements rely heavily on the yearly financial statements of the company as they can use this information to make proper decisions on investments. Accountants serve as financial reporters and intermediaries in the capital markets and owe their primary obligation to the public interest. In the current scenario multiple scandals were reported on by media and resulted in fraud charges and closure of companies and accounting firms.

Unethical practices in Finance and Accounting

The following are some of the unethical practices in finance and accounting.

- Misuse of funds
- Window dressing of financial statements
- Insider trading
- Conflicts of Interests

V) ETHICS OF PRODUCTION

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

- Defective, addictive and inherently dangerous products.
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food.
- Product testing ethics.

The most systematic approach to fostering ethical behavior is to build corporate cultures that link ethical standards and business practices.

VI) ETHICS IN INFORMATION TECHNOLOGY

Information Technology is considered as a branch of Information and Communication Technology. It is the usage of technology which leads to ethical issues. The pace of technology can raise questions on Ethics as newer products make their way replacing the existing ones. In fact increasing advances in the technological innovations are adding up to environmental degradation such as computer screens, Keyboards, printers are already polluting the environment. All these wastes produce toxins that cannot be decomposed easily. On the other hand many technological developments have occurred. New manufacturing processes that are outsourced either are replacing the manpower there or exploiting workers by engaging them at cheaper prices. Although we cannot control technology and innovation, the better way is to adapt and change. The role of ethics in technology is of managing it rather than controlling the same. Public issues in IT are:-

Plagiarism

- Software Piracy
- Hacking
- Computer Crimes
- Viruses
- Job displacement
- Digital Divide
- Nanotechnology and IT
- Netiquette
- Cookies and spyware

Public has not realized the critical importance of ethics to IT. Business men should take the responsibility for these decisions. They must create a working environment in which ethical dilemmas can be discussed openly and constructively.

VII) EHTICS IN COPYRIGHTS AND PATENTS

Intellectual Property (IP) is a legal term covering various forms of valuable business assets. The three broad primary areas of IP are trademarks, copyrights and patents. Copyright refers to the legal right of the owner of intellectual property". In simpler terms, 'copyright is the right to copy'. This means that the original creator of a product and anyone he gives authorization to are the only ones with the exclusive right to reproduce the work. Copyright law gives creators of original material, the exclusive right to further develop them for a given amount of time, at which point the copyrighted item becomes public domain.

A copyright gives the owner of a work of expression the exclusive right to:

1. Reproduce the work.
2. Distribute copies of the work to the public.
3. Display copies of the work in public.
4. Perform the work in public.
5. Create derivative works based on the original work.

A copyright is collection rights which can be given away, sold, leased, or licensed.

Copyright Infringement

Copyright infringement is the violation, piracy or theft of a copyright holder's exclusive rights through the unauthorized use of a copyrighted material or work. It includes unauthorized use of a work or material is any unauthorized reproduction, distribution, performance, public display or transfer to a derivative work without the copyright owner's permission.

An infringement occurs under all of the following three conditions:

- The owner must hold a valid copyright.
- The alleged infringer must be able to access the copyrighted work.
- Duplication of the copyrighted work must occur beyond exceptions. If an exception does not apply, permission is requested by the person seeking to use the work.
- There are three terminologies associated with copyright infringement:
 - **Piracy:** The term "piracy" has been used to refer to the unauthorized copying, distribution and selling of works in copyright.
 - **Theft:** It is an instance where a person exercises one of the exclusive rights of the copyright holder without authorization.

- **Freebooting:** The term “freebooting” has been used to describe the unauthorized copying of online media, particularly videos, onto websites such as Facebook, You Tube or Twitter.

2.3 CORPORATE GOVERNANCE

Corporate Governance is the basic frame work of rules, guidelines and practices through which the board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders i.e. investors, customers, management, employees, government and the community. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.

The concept of governance has been known in both political and academic circles for a long time, referring generally to the task of running a government, or any other appropriate entity for that matter.

Corporate governance is therefore the process whereby people in power direct, monitor and lead corporations, and thereby either create, modify or destroy the structures and systems under which they operate.

The primary purpose of corporate leadership is to create wealth legally and ethically.

Objectives of Corporate Governance

- To align corporate goals of its stakeholders (society, shareholders, etc.)
- Corporate governance a way of Life rather than a Code
- To strengthen corporate functioning and discourage mismanagement
- To achieve corporate goals by making investment in profitable investment outlets.
- To specify responsibility of the B.O.D and managers in order to ensure good corporate performance.

There is a global consensus about the objective of ‘good’ corporate governance: maximising long-term shareholder value.”

Corporate Governance is a system of structuring, operating and controlling a company with the following specific aims:—

- (i) Fulfilling long-term strategic goals of owners;
- (ii) Taking care of the interests of employees;
- (iii) A consideration for the environment and local community;
- (iv) Maintaining excellent relations with customers and suppliers;
- (v) Proper compliance with all the applicable legal and regulatory requirements.

Evolution Of Corporate Governance

Corporate ownership structure has been considered as having a strongest influence on systems of corporate governance, although many other factors affect corporate governance, including legal systems, cultural and religious traditions, political environments and economic events. All business enterprises need funding in order to grow, and it is the ways in which companies are financed which determines their ownership structures. It became clear centuries ago that individual entrepreneur and their families could not provide the finance necessary to undertake developments required to fuel economic and industrial growth. The sale of company shares in order to raise the necessary capital was an innovation that has proved a cornerstone in the development of economies worldwide. However, the road towards the type of stock market seen in the UK and US today has been long and complicated. Listed companies in their present form originate from the earliest form of corporate entity, namely the sole trader. From the middle ages, such traders were regulated by merchant guilds, which over saw a diversity of trades. The internationalization of trade, with traders venturing overseas, led gradually to regulated companies arising from the medieval guild system. Members of these early companies could trade their own shares in the company, which lead ultimately to the formation of the joint stock companies.

The Fiscal Crisis of 1991 and resulting need to approach the IMF induced the Government to adopt reformative actions for economic stability through liberalisation. The momentum gathered slowly once the economy was pushed open and the liberalisation process got initiated.

The CII Code

The report of the Cadbury committee on the financial aspects of the government in UK had given rise to the debate of Corporate governance in India. With the help of the CII, Indian Companies both in private and public sectors, Banks and Financial sectors adopted and followed a Corporate Governance in 1997. The final Code called 'Desirable Corporate Governance Code' was released in April 1998.

Kumar Managalam Birla Committee, 1999

The Securities and Exchange Board of India (SEBI) in 1999 set up a Committee under Shri Kumar Managalam, member SEBI Board to promote and raise the standards of good corporate Governance. The Primary objective of the Committee was to view corporate governance from the prospective of the Investors and shareholders.

Importance of Corporate Governance

Corporate Governance is intended to increase the accountability of your company and avoid massive disasters before they occur. Failed energy giant Enron, and its bankrupt employees and shareholders, is a prime argument for the importance of solid Corporate Governance. Well- executed Corporate Governance should be similar to a police department's internal affairs unit, weeding out and eliminating problems with extreme prejudice. The Need, Significance or Importance of Corporate Governance is listed below.

1. Changing Ownership Structure

In recent years, the ownership structure of companies has changed a lot. Public financial institutions, mutual funds, etc. are the single largest shareholder in most of the large companies. So, they have effective control on the management of the companies. They force the management to use corporate governance. That is, they put pressure on the management to become more efficient, transparent, accountable, etc. They also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. So, the changing ownership structure has resulted in corporate governance.

2. Importance of Social Responsibility

Today, social responsibility is given a lot of importance. The Board of Directors has to protect the rights of the customers, employees, shareholders, suppliers, local communities, etc. This is possible only if they use corporate governance

3. Growing Number of Scams

In recent years, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money are happening every day in India and worldwide. It is happening in the stock market, banks, financial institutions, companies and government offices. In order to avoid these scams and financial irregularities, many companies have started corporate governance.

4. Indifference on the part of Shareholders

In general, shareholders are inactive in the management of their companies. They only attend the Annual general meeting. Postal ballot is still absent in India. Proxies are not allowed to speak

in the meetings. Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate governance to protect all the stakeholders of the company.

5. Globalization

Today most big companies are selling their goods in the global market. So, they have to attract foreign investor and foreign customers. They also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive and succeed the global market.

6. Take Over and Mergers

Today, there are many takeovers and mergers in the business world. Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

7. SEBI

SEBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance refers to all laws, regulations, codes and practices, which defines how institution is administrated and inspected, determines rights and responsibilities of different partners, attracts human and financial capital, makes institution work efficiently, provides economic value to stock holders in the long turn while respecting the values of the community it belong. For corporate governance, the management approach should be in accordance with the following principles.

1. Governance structure:

All Organizations should be headed by an effective Board. Responsibilities and accountabilities within the organization should be clearly identified.

2. The structure of the board and its committees:

The board should comprise independent minded directors. It should include an appropriate combination of executive directors, independent directors and non-independent non-executive directors to prevent one individual or a small group of individuals from dominating the board's decision taking. The board should be of a size and level of diversity commensurate with the sophistication and scale of the organization. Appropriate board committees may be formed to assist the board in the effective performance of its duties.

3. Director appointment procedure:

There should be a formal, rigorous and transparent process for the appointment, election, induction and re-election of directors. The search for board candidates should be conducted, and appointments made, on merit, against objective criteria (to include skills, knowledge, experience, and independence and with due regard for the benefits of diversity on the board, including gender). The board should ensure that a formal, rigorous and transparent procedure be in place for planning the succession of all key officeholders.

4. Directors duties, remuneration and performance:

Directors should be aware of their legal duties. Directors should observe and foster high ethical standards and a strong ethical culture in their organization. Each director must be able to allocate sufficient time to discharge his or her duties effectively. Conflicts of interest should be disclosed and managed. The board is responsible for the governance of the organization's information, information technology and information security. The board, committees and individual directors should be supplied with information in a timely manner and in an appropriate form and quality in order to perform to required standards. The board, committees and individual directors should have their performance evaluated and be held accountable to appropriate stakeholders. The board should be transparent, fair and consistent in determining the remuneration policy for directors and senior executives.

5. Risk governance and internal control:

The board should be responsible for risk governance and should ensure that the organization develops and executes a comprehensive and robust system of risk management. The board should ensure the maintenance of a sound internal control system

6. Reporting and integrity:

The board should present a fair, balanced and understandable assessment of the organization's financial, environmental, and social and governance position, performance and outlook in its annual report and on its website.

7. Audit

Organizations should consider having an effective and independent internal audit function that has the respect, confidence and cooperation of both the board and the management. The board should establish formal and transparent arrangements to appoint and maintain an appropriate relationship with the organization's auditors.

8. Relations with shareholders and other key shareholder:

The board should be responsible for ensuring that an appropriate dialogue takes place among the organization, its shareholders and other key stakeholders. The board should respect the interests of its shareholders and other key stakeholders within the context of its fundamental purpose.

BENEFITS OF CORPORATE GOVERNANCE

The Benefits to Shareholders

- Good CORPORATE GOVERNANCE can provide the proper incentives for the board and management to pursue objectives that are in the interest of the company and shareholders, as well as facilitate effective monitoring.
- Better CORPORATE GOVERNANCE can also provide Shareholders with greater security on their investment.
- Better CORPORATE GOVERNANCE also ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc.

The Benefits to the National Economy

- Empirical evidence and research conducted in recent years supports the proposition that it pays to have good CORPORATE GOVERNANCE. It was found out that more than 84% of the global institutional investors are willing to pay a premium for the shares of a well-governed company over one considered poorly governed but with a comparable financial record.
- The adoption of CORPORATE GOVERNANCE principles – as good CORPORATE GOVERNANCE practice has already shown in other markets – can also play a role in increasing the corporate value of companies.

Proponents of corporate governance say there is a direct correlation between good corporate governance practices and long-term shareholder value. Some of the key benefits are:

- High performance Boards of Directors;
- Accountable management and strong internal controls;
- Increased shareholder engagement;
- Better managed risk; and
- Effectively monitored and measured performance.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- Establish corporate values and governance structures for the company;
- Ensure that all legal and regulatory requirements are met and complied with fully and in a timely fashion;
- Establish long-term strategic objectives for the company;
- Establish clear lines of responsibility and a strong system of accountability and performance measurement;
- Hire the chief executive officer, determine the compensation package, and periodically evaluate the officer's performance;
- Ensure that management has supplied the board with sufficient information for it to be fully informed and prepared to make the decisions that are its responsibility, and to be able to adequately monitor and oversee the company's management;
- Meet regularly to perform its duties;
- Acquire adequate training.

RULES OF CORPORATE GOVERNANCE

As we have iterated, this part of the report explains our view of best corporate governance practice and the holistic approach by which we believe an organisation can ensure that a state of good corporate governance exists, or is brought into being if its existence is uncertain. It takes the view that there is an over-riding moral dimension for running a business and that the standard of governance will depend on the moral complexion of the operation.

The business morality or ethic must permeate the entire operation from top to bottom and embrace all stakeholders best corporate governance practice is an integral part of good management practice also permeating the entire operation, and not an esoteric specialism addressed by auditors and shareholders. The principles of this approach are therefore framed in relation to the conventional way of looking at how a business should be properly run.

Our Five Golden Rules of best corporate governance practice is:

1. **Ethics:** Clearly ethical practices applied to the business
2. **Align Business Goals:** appropriate goals, arrived at through the creation of a suitable stakeholder participation in decision making model
3. **Strategic management:** an effective strategy process which incorporates stakeholder value
4. **Organisation:** an organisation suitably structured to give effect to the good corporate governance

5. **Reporting:** reporting systems structured to provide transparency and accountability.

This approach recognizes that the interests of different stakeholders carry different weight, but it does not, by any means, suggest that those with a majority interest matters and the rest don't. On the contrary, best corporate governance practice dictates that all stakeholders should be treated with equal concern and respect.

For obvious reasons, although the methodology we will propose involves taking major stakeholders into greater account when formulating strategy, it is designed to generate all round support because of the fact that every stakeholder, no matter how small, is given the opportunity to express a view, through the continuous monitoring of stakeholder perceptions.

The regulatory approach to the subject would regard governance as something on its own, to do with ensuring a balance between the various interested parties in a company's affairs, or more particularly a way of making sure that the chairman or chief executive is under control, producing transparency in reporting or curbing over-generous remuneration packages etc.

The essence of success in business is:

- having a clear and achievable goal
- having a feasible strategy to achieve it
- creating an organization appropriate to deliver
- having in place a reporting system to guide progress.

2.4 REGULATORY FRAMEWORK ON CORPORATE GOVERNANCE IN INDIA

Corporate Governance brought the need for the Indian companies to adopt corporate governance standards, consistent with the international policies and principles. Corporate Governance refers to practices by which organisations are controlled, directed and governed. The fundamental concern of Corporate Governance is to ensure the conditions whereby organisation's directors and managers act in the interest of the organisation and its stakeholders and to ensure the means by which managers are held accountable to capital providers for the use of assets. To achieve the objectives of ensuring fair corporate governance, the Government of India has put in place a statutory framework. Regulatory framework on corporate governance. The legal framework relating to Corporate governance is broadly covered in the:

- a) Indian Companies Act 1956
- b) the directives issued by the security market regulator, SEBI
- c) regulators such as RBI and the IRDA (Insurance Regulatory Development Authority) guidelines for banking and Insurance Companies.

The Indian statutory framework has, by and large, been in consonance with the international best practices of corporate governance. Broadly speaking, the corporate governance mechanism for companies in India is enumerated in the following enactments/ regulations/ guidelines/ listing agreement:

1. The Companies Act, 2013: inter alia contains provisions relating to board constitution, board meetings, board processes, independent directors, general meetings, audit committees, related party transactions, disclosure requirements in financial statements, etc.

2. Securities and Exchange Board of India (SEBI) Guidelines: SEBI is a regulatory authority having jurisdiction over listed companies and which issues regulations, rules and guidelines to companies to ensure protection of investors.

3. Standard Listing Agreement of Stock Exchanges: For companies whose shares are listed on the stock exchanges.

4. Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI): ICAI is an autonomous body, which issues accounting standards providing guidelines for disclosures of financial information. Section 129 of the New Companies Act inter alia provides that the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under s 133 of the New Companies Act. It is further provided that items contained in such financial statements shall be in accordance with the accounting standards.

5. Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI): ICSI is an autonomous body, which issues secretarial standards in terms of the provisions of the New Companies Act. So far, the ICSI has issued Secretarial Standard on “Meetings of the Board of Directors” (SS-1) and Secretarial Standards on “General Meetings” (SS-2). These Secretarial Standards have come into force w.e.f. July 1, 2015. Section 118(10) of the New Companies Act provide that every company (other than one person company) shall observe Secretarial Standards specified as such by the ICSI with respect to general and board meetings.

II) SEBI Guidelines and CLAUSE 49

Clause 49 of the Listing Agreement to the Indian Stock exchange comes into effect from 31 December 2005. The company agrees to comply with the following provisions:

I. Board of Directors

Composition of Board

The board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors. The number of independent directors would depend on whether the Chairman is executive or non-executive. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should comprise of independent directors.

Independent Director: Independent Director shall however periodically review legal compliance reports prepared by the company as well as steps taken by the company to cure any taint. In the event of any proceedings against an independent director in connection with the affairs of the company, defence shall not be permitted on the ground that the independent director was unaware of this responsibility. ii. The considerations as regards remuneration paid to an independent director shall be the same as those applied to a non-executive director

Non-executive directors' compensation and disclosures: All compensation paid to non-executive directors shall be fixed by the Board of Directors and shall be approved by shareholders in general meeting. Limits shall be set for the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the non-executive directors shall vest after a period of at least one year from the date such non-executive directors have retired from the Board of the Company.

Code of Conduct: It shall be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company. This code of conduct shall be posted on the website of the company. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO.

III) ROLE OF INDEPENDENT DIRECTORS

The need for independent directors can be ascertained from the fact that they are expected to be independent from the

management and act as the trustees of shareholders. This means that they are responsible to be fully aware of conduct of which is going on in the organization and also to take a stand as and when necessary on relevant issues. As per section 149 (6) of The Companies Act, 2013, Independent Director means any director other than a managing director or whole-time director or a nominee director.

Certain conditions need to be fulfilled, before appointing any person as an independent director.

1.) clause (a) of Section 149(6), of the Act, states that any person who is to be appointed must in the opinion of the Board, be a person of integrity and must possess relevant expertise and experience;

2.) clause (b) along with clause (c) of Section 149(6), states that the person who is to be appointed must neither be a promoter of a company nor must be related to the promoters or directors of that company. Further, clause (d) along with clause (e), states that, he must have no pecuniary relationship with the company, and that none of his relatives must have been having any pecuniary relationship with the company.

3.) clause (e) of the Section talks about his relationship with the company. It states that for a person to be appointed as an independent director, neither he nor any of his relative must hold following positions in a company:

- i) the position of key managerial personnel
- ii) employee or proprietor or a partner, in any of the three financial years, proceeding.
- iii) Holds together with his relative two percent or more of the total voting power of the company; or
- iv) Chief Executive or director, of any non-profit organization.

So these were the conditions which need to be followed while appointing any independent director as per The Companies Act, 2013. However, the next question which needs to be answered is that why these independent directors should be appointed and be included in the Board.

IV) AUDIT COMMITTEE

The Chairman of the audit committee, or in his absence, a designated member of the audit committee who is an independent director shall be present at Annual General Meeting to answer shareholder queries

(A) A qualified and independent audit committee shall be set up and shall comply with the following:

i. The audit committee shall have minimum three members. All the members of audit committee shall be non-executive directors, with the majority of them being independent. ii. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise

ii: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

iii. The Chairman of the Committee shall be an independent director;

iv. The Chairman shall be present at Annual General Meeting to answer shareholder queries;

v. The audit committee should invite such of the executives, as it considers appropriate to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitees for the meetings of the audit committee;

vi. The Company Secretary shall act as the secretary to the committee.

(B) Meeting of Audit Committee : The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee, whichever is higher and minimum of two independent directors.

(C) **Powers of Audit Committee:** The audit committee shall have powers which should include the following:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) Role of Audit Committee:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
3. Reviewing with management the annual financial statements before submission to the board, focusing primarily on
4. Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
5. Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
6. Discussion with internal auditors any significant findings and follow up there on.

PROTECTION OF STAKE HOLDERS

Stakeholders can be affected by the organisation's action, objectives and policies. Some examples of key stakeholders are creditors, directors, employees, government, shareholders and the community from which the business draws the resources.

1. Shareholders

The shareholders are the collective owners of a company and as such, they have a wide array of rights. Some of their basic rights include the right to timely and accurate receipt of information about working of the organisation and their appropriate use of their funds. Accountability in this respect must be ensured through the submission of annual and quarterly reports. Shareholders votes are shared on all important matters of the company such as those related to mergers and acquisitions, major investments in assets and appointment of the board.

2. Creditors

Organisations may raise money in the form of loans from banks or bonds issued to investors. The rights of creditors are generally protected by a document called bond indenture which contains positive and negative covenants that state the activities that a company should indulge or should not indulge. This bond indenture is enforceable by law on the organisation. The rights of the creditors are also protected by their preference over shareholders. The profits of the organisation are either used to pay dividends to shareholders or saved for future use. But before the profits are shared to the shareholders, they must be used to repay the debt obligations if any.

3. Consumers

Organisations earn their income from the customers and must therefore be sensitive towards their rights. Therefore they should maintain transparency in their operations. Most of the companies have Customer service team to handle the complaints of the customers. The government plays a central role in ensuring the customer rights are not violated through the Consumer Protection Act.

4. Employees

All employees, workmen, have the right to form Trade Unions. The Industrial Disputes Act, the Factories Act and the Contract Labor Act say that the workers cannot be fired, retrenched and laid -off without due cause and without following due processes.

5. Government

Under Corporate Governance, every organisation must take care of higher authority i.e. Government, also follow the rules and regulations strictly, pay the taxes in time, abide with the various laws and not to break the law in any unethical purpose.

6. Community/Society

A Community is commonly considered a social unit or group of people who share something in common such as norms, values, identity that is shown in a geographical area.

ELEMENTS OF GOOD CORPORATE GOVERNANCE

Good governance has 8 major characteristics. It is participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law. Good governance is responsive to the present and future needs of the organization, exercises prudence in policy-setting and decision-making, and that the best interests of all stakeholders are taken into account. Corporate governance refers to the role that company boards or executive teams play in leadership and oversight. While the specific elements of corporate governance are many, they generally involve emphasis on creating and maintaining company direction and promoting goodwill with shareholders and other stakeholders.

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. Oversight

The corporate governance role also provides some level of leadership oversight in companies. In publicly owned companies, for instance, company boards monitor and evaluate decisions and actions of CEOs and other executive officers. This ensures that leaders act in the best interest of shareholders and other stakeholders. In smaller businesses, executive teams normally assume this role of preventing too much power falling to one person. Without a governing board, though, this is more of a challenge.

3. Stakeholder Relations

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

4. 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.

5. Clear Organizational Strategy

Good corporate governance starts with a clear strategy for the organization. For example, a furniture company's management team might research the market to identify a profitable niche, create a product line to meet the needs of that target market and then advertise its wares with a marketing campaign that reaches those consumers directly. At each stage, knowing the overall strategy helps the company's workforce stay focused on the organizational mission: meeting the needs of the consumers in that target market.

6. Effective Risk Management

Even if your company implements smart policies, competitors might steal your customers, unexpected disasters might cripple your operations and economy fluctuations might

erode the buying capabilities of your target market. You 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.

7. Discipline and Commitment

Corporate policies are only as effective as their implementation. A company's management can spend years developing a strategy to push into new markets, but if it can't mobilize its workforce to implement the strategy, the initiative will fail. Good corporate governance requires having the discipline and commitment to implement policies, resolutions and strategies.

8. Regular Self-Evaluation

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 your current policies.

FAILURE OF CORPORATE GOVERNANCE AND ITS COSEQUENCES

Despite the regulatory Framework on Corporate Governance, there are several cases of failures in India and other countries. The List of corporate governance failures includes Satyam, Enron, Wal-Mart, Cadbury etc. It doesn't happen overnight and there are several warning signs which a firm must take note of in order to avoid such failures. Some of the governance issues faced by the firms which eventually lead to corporate governance failures are –

- Ineffective governance mechanisms, for example, lack of board committees or committees consisting of few or a single member.
- Non-independent board and audit committee members, for example where a CEO fulfilled multiple roles in various committees
- Management, who deliberately undermines the role of the various governance structures by circumventing the internal controls and making misrepresentations to auditors and the Board.
- Inadequately qualified members, for example, audit committee members not having appropriate accounting and financial qualifications or experience to analyses key business transactions, family members holding board positions without appropriate knowledge or qualifications.

- Ignorance by regulators, auditors, analysts etc. of the financial results and red flags.

2.5 SUMMARY

The size of functional areas varies from business to business and it is the functional areas which form the pillar of an organization. The module discusses the ethical practices in these functional areas and its cascading effect on the organization's performance. It also discusses the evolution of corporate governance and contribution of various committees and statutory bodies towards its development. It collates the various ethical theories and streamline it with the corporate governance.

2.6 QUESTIONS

1. Explain Ethical practices in Marketing
2. Discuss unethical practices in advertising.
3. Explain the importance of Ethics in advertising
4. Explain the ethical practices in Human Resource Management
5. Discuss the Ethical Practices in Finance & Accounting
6. Discuss the ethical practices in Production
7. Discuss the ethics in Information Technology
8. Write a note on Ethics in Copyrights & patents
9. Define Corporate Governance. Explain its features.
10. Explain importance of Corporate Governance
11. Regulatory Framework of Corporate Governance in India
12. Discuss SEBI guidelines with reference to Clause 49 of listing agreement
13. Note on Audit Committee
14. Write a note on protection of stakeholders under Corporate Governance
15. Discuss the elements of Good Corporate Governance



Unit - 3

INTRODUCTION TO CORPORATE SOCIAL RESPONSIBILITY

Unit structure:

- 3.0 Objective
- 3.1 Introductions
- 3.2 Scope, Relevance and Importance
- 3.3 Corporate Philanthropy
- 3.4 Models for Implementation of CSR
- 3.5 Drivers of CSR
- 3.6 Prestigious Awards for CSR in India
- 3.7 CSR and Indian corporation
- 3.8 Legal Provisions and Specifications on CSR
- 3.9 A score card
- 3.10 Future of CSR in India
- 3.11 Role of NGO's and international agencies in CSR
- 3.12 Integrating CSR into Business
- 3.13 Summary
- 3.14 Exercise

3.0 OBJECTIVE

After studying the unit students will know:

- What is the relevance and importance of CSR?
- Understand the corporate philanthropy models for the implementation of CSR.
- To know the drivers of CSR and awards for CSR.
- To understand the legal provisions of CSR, a scorecard, and the future of CSR.
- Get to know the role of NGOs and the integration of CSR in business.

3.1 INTRODUCTION

Corporate social responsibility is not just a norm set by the law of the country, that certain percentage of company's net profit to give as a CSR but it is a form of corporate self-regulation integrated into a business model.

Corporate Social Responsibility (CSR) can be defined as a Company's sense of responsibility towards the community and environment (both ecological and social) in which it operates.

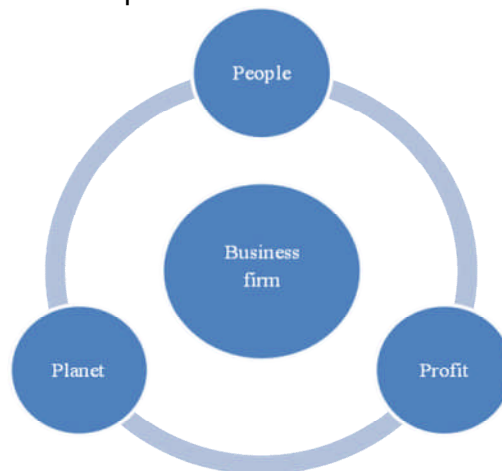
Companies can fulfill this responsibility through waste and pollution reduction processes, by contributing educational and social programs, by being environmentally friendly, and by undertaking activities of similar nature. CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental, and social objectives with the company's operations and growth. CSR is said to increase the reputation of a company's brand among its customers and society

The term CSR has been defined under the CSR Rules which includes but is not limited to: Projects or programs relating to activities specified in the Schedule; or Projects or programs relating to activities undertaken by the Board in pursuance of recommendations of the CSR Committee as per the declared CSR policy subject to the condition that such policy covers subjects enumerated in the Schedule. (Companies Act 2013)

3.2 RELEVANCE AND IMPORTANCE

The business firm must operate in a way that demonstrates social responsibility. Although it is not a legal requirement, it is seen as good practice for a business firm to take into account social and environmental issues. Due to increase competition and reach of internet facilities in remote areas make business firms to be proactive in CSR activities, does not matter whether it is mandatory or not.

The relevance and importance of CSR are as follow:



CSR helps business firms to achieve the above three broad elements while conducting business activities. People refer to employees, communities, and regions in which business firms conduct their activities. Business firms must keep in mind and practice the social betterment of the employee, community,

and region in which they conduct business activities. In the area of the planet, business firms need to practice environmentally sustainable activities. The business firm must emphasize eco-friendly production, a technique such as 3R (Reduce, Reuse, and Recycle), etc. the surplus-value after the deduction of the cost of raw material, labour, and capital is called profit. Business firms need to create economic value to survive and prosper society as a whole.

- **Improved public image** - This is crucial, as consumers assess the firms' image when deciding whether to buy from the firm. Something simple, like staff members volunteering an hour a week at a charity, shows that the firm's brand is committed to helping others. As a result, firms' economic activities appear much more favorable to consumers. Ex. Padhega India, Badhega India"- A P&G Initiative while selling FMCG products.
- **Increased brand awareness and recognition** - when a business firm committed to ethical practices while conducting business activities such as sustainable use of natural resource, this news will spread. More people will therefore hear about the firm's brand, which helps business firms to increase their market share and to maintain the positive image of the firm's brand in the mind of prospective customers.
- **Greater employee engagement** -Similar to customer engagement, the business firm also needs to ensure that employees know its CSR strategies. It is proven that employees enjoy working more for a firm that has a good public image. Furthermore, by showing that firm is committed to things like human rights, environmentally sustainable production, and then the firm is in the position to attract and retain the top candidates.
- **An advantage over competitors** - By endorsing CSR while conducting business activities, the firm stands out from competitors in the industry. The firm established itself as a company committed to going one step further by considering social and environmental factors. The firm comes in a position to control a large market share due to a reduction in competition.
- **Cost savings** - Many simple changes done by the business firm in favour of environmental sustainability, such as using less packaging, reuse of material, and engagement of locally available manpower will help to decrease firm's production costs. As the reduction in the cost of production of firms, leads to more production at less cost, will help employees in way of increase pay.

- **Economic and social objective** – business entity needs to maintain the balance between economic and social objectives while conducting business activities. To earn profit it is a prerequisite for any business entity but not at the cost of society in which they conduct business activities. It is important to produce quality goods at an affordable price, hygienic and workable environment for the employees, etc.
- **Increase financiers** – socially responsible business entity increase their business capital by attracting like-minded financiers not only within the country but also from foreign countries. Socially aware business entity reflects economically and environmentally good management policies and reputation in the market. So business entities must follow the principles of social and environmental responsibility.
- **Government interference** – self-regulated socially and environmentally business policies help the business entity to reduce government interference in business. Business entities take steps such as health and safety standards at the workplace, proper hygienic conduction while production of goods and services and taking care of biodiversity at time of disposal of industrial waste, etc. may convince the government that they are a good corporate entity.
- **Ensure the supply of raw material** – business entity by following the best CSR policy helps in ensuring the supply of raw material. As business entity maintains relations with those suppliers which follow the CSR policies to society oriented. By establishing a strong supply chain with selected suppliers, the firm is in a position to reduce the cost of production and improve its standard of production.
- **Growth and survival of business** – Any business growth and survival depend on the constant support of several factors such as consumer, employees, investors, lawmaking body and society, etc. therefore, a business entity should fulfill its social and environmental responsibilities towards all the supporting factors. Ex. Timely paying of taxes, international standards of production, etc.

Scope of CSR

Corporate social responsibility (CSR) in India is mandatory as per the company act 2013. When any business entity deals in its business it comes into contact with every component of its business environment. The business environment covers all those factors which could or would be affected by the business entity. The business environment is included, customers, employees, society, the environment, government, and shareholders, etc. Business needs to be considered every stakeholder of its business environment while doing business activities. The growth and development of

business is depending on the well-being of all the factors of the business environment.

Scope of (CSR) as follows:

Corporate social responsibility is a mutual way for companies to benefit society while benefiting them in the process. We cannot expect CSR to eliminate the world's problem at once because practically that's too much to expect but it can do countless good to the community in which the company is operating. CSR initiatives can be the best way to contribute to society and its people. Through local or national charitable contributions businesses can help society. Businesses can get involved in society and help it to progress by taking social initiatives on behalf of the company such as investing in education programs for the poor and street children and homeless care activities for homeless people or refugees.

- **Improved employee satisfaction:**

Remember that the way a company serves its community tells how it is going to treat its employees. People who feel that they are respected and supported in their jobs are likely to more productive as well as satisfied at work. When a company gives its employees opportunities to volunteer during working hours then it helps in creating a sense of community with the organization. Through these personal-development opportunities, employees often gain motivation and pride in their work.

- **Ability to have a positive impact on the community:**

When social responsibility is kept in front of the mind then it helps to encourage businesses to act ethically as well as consider the social and environmental impacts of the business. When this is done, an organization often starts to avoid the damaging impacts of its business on the community. Many organizations will start finding ways to change their service or value chain which delivers the benefit for the community. Therefore, CSR has a positive impact on the community.

- **Enhanced public image:**

In this digital era, companies that are demonstrating corporate social responsibility are obtaining exposure as well as praise for their involvement. Remember that your brand's name will only benefit when you do good actions in your community. Consumers often feel good and proud when they buy products as well as services from the companies that are contributing to the betterment of their community. This can be done by tweeting, posting, or sharing your social programs. Your brand's public image will increase when you let the public know about your good deeds.

- **Supports being an employer of choice:**

Being an employer of choice mainly translates into the company's capability to entice and hold on to high-caliber staff.

According to one of the researches, it was revealed that a robust corporate social responsibility framework will assist a company to turn more attractive to potential future employees who are in search of workplaces with socially responsible practices, sound ethics, and also community-mindedness. The above stated are the advantages of corporate social initiatives to organizations.

- **Attracts new investors:**

Remember that the reputation of the organization in the market is going to decide whether an organization will receive new investments or not. The image of a company can be boosted, with CSR programs. Therefore, the moment organization starts grabbing enough eyeballs, it also attracts several investors.

- **ISO 14001 – Environmental management system:**

The ISO 14000 family of standards provides practical tools for companies and organizations of all types and sizes, be they private, non-profit, or governmental, who are trying to regulate their environmental responsibilities. By implementing the standards of ISO 14001:2015 companies may set up the frame for sustainable operations with the involvement of management, employees, as well as external stakeholders in the process. The standardization enables them assuring of environmental impact and as a result of it adopting appropriate activities for improving the utilization of resources, reducing air pollution, protection of water sources, solid waste management, and climate change mitigation. By introducing this standard the companies gradually improved environmental impact.

- **Environmental sustainability:**

Pollution prevention, energy efficiency, eco-friendly design, and industrial ecology are emerging as top priorities for companies across all industrial sectors. Water, waste, packaging, energy, and transport are being integrated into mainstream operations to facilitate sustainability. Reduction in the amount of packaging and use of eco-friendly packaging material provides an attractive opportunity to promote environmental sustainability. The use of clean energy for in-house power requirements is also emerging as an attractive proposition for companies to reduce carbon footprint and project a 'green' image.

Scope of environmental initiatives for corporate social responsibility includes:

1. Organizing programmes on environmental management
2. Pollution control
3. Green belt development
4. Animal care
5. Land Restoration
6. Job development related to agro products
7. Afforestation

- **CSR and Customers:**

Customers appreciate the CSR efforts of a company and consider the company to be doing CSR on their behalf. They are psychologically connected to the company and positive feelings of attachment are evoked. Customers' feeling of association with the company makes them engaged with the company. Engaged customers want to remain in the relationship and become more loyal to the company. They construe themselves as a member of the company and like to play a role for it and spread word of mouth. Engaged customers want the betterment of the company and want to experience its better services. Instead of switching, they want a solution if any problem with the service is generated. Thus, they are more likely to give feedback.

CSR attracts customers in many ways. When customers observe the CSR initiatives of a company, they feel that the company is performing on their behalf and become emotionally attached to the company. They believe that the objectives of the company and its owners are the same. They like to be associated with the company and feel them as part of it considering the company and themselves as one entity. CSR creates confidence in customers that the company will not exploit their interests and they feel confident to develop a close relationship with the company. Thus, CSR makes customers more engaged by creating feelings of affection, oneness, and trustworthiness. Customers feel warm for socially responsible companies and become emotionally attached. Customers feel that the benevolent company is acting on their behalf for the welfare of society and such feeling strengthens the emotional relationship with the company.

- **CSR and Government:**

The government has widened the scope of CSR activities and companies can now contribute towards research across various fields such as science, technology, medicine.

According to the companies act, firms with a net worth of Rs.500 crores or more, or turnover of Rs.1,000 crores or more, or net profit of Rs.5 crores or more, are required to spend 2% of the average net profit of the preceding three years on corporate social responsibility activities.

These include initiatives that would have a social, economic, and environmental impact or a way to give back to the society, such as promoting gender equality, empowering women, promoting education, eradicating hunger, poverty, malnutrition, rural development projects, conserving natural resources, among others.

Now CSR 2% fund can be spent on incubators funded by central or state government or any agency or public sector undertaking of central or state government, and, making contributions to public-funded universities, IITs, national

laboratories and autonomous bodies (established under the auspices of ICAR, ICMR, CSIR, DAE, DRDO, DST, Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting SDGs (sustainable development goals)

The thrust towards research-based innovation is a much-needed step in the right direction. Integration with established private enterprises in key sectors will provide the required impetus for a future-ready economy. Additional focus to drive social enterprise to drive localised enterprise and employment opportunities, especially around key social services should be encouraged.

CSR spending between 2014-15 and 2017-18 was the highest in education, health, fight against poverty and malnutrition, access to clean drinking water, livelihood, and for the differently-abled.

3.3 CORPORATE PHILANTHROPY

Philanthropy has covered a wider field than charity the problems of the poor have not been philanthropy's only or even primary concern. The aim of philanthropy in its broadest sense is the improvement in the quality of human life whatever motives animate individual philanthropist, the purpose of philanthropy itself to promote welfare, happiness, and culture of mankind. We all are indebted to philanthropic reformers who have called attention to and agitated for the abetment of the barbarities inflicted by society on its weaker members. We are all, to some degree, beneficiaries of philanthropy whenever we attend the temple, go to college, visit museums or concert halls, draw books from libraries, obtain treatment at the hospital or spend leisure hours in parks. Most of us use or may have occasion to use institutions and services now tax-supported, which originated as philanthropic enterprises. We continue to rely on philanthropy for support of scientific research, for experimentation in the field of social relations, and diffusion of knowledge in all branches of learning.

The word philanthropy comes from the **Greek** word '**philanthropos**' which includes two words **philos** (loving) and **anthropos** (human being). Thus, philanthropy implies giving or donating for the well-being of human beings.

The giving away of money, especially in large amounts, to organizations that help people is called philanthropy.

We often get confused or interchangeably use the word charity as philanthropy but there is a difference between the two words. Charity is the hands-on response to helping meet immediate needs like food, shelter, medical care, and the like.

Philanthropy is a more strategic process of giving that seeks to identify the root causes of systemic issues and make the world a better place by tackling societal problems at their roots.

Corporate philanthropy is the act of a corporation or business promoting the welfare of others, generally through charitable donations of funds or time. There is a difference between CSR and corporate philanthropy, CSR is the overall attitude of firms towards society at large while corporate philanthropy is the small version of CSR.



As shown in the above diagram, these are the five ways of corporate philanthropy. Business entities may use other ways as available in the corporate world. Corporate philanthropy can also include product and service donations.

For example, Digital services and consulting conglomerate Infosys Limited spent INR 342 crores as against its prescribed CSR expenditure of 340 crores (2% of the net profit of INR 17,018 Cr) towards various schemes of Corporate Social Responsibility in the financial year 2019.

- **Community grants -**

Most large corporations have either created a foundation to handle their charitable giving programs or handle them internally. Through community grant programs, companies can support the needs of their local communities by providing funding to support organizations that work to improve the lives of employees, customers, and local neighborhoods. Eligible organizations can apply for community grants by submitting a grant request that explains how the funds will be used. In most cases, these grants are restricted to organizations where companies have a physical presence. For example, In the financial year 2018-19, Tata Capital implemented 58 projects with 51 partners and was able to reach 1,25,054 beneficiaries from economically underprivileged communities.

Some of the unique initiatives undertaken include:

- **Cluster Development initiative –**

Education of tribal children in Vikramgad, Sudhagad and Jalpaigudi 'JalAadhar' – An integrated watershed management program at Pimpalegaon Rotha in association with Bhartiya Agro Industries Foundation (BAIF) 'Green Switch' Project – Providing unelectrified tribal hamlets with solar micro grids Pankh Scholarship Program – Mentoring of meritorious underprivileged students by our very own employees, Dhangyan – The e-learning module for Financial Literacy, Skilling – Training underprivileged youth with skills that will help them gain employment, in the BFSI, Solar and Healthcare sector, Health – Assisting the underprivileged gain better access to quality healthcare to combat Cancer and blindness.

- **Employee volunteer grants –**

"Dollars for Doers" programs, also known as Volunteer grant programs, are donations giving programs created by industries, in which the company provides a monetary donation to eligible nonprofits (NGOs) as a way to recognize employees who volunteer.

- **Team volunteer grants –**

In this case, the incentive for employees to organize joint team building/volunteer events is given by the company. In these cases, monetary grants are given to nonprofits (NGOs) by the company, in which the company's employees volunteer the activities undertaken by nonprofits. For example, When IBM employees and retirees volunteer individually they are eligible for up to \$3,500 in technology grants or \$1,000 in cash awards a year for organizations where they regularly volunteer. Employees must volunteer for a minimum of 8 hours a month for five months.

- **Individual volunteer grants –**

In these grants, employee volunteers certain activities which are set by the corporations for the nonprofits. An employee is supposed to volunteer for certain hours as per the corporation's policy. Once the employee is performing the task as per the predefined norms, a donation will be given to the nonprofits. For example, Through Advanced Micro Devices' Grant Incentives for Volunteer Efforts (GIVE), the company provides grants of \$15 per hour volunteered when individual employees volunteer with a nonprofit.

- **Employee matching gifts -**

The company matches donations made by employees to eligible nonprofit organizations are called corporate matching gift programs. This is a donation-given program of corporations considered philanthropy. When an employee donates, they will request the matching gift from their employer, who then makes their donation. Companies usually match donations at a 1:1 ratio, but some will match at a 2:1, 3:1, or even a 4:1 ratio. There is a difference from one employer to another, so employee

makes sure before donating what kind of employee matching gifts program offered by their employer.

- **Corporate sponsorships –**

In these cases, corporations are giving donations to certain associations in return for publicity. It is a kind advertisement program. In corporations, there is a department to look after big events which are taken place in the future. By doing these twine objectives of corporation fulfills corporate philanthropy and donations to the desire section. For example, Nike, Adidas, Reebok are sponsors who sponsor large sports events such as Olympic, Asiatic games, etc.

- **Non-cash contribution –**

Corporations that donate in-kind are called non-cash donations. In this case instead of monetary grants, emphasis on physical goods or services. These can include old computers, furniture, office supplies, or services. To make the most out of your donations, first of all, pick the right organization to donate to. For a small business that is tied to the community, it often makes sense to pick a local group. For example, adopt a remote village for education expenses; provide computer facilities to panchayat schools, etc.

Know your progress

- 1- Define employee volunteer grants
- 2- What do you understand by corporate philanthropy?
- 3- Write a note on one of the Indian company's philanthropy activities
- 4- Define corporate sponsorship
- 5- Explain the community grants

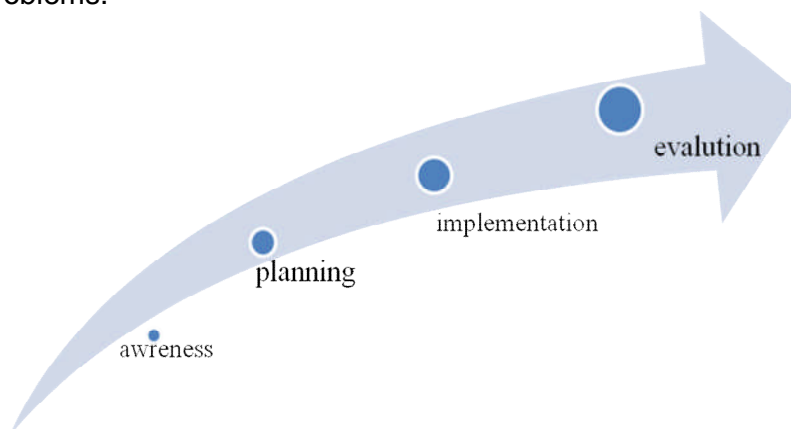
3.4 MODELS FOR IMPLEMENTATION OF CSR

Over the years, scholars have defined, interpreted, and understood CSR in many different ways. Some have perceived it as a hierarchical model while others have illustrated it in the form of inclusive concentric circles. Just when one presumes that closure to this has been achieved, new jargon like 'corporate sustainability', 'corporate social responsiveness', and 'corporate social performance' spring up and complicate the already existing dilemma. Bowen often regarded as the father of CSR, who provided the first sets of literature on the subject, defined CSR as 'obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. The concept has evolved since then to form two very different streams: the stockholder theory (as postulated by Friedman) and the social contract theory. Following these two non-identical streams of theory, many models have come up and have also been implemented worldwide.

- Friedman model
- Ackerman Model
- Carroll Model
- Stockholders & Stakeholders Model

Friedman model - In his article which appeared in the New York Times in 1970, American economist Milton Friedman discussed the social responsibility of business organizations. He straightforwardly argued: the social responsibility of a business is to increase its profits. He first presented this argument in his book "Capitalism and Freedom" published in 1962. He described business owners who talked about "**social conscience**" as "unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades." while addressing social issues; he argued that this is the responsibility of governments and other nonprofit organizations and not of business organizations. However, although businesses have a sole responsibility toward their shareholders, they must remain compliant with legal standards. The profitability of a business promotes an environment conducive to investment that, in turn, fosters capitalism and the creation of free-market enterprises. Besides, a thriving business would result in the introduction of competitive products and the creation of jobs, as well as in the payment of taxes to the government. Hence, Friedman explained that the profitability and success of a business would eventually benefit society.

ACKERMAN MODEL (1976) - the model has emphasized the internal policy goals & their relation to CSR. There are four stages involved in CSR. Managers of the company get to know the most common social problem & then express a willingness to take a particular project which will solve some social problems.



These are the four stages model; according to Ackerman companies tend to pass through these stages to solving any social issue. Awareness, at this stage management, recognizes the social issue or problems existing in society and acknowledges the corporate obligation to deal with it. Policies are structured and communicated by the company to increase

awareness. Planning, at this stage analysis, is done to observe the issue and formulate a strategy to deal with the problem. Management appoints specialists/experts for this purpose. Implementation, at this stage implementation of policies, strategically takes place. Evaluation, this the last stage where continuous evaluation is required to keep the situation under control.

Carroll's model - (1983) according to him "corporate social responsibility involves the conduct of a business so that it is economically profitable, law-abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time, and talent.

Philanthropic	This represents the ultimate objective of business to work for the betterment of society
Ethical	This represents the responsibility of the business to be morally right and practice fair business
Legal	The business should abide by laws and regulatory norms to any legal complications in work
Economic	The basic responsibility of any business to be profitable for longer survival in a competitive market

Stockholders & Stakeholders Model - According to this theory, which was first introduced by Milton Friedman in the 1960s, a corporation is primarily responsible to its stockholders due to the cyclical nature of business hierarchy. Stockholder theory, also known as shareholder theory, says that a corporation's managers have to maximize shareholder returns. Stakeholder theory says that business managers have an ethical duty to the corporation's stockholders, as well as those individuals or groups that contribute to the company's profits and activities and those who could benefit from or be harmed by the company.

Ethical model - The origin of the first ethical model of corporate responsibility lies in the pioneering efforts of 19th Century corporate philanthropists such as the Cadbury brothers in England and the Tata family in India. The pressure on Indian industrialists to demonstrate their commitment to social development increased during the independence movement when Mahatma Gandhiji developed the notion of trusteeship, whereby the owners of the property would voluntarily manage their wealth on behalf of the people. Gandhiji's influence prompted various Indian companies to play active roles in

nation-building and promoting socio-economic development during the 20th century. The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts, and provision of essential services such as schools, libraries, hospitals, etc. Many firms, particularly family-run businesses, continue to support such philanthropic initiatives.

Statist model - A second model of CSR emerged in India after independence in 1947, when India adopted the socialist and mixed economy framework, with a large public sector and state-owned companies. The boundaries between the state and society were clearly defined for the state enterprises. Elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labour laws and management principles. This state-sponsored corporate philosophy still operates in the numerous public sector companies that have survived the wave of privatization of the early 1990s

Liberal Model -Indeed, the worldwide trend towards privatization and deregulation can be said to be underpinned by a third model of corporate responsibility that companies are solely responsible to their owners. This approach was given by the American economist Milton Friedman, who in 1958 challenged the very notion of corporate responsibility for anything other than the economic bottom line. Many in the corporate world and elsewhere would agree with this concept, arguing that it is sufficient for the business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends.

Philanthropic model – in this model business firms focus on philanthropic activities, Such as corporate donations to the health program, education program, eradication of poverty, training to rural unskilled and semi-skill youth, etc. by doing this kind of activities business firms fulfilled their responsibility towards society. As per the Indian company act, 2% of the company's net profit is required to set aside for CSR.

Check your progress.....

- 1- Comment on the importance of CSR
- 2- Write a note on the Ackerman model
- 3- How the Friedman model is different from the Carroll model of CSR
- 4- Suggest a model for CSR implementation
- 5- Define liberal of CSR

3.5 DRIVERS OF CSR

Numerous factors help to increase CSR activities in India and worldwide. In recent years, there has been a trend, particularly among large organizations, to adopt a more socially responsible approach to their business activities. It shows companies transition from a marketing concept to what is known as a societal marketing concept. In the latter concept, companies seek to add value to the overall society and in the communities in which they operate-Examples of Corporate Social Responsibility in Action, Reducing carbon footprints, Improving labor policies, Participating in fair-trade, Charitable giving, Volunteering in the community, Corporate policies that benefit the environment, Socially and environmentally conscious investments.

Driving forces as follow

- **VALUES:**

A pragmatic value shift has taken place within businesses, as a result of which they now not only feel responsible for wealth creation but also social and environmental benefits. Reliance, Infosys, TATA groups these industries are set to market examples by making huge social philanthropy.

- **INCREASED AFFLUENCE:**

CSR becomes more relevant as economies grow and stabilize. Therefore, the greatest attention to CSR is found in developed countries. Stable work and security provide the luxury of choice and socially responsible activism. No such luxury exists when basic needs are in question.

- **GLOBALIZATION:**

Globalization leads to a drastic change in the firm's business activities. The increased wealth and power of MNC's have led to questions on the decreased authority of the nation-state, especially in developing areas. Further, cultural differences have added to the complexity of CSR as expectations of acceptable behavior vary regionally. With increased power comes increased responsibility and globalization has fueled the need to filter all strategic decisions through CSR policies to ensure optimal outcomes for diverse stakeholders.

- **GOVERNMENT LEGISLATION –**

In many countries across certain industries, the government has imposed legislation that requires companies to conform and behave in a certain manner. In this case, however, the organizations impacted by this legislation are only complying with various requirements because of regulation. They may or may not be willing to incorporate social responsibility initiatives

into their day-to-day operations of an overall strategy. Examples here would include legislation relating to the environment, pollution, use of workers and conditions, product disposal, materials used in production, and so on. Therefore, this is not necessarily a driver of corporate social responsibility but is adopted and followed by companies as it is a requirement imposed upon them by the government.

- **CUSTOMERS' EXPECTATIONS OF FIRMS –**

Consumers are becoming more aware of social and environmental issues and the consideration of the future is becoming slightly more important when consumers consider purchase decisions. As a result, some consumers will expect that certain companies behave appropriately, relate to society and the communities. The changing expectations of consumers have resulted in firms being more responsive to consumer issues and adopting a more corporate responsible outlook.

- **FREE FLOW OF INFORMATION –**

At one touch availability of information especially to consumers, NGOs and the general media has changed the way of doing business activities of firms. Easily accessible and affordable communication technologies have permanently changed the game and only truly authentic and transparent companies will profit in the long term. Through the Internet and other electronic mediums, the flow of information has shifted back to the stakeholders, especially in the case of three important groups- company, consumer, and the shareholders.

- **ENVIRONMENTAL SUSTAINABILITY –**

It is important among drivers. Concerns over pollution, waste, natural resource depletion, climate change and the like continue to fuel the CSR discussion and heighten expectations for proactive corporate action. After all, it is in the best interest of firms to protect for the sustainable future the long-term availability of the resources on which they depend.

- **THE POWER OF THE BRAND –**

In today's competitive business world success of a corporate largely depends on its brand. The true test of viability and well-being of a brand is the market perception of the brand. In other words, reputation is a key and honest CSR is a way to protect that reputation and therefore the brand. That's because several business firms have been surveyed cause and effect marketing.

- **POTENTIAL FOR A COMPETITIVE ADVANTAGE BY IMAGE –**

Some companies are attempting to build their core image or at least parts of their brand association around their socially responsible behavior. Some companies will highlight that they are ethical manufacturers –TATA group is one such manufacturer. In this case, these types of organizations are truly

practicing the societal marketing concept. They are foregoing some profitability to contribute to society or target communities.

- **PUBLIC PRESSURE –**

Pressure groups, consumers, media, the state, and other public bodies are pressing organizations to become more socially responsible. Organizations are often driven by one of the above, but see a shift into other spheres over time. In the main, it has been public pressure centered on three key areas that have driven the CSR agenda. These comprise the environment, labour standards, and human rights.

Check your progress

1- Define the power of brand

2- How would 'information' impact the company's image?

3- What do you understand by values?

3.6 PRESTIGIOUS AWARDS FOR CSR IN INDIA

Before the Government of India starts awarding companies for their corporate social activities by the national award, other non-government entities and personalities have been awarded by corporate entities for their achievements in the social wellbeing of the society at large. It is not at all mean that the government is ignorant of these entities, but directly or indirectly government has been provided its helping hand for these entities for their social activities. Finally, the Government of India has made a law for the recognition of noble work that has been undertaken by corporate as per the law of the country.

In India process of CSR will take place in the year 2007 as the 11th five-year plan which was called the inclusive growth plan. After this plan, the next step in process of legalization of CSR took in the year 2009 by the Ministry of Corporate Affairs by issuing voluntary guidelines for corporate social responsibility. This was further refined subsequently, as 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 by the parliament of India. The National Voluntary Guidelines (NVGs) on Social, Environmental, and Economic Responsibilities of Business released by the Ministry of Corporate Affairs (MCA) in July 2011, is essentially a set of nine principles that offer Indian businesses an understanding and approach to inculcate responsible business conduct. These nine principles are: i. conduct and govern themselves with ethics, transparency, and accountability.

ii. Provide goods and services that are safe and that contribute to sustainability throughout their life cycle. iii. Promote the well-being of all employees. iv. Respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable, and marginalized. V. respect and promote human rights. vi. Protect and make efforts to restore the environment. vii. When engaged in influencing public and regulatory policy, they should do so in a responsible manner viii. Support inclusive growth and equitable development. ix. Engage with and provide value to their customers and consumers in a responsible manner. These guidelines not being prescriptive, nevertheless seek to guide Indian businesses to take into account Indian social and business realities and the global trends, while promoting their businesses. Principle (viii) of the NVGs on 'inclusive growth and equitable development' focuses on encouraging business action on national development priorities, including community development initiatives and strategic CSR based on the shared value concept. This principle of NVG was subsequently translated into a mandatory provision of Corporate Social Responsibility (CSR) in Section 135 of the Companies Act 2013.

National Corporate Social Responsibility Awards (NCSRA) –

On 29th October 2019 The President of India, Shri Ram Nath Kovind, will present the first National Corporate Social Responsibility Awards (NCSRA) to select companies for their outstanding contribution in the area of Corporate Social Responsibility (CSR).

Ministry of Corporate Affairs, Government of India has instituted National Corporate Social Responsibility (CSR) Awards to recognize companies that have made a positive impact on society through their innovative & sustainable CSR initiatives.

The National CSR Awards seek to:

- Recognize the companies that have positively impacted both business and society by taking a strategic approach to CSR through a collaborative program.
- Recognize the companies that are leading transformation by integrating sustainability in their core business model.
- Recognize companies for implementing measures for conservation and sustainable management of the biodiversity and ecosystem in the value chain.
- Identifying innovative approaches and employing application and technologies that will help to build a robust CSR program to further the cause of inclusive and sustainable development

National CSR Awards seeks to recognize outstanding CSR projects / programmes in the following three categories:

- Four awards for Excellence in CSR, based on CSR spend
- Five awards for CSR projects in Aspirational Districts/ difficult terrains
- Eleven awards for CSR projects in National Priority Areas
- Three awards, one each in the above three categories are reserved for Micro, Small, and Medium Enterprises (MSMEs)

Check your progress.....

1-National CSR award explains.

2- Write a note on corporate philanthropy.

3.7 CSR AND INDIAN CORPORATION

India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to the Companies Act, 2013 in April 2014. Businesses can invest their mandated share of profit in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance.

- **Tata Chemicals Ltd. –**

Although the prescribed CSR for 2018-2019 was 19.86 Crores, the company went on to spend 25.68 crores this year. Improving the quality of life and fostering sustainable and integrated development in the communities where it operates is central to Tata Chemicals' corporate philosophy. Tata Chemicals spends INR 12 crores on CSR annually, and wildlife conservation accounts for 30 percent of the budget of the TCSRDC.

- **Infosys Ltd –**

The company implements social development projects primarily through its CSR trust, the Infosys Foundation established in 1996. The major works of the Foundation included the introduction of Aarohan Social Innovation Awards, restoration of water bodies in Karnataka, supporting the construction of a metro station in partnership with Bangalore Metro Rail Corporation Limited, enabling the pursuit of access and excellence in sports through the Go Sports Foundation, and relief efforts in Tamil Nadu, Karnataka, and Kerala.

- **Bharat Petroleum Corporation Limited (BPCL) –**

It is Government of India-controlled Maharatna oil and Gas Company headquartered in Mumbai. The CSR budget of INR 146.87 crores from the financial year 2017-18 was carried forward next year (FY 2018-19). Under the umbrella of “enabling quality education”, the focus is on imparting holistic education, preferably through the usage of technology apart from catering to adequate infrastructural facilities, access to education, and improvement of education systems.

- **Mahindra & Mahindra Ltd. –**

Mahindra & Mahindra spent INR 93.50 crores on CSR initiatives during the financial year 2018-19, according to the annual report published by the company. The company spent INR 8.36 crore on Project Nanhi Kali which provides educational support to underprivileged girls in India through an after school support programme.

- **ITC Ltd. –**

ITC Limited is an Indian multinational conglomerate company headquartered in Kolkata, West Bengal. The Company has spent more than the prescribed CSR budget in the last three financial years. In FY 2018-19, ITC Limited spent INR 306.95 Crores. The Company partnered with BAIF Development Research Foundation, Pratham Education Foundation, Ramakrishna Mission, Bandhan Konnagar, SEWA Bharat, Foundation for Ecological Security, ITC Sangeet Research Academy (ITC SRA), ITC Rural Development Trust, and CII-ITC Centre of Excellence for Sustainable Development to implement CSR programmes.

- **Ambuja Cement Ltd. –**

Ambuja Cement Foundation (ACF) – the corporate social responsibility arm of Ambuja Cement – has been pivotal in advancing the company’s objective to be a socially responsible corporate citizen. It aims to ‘Energise, Involve and Enable Communities to Realise their Potential’ through its initiatives. These development initiatives address the needs of the people by working with the beneficiaries, NGOs, and the government.

- **Tata Motors Ltd -**

Auto brand Tata Motors Limited went beyond compliance and spent INR 22 crores (standalone) towards various schemes of CSR. The CSR spend amount excludes INR 2.99 crore donated to Tata Community Initiative Trust (TCIT) for the repair of infrastructure which was affected during the flood in Kerala (August 2018), the company said in its Integrated Annual Report for the FY 2018-19. Health, Education Employability, and Environment are the major area of works where most of the CSR amount has been invested.

- **Vedanta Ltd. –**

Vedanta Limited on a consolidated basis spent INR 309 crores on social investments and CSR (Corporate Social Responsibility) activities. The Nandghar Project is among the flagship initiatives, which aims to re-build Anganwadis for ensuring the health and learning of children in rural areas, and also for becoming a platform of women's empowerment and skilling.

- **Hindalco Industries Ltd. –**

Hindalco Industries Limited is the metals flagship company of the Aditya Birla Group. With a consolidated turnover of US\$18.7 billion, Hindalco is the world's largest aluminum rolling company and one of Asia's biggest producers of primary aluminum. Hindalco Industries went beyond compliance and spent INR 34.14 Cr, which is a higher figure than the prescribed INR 29.97 Cr. The Company supports education, healthcare, sustainable livelihood, infrastructure development, and social reformation under Corporate Social Responsibility (CSR) with 12 Lakh beneficiaries in more than 730 villages across 11 states in India. Hindalco has spent the highest amount of INR 10.99 crore on the education sector among all its CSR initiatives.

- **Wipro Ltd. –**

This technology company helmed by philanthropist tycoon Azim Premji has always been dedicated to CSR activities. Wipro has spent more than the prescribed CSR budget in the last three financial years. The implementation of the CSR programmes happens through multiple channels – Wipro Foundation, a separate trust set up in April 2017, Wipro Cares, the trust for employee contribution, and in some cases, directly through functions and groups within Wipro Ltd e.g. Biodiversity projects for their campuses is executed directly by the Operations group of Wipro Ltd. The implementation approach of Wipro is to primarily work through partners with established track records in the respective domains. The majority of the projects are long-term multi-year programmes.

The state is the guardian of its subject. The state has done its work in all spare from rural to urban by number schemes for up-gradation of the last person of the pyramid. To cater to a large population such as India is not a single person task, it is the collective work of society as a whole. In some extent corporate philanthropy or CSR, it has been work parallel with the government agencies for the betterment of the citizen of our country.

3.8 LEGAL PROVISIONS AND SPECIFICATIONS ON CSR

The term 'Corporate Social Responsibility' (CSR) means the responsibility of Corporate Entities towards society. The

origination of CSR happened long back in ancient India which lasted till 1850 and Charity and Philanthropy were the main drivers of that time.

APPLICABILITY:

Section 135(1) of the Companies Act, 2013 is a trigger point for the applicability of CSR Provisions and constitution of CSR Committee. The constitution of the CSR committee is mandatory in company having:

Net Worth of Rs. 500 Crore
Turnover of Rs. 1000 Crore
Net Profit of Rs. 5 Crore
during any financial year.

NET WORTH:

As per Section 2(57), 'NW' = (Paid Up Share Capital + All Reserves Created Out of Profits + Securities Premium Account) – (Accumulated Losses + Deferred Expenditure and Miscellaneous Expenditure not Written Off)

TURNOVER:

As per Section 2(91), 'Turnover' means the aggregate value of the realization of the amount made from the sale, supply, or distribution of goods or on account of services rendered, or both, by the company during a financial year

NET PROFIT:

As per Rule 2(f) of the Companies (CSR Policy) Rules, 2014, 'Net Profit' means the net profit of a company as per its financial statement prepared by the applicable provisions of the Act, but shall not include the following namely:

- i) any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and
- ii) any dividend received from other companies in India, which are covered under and complying; with the provisions of section 135 of the Act;

Provided that net profit in respect of a financial year for which the relevant financial statements were prepared under the provisions of the Companies Act, 1956, (1 of 1956) shall not be required to be re-calculated under the provisions of the Act.

Provided further that in case of a foreign company covered under these rules, net profit means the net profit of such company as per profit and loss account prepared in terms of clause (a) of sub-section (1) of section 381 read with section 198 of the Act.

COMPOSITION OF CSR COMMITTEE:

As per Section 135(1), three or more Directors including at least one Independent Director shall form the CSR Committee. However, the companies which are not required to have Independent Director shall constitute CSR Committee without Independent Director, and the private companies having only two Directors shall constitute CSR Committee only with two such Directors as provided in Rule 5(1) of the Companies (CSR Policy) Rules, 2014.

DISCLOSURE IN BOARD REPORT:

As per Section 135(2) read with Rule 8, the Board's Report prepared under Section 134 shall contain the disclosures of the Composition of CSR Committee as per prescribed Annexure under Companies (CSR Policy) Rules, 2014.

ROLE OF CSR COMMITTEE:

As per Section 135(3), the following are the roles and responsibilities of CSR Committee: Formulate a CSR Policy indicating the activities as per Schedule VII to the Act; Recommend the policy to Board of the Company; Recommend the amount of expenditure on the activities, and Monitor CSR Policy by way of instituting a transparent monitoring mechanism for implementation of CSR projects or programmes or activities undertaken by the company as provided in Rule 5(2).

ROLE OF BOARD OF DIRECTORS:

As per Section 135(4), the following is the role of the Board of Directors Approve the CSR Policy; Disclose the contents of policy on the company's website, if any; Ensure that activities, as included in CSR Policy, have been undertaken.

CSR EXPENDITURE:

As per Section 135(5), at least 2% of the average net profits of the company during three immediately preceding financial years must be spent against CSR as provided in CSR Policy."

FAILURE TO SPEND CSR FUND:

If a company fails to pay the amount allocated for CSR, then such company shall make such disclosure in the Board's Report. Such a company shall also specify the reason for the failure to spend the CSR Fund.

CSR Policy:

As per Rule 4, the following points must be considered while drafting the CSR Policy:

- 1) CSR policy shall specifically provide activities which are to be undertaken by the Company during the financial year;
- 2) CSR Policy shall not include the activities which are in the normal course of the business of the Company;

- 3) CSR policy shall provide for the activities to be executed in India only to be covered under Section 135;
- 4) CSR policy may provide for the activities which are for the benefit of the employees of the company. However, such expenditure on such activity will not consider as CSR expenditure;
- 5) The companies can build the capacities of their personnel as well as those of their implementing agencies through Institutions with established track records of the last three financial years. However, administrative overhead, in any case, shall not exceed 5% of total CSR expenditure in one financial year.

As per Rule 6, the following shall be included in the CSR Policy:

- 1) The list of programmes or projects which finds their place in the purview of Schedule VII;
- 2) The modalities for exaction of CSR projects;
- 3) The schedules for implementation of CSR projects;
- 4) Monitoring process of such projects;
- 5) Specific declaration to the effect that surplus arising out of the CSR projects shall not form part of the business profit of a company.

CSR ACTIVITIES:

As per Rule 4, the following points must be considered while taking decisions on the activities to be undertaken by the Companies:

- 1) CSR activities shall be undertaken as per its formalised CSR Policy;
- 2) Any activity which is undertaken in the normal course of business cannot be termed as CSR activities of the Company;
- 3) Two or more companies can also come together and collaborate to undertake projects or programmes under their CSR Policy in such a manner that the CSR Committees of respective companies are in a position to report separately;
- 4) To term any activity as 'CSR activity', the same shall be undertaken in India only;
- 5) The companies can have CSR activities that will benefit the employees of such companies. However, such activities will not be considered as CSR Activities according to Section 135 of the Act;
- 6) Political contribution shall not be considered as CSR activities.

CSR THROUGH TRUST, SOCIETY, AND SECTION 8 COMPANY:

As per Rule 4(2), Companies can spend their CSR expenditure through registered trust, society, or section 8 companies.

1. The law has granted companies to come together to form a trust, society, or section 8 company for this purpose. Such companies coming together not necessarily required having some relations with each other such as associates, holding-subsidiary relation, etc., and hence, even unrelated companies can come together for this purpose.

2. The Companies can also undertake CSR activities through a company established under section 8 of the Act or a registered trust or a registered society established by the Central Government or State Government or any entity established under an Act of Parliament or a State Legislature. However, if a company does not opt for any of the aforesaid options for undertaking CSR activities and decide to undertake CSR activities through a company established under section 8 of the Act or a registered trust or a registered society other than those specified above then:

1. Such a company or trust or society shall have an established track record of three years in undertaking similar programs or projects;
2. The Companies have specified the projects or programs which shall be undertaken with their funds;
3. Modalities of the utilization of funds; and
4. Monitoring and reporting mechanism.

Schedule VII of the companies Act 2013

Activities which may be included by companies in their

Corporate Social Responsibility Policies Activities relating to:—

- i) eradicating extreme hunger and poverty;
- ii) promotion of education;
- iii) promoting gender equality and empowering women;
- iv) reducing child mortality and improving maternal health;
- v) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria, and other diseases;
- vi) ensuring environmental sustainability;
- vii) employment enhancing vocational skills;
- viii) social business projects;
- ix) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and

funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and

x) such other matters as may be prescribed.

Check your progress...

1. The composition of the CSR committee elaborates.
2. Explain any one of Indian's corporate philanthropic activities.

3.9 A SCORE CARD

Corporate Social Responsibility (CSR) for companies has been mandated through legislation in India. Ministry set up a High-Level Committee on 03.02.2015 under the chairmanship of Shri. Anil Baijal, to recommend suitable methodologies for monitoring compliance with the provisions of Section 135 of the Act. High-Level Committee submitted its report in September 2015 and one of the recommendations of the Committee inter alia was to conduct the review of the programme, after three years as the first couple of years would appropriately be a learning experience for all stakeholders including the companies, implementing agencies, auditors, etc.; and information relating to the implementation of CSR by the companies is expected to be available by the end of the year 2015. Keeping in view the above recommendation, Steering Committee on CSR as well as Legal Sub-Committee and Technical sub-committee has been constituted by the Ministry to revisit & reviewing the existing framework of CSR provisions. The 21st Report of the Parliamentary Standing Committee on Finance is one of the prime movers for bringing the CSR provisions within the statute.

The Ministry of Corporate Affairs constituted a High-Level Committee on 3rd February 2015 to suggest measures for monitoring the progress of implementation of Corporate Social Responsibility (CSR) policies by companies.

The Committee has submitted its report along with its recommendations on 22nd September 2015 (Annexure V). Inter-alia the following are the recommendations of the committee:

The ceiling on administrative overhead cost should be increased from 5% to not more than 10% of the CSR expenditure.

Definition of the term “net profit” used under the Act and Rules need to be clarified. Re-examination of reference to any financial year’ in section 135 (1) of - the Act to make necessary amendment either in Section 135 (1) or in the relevant rule.

The unspent balance out of the CSR fund should be allowed to be carried forward with a sunset clause of five years, after which the unspent balance should be transferred to one of the funds listed in Schedule VII.

An omnibus clause may be included in Schedule VII of the Act to suggest that CSR activities must be for the larger public good and for any activity that Serves a public purpose and /or promotes the wellbeing of the people, with special attention to the needs of underprivileged.

Government issue guidelines for Sensitization workshops have been organized by the offices of Regional Directorate under MCA, IICA, and Institutes to ensure effective compliance of CSR provisions by companies.

Ministry launched the National CSR Data Portal on 19.01.2018 for driving accountability and transparency in corporate India. This portal has been created to achieve a high level of compliance as well as to institutionalize and consolidating CSR activities. It is also expected to facilitate the social audit of CSR projects, besides bringing together CSR contributors, implementers, and beneficiaries thus bridging the information asymmetry presently prevailing on CSR matters.

3.10 FUTURE OF CSR IN INDIA

In India, several business firms have started realizing that it is a rational move to take up CSR activities and integrate them with their business process. Corporations are becoming increasingly aware of their role in society. They are responsible bodies that feel a sense of duty towards the common welfare and the environment. This comes with a growing realization that they, as an integral part of this society themselves, can contribute to its upliftment and empower of the entire country in turn. Thus Companies now are setting up specific departments and teams that develop policies, strategies, and goals which are for their CSR programs and allocate separate budgets to support them. In the modern era, the new generation of corporate leaders considers the optimization of profits as the key, rather than the maximization of profit. Companies conduct events like health camps, population control measures, support a few sick persons, give some scholarships, organize a few SHGs, a few sports events, impart training for some livelihood practices without linking them to further growth in the process of conducting CSR. Some corporate found to work on disability, some on elderly issues, some work on street children. All these

are either time-bound projects of institution-run activities or supports to some NGOs. They also meet the deficiencies of Government-run schemes or programs intending to enhance the quality of the programme. Short-term activities are mostly eye washing efforts by corporate where sustainable development approaches are usually missed. Government authorities and people's representatives are mostly invited in such programs to grace the occasions and their visibility in the public is taken care of in such a way that the corporate get continuous illegal and quick legal favour and ultimately the profit multiplies.

An insight into the history of CSR reveals that till the 1990s it was exclusively dominated by the idea of philanthropy. Considering CSR as an act of philanthropy, businesses often constrained themselves to one-time financial grants and did not commit their resources for such projects. Moreover, businesses never kept the stakeholder in mind while planning for such initiatives, thereby reducing the worth and efficiency of CSR initiatives. However, over the last few years, the concept of CSR has been changing. There has been a clear transition from giving as an obligation or charity to giving as a strategy or responsibility. A review of the case studies and work done on CSR by companies in India suggests that CSR is slowly moving away from charity and dependence and starting to build on empowerment and partnership. Nowadays corporates are treating CSR as a separate entity and dedicate attention to it. Most of the corporates have a vision and mission statements often at the corporate level or sometimes at the CSR level that compel their CSR initiative. Discussions are made to choose specific issues and initiatives. It has been observed that the areas they choose somewhere relate to their core values. Companies today are increasingly sensitive about their social role. The companies not only concentrate on how they will position their product or how they will sell it but also they have a social strategy because they have started feeling that brands are built not only around good quality of the product; but also around emotions and values that people ascribe to those products. Business firms in India are increasing in realizing their stake in society and engaging in various social and environmental activities. CSR holds a very important place in the development scenario of India today and can create an alternative tool for sustainable development. As companies have shown great concerns for their immediate community and the stakeholders, it can be safely concluded that much of the fate of society lies in the hands of the corporate. A successfully implemented CSR strategy calls for aligning these initiatives with business objectives and corporate responsibility across the business principles to make CSR sharper, smarter, and focused on what really matters. The study of various reports of government and other entities provides insights into an area of the growing concern of firms towards society. Firms have been doing a great effort for the achievement of business goals and matching the business goals with social responsibility practices. CSR has

come a long way in India. From responsive activities to sustainable initiatives, corporate have clearly exhibited their ability to make a significant difference in society and improve the overall quality of life. In the current social situation in India, it is difficult for one single entity to bring about change, as the scale is huge. Corporations have the expertise, strategic thinking, manpower, and money to facilitate wide social change. Effective partnerships between corporate, NGOs, and the government will place India's social development towards tremendous growth. As per the changing market demands need of the hour is for the development of a holistic CSR framework that has been imposed by the government. So, we can contribute to making a better planet to live on.

3.11 ROLE OF NGO'S AND INTERNATIONAL AGENCIES IN CSR

A non-profit organization (NGO) is established at local, national, and international levels with goals and objectives for the betterment of society. They run their activities parallel to the government. NGOs reach the area in which sometimes the government finds it difficult to fulfill the needs. Profit is a prerequisite for the survival of any business firm. Business firms earn their profits by using the resources which is available naturally for mankind. It is moral as well as ethical for business firms to give back to society a certain percentage of profit for the betterment of society. In this case, NGOs have been played their role as intermediaries.

International agencies such as the United Nations development organization, UN industrial development organization has been played a key role in the implementation of funds, which are collected by way of CSR and philanthropic activities at the world level. UN organization has segmented the countries on basis of its national income, as least developed, underdeveloped, developing, and developed one. As of now, South African least developed countries get the highest amount of funding for developmental activates.

India possibly is home to the world's largest number of active not-for-profit NGOs. At last count, India had 31 lakh NGO - one NGO for about 400 Indians. With the boom in CSR funding, this number can cross 40 lakh - considering that there are thousands of public and private sector companies worth Rs.15,000 to 18,000 crores annually. This number does not even include India's actual number of NGOs, as many are not formally registered under the Societies Registration Act 1860, or any other Acts pertaining to non-profit organizations.

Following are the steps that NGOs take while dealing with corporate.

Identification of need:

NGO's works at the grass-root level at various geographic locations. They have local contacts, which helps the NGOs to identify the needs. The needs also depend on priorities. NGOs have become active in a wide range of specialized roles as an emergency response, democracy conflict resolution, human rights works, cultural preservation, environmental activities, policy analysis, and research and information provision based on priorities.

Design of Strategy Formulation:

The change in the working pattern of NGOs and the collaboration with corporates, which has encouraged and engaged them in various activities like relational marketing, advertisement, CSR projects for which they need to design a proper strategy. As it is collaboration with corporates, which is a dual process i.e. fundraising & profit-making for NGOs and corporates respectively.

Implementation of Strategy:

Strategy implementation and execution is a very crucial task because it directly affects the collaboration motto of the NGOs and corporates. Depending on the design of strategy implementation is done. But Proper execution will be responsible for the motto of achievements. As the NGOs are helping corporates in marketing, advertisement, and CSR-related projects and related works like audit, assessment, and others.

Assessment and Success Rate of the Program:

As the social alliance with the corporate have become major activities in NGOs. The program like sustainable business models, including small-medium, and social enterprises in the supply chain, and various activities that need to be mapped. So the assessment is done by NGOs on the various parameters and success rate of the project has calculated which is in direct ratio with the profit maximization.

Role of international agencies

ISO 26000: 2010 provides guidance rather than requirements, so it cannot be certified to, unlike some other well-known ISO standards. Instead, it helps clarify what social responsibility is, helps businesses and organizations translate principles into effective actions, and shares best practices relating to social responsibility, globally. It is aimed at all types of organizations regardless of their activity, size, or location.

The standard was launched in 2010 following five years of negotiations between many different stakeholders across the world. Representatives from government, NGOs, industry, consumer groups, and labour organizations around the world were involved in its development, which means it represents an international consensus.

Governance: Governments and intergovernmental bodies, such as the UN, the Organization for Economic Co-operation and Development (OECD), and the International Labour Organization (ILO) have developed various compacts, declarations, guidelines, principles, and other instruments that outline norms for what they consider to be acceptable business conduct. CSR instruments often reflect internationally-agreed goals and laws regarding human rights, the environment, and anti-corruption.

Sustainable Development: In the past, the role of a corporation has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. However, over the past few decades, thanks to globalization and pressing ecological issues, the perception of the role of a corporate has undergone a sea change. Stakeholders today are redefining the role of corporate, taking into account the corporate responsibility beyond economic performance-its role towards society and the environment. Corporate social responsibility is really about building sustainable businesses.

Empowerment of weaker section: international agencies have been actively participating by contributing to the developmental activities. The United Nations Development Programme works in nearly 170 countries and territories, helping to eradicate poverty, reduce inequalities, and build resilience so countries can sustain progress.

Inclusive growth: growth in one region and undergrowth in another region is created developmental issues in the world. For inclusive development, it requires proper allocation of resources. Certain extent issue of unfair practice, lobbying and restrictive trade practice has been assessed and takes legal action by the world trade organization. Therefore it leads to inclusiveness of least developed countries.

CSR rating: CSR report of companies has played an important role at a global level. Due to the free flow of communication, what are companies done in a financial year as part of the society, gains weightage. The rapid industrialization of western countries has created environmental issues, coordination with nations governments by international agencies have assessed data and set a minimum program of action, which will help to protect the environment and society in general. Ultimately it will lead to rate the overall performance of companies.

3.12 INTEGRATING CSR INTO BUSINESS

The growth of CSR programmes has the potential to help both businesses and society if the corporations can make their CSR activities a core part of their business strategy and

company culture. Corporate Social Responsibility (CSR) became mandatory for businesses in India in 2014. The initial scramble to fulfill the letter of the law has given way to an attempt to understand and embrace CSR initiatives to make it a part of the corporation's culture and DNA.

The company Act 2013, has made CSR mandatory for companies, and change in the buying pattern of socially aware consumers, leads to change in the way companies were thought to be. Before CSR takes place as legally mandatory for companies, philanthropy or charity activities are conducted by large firms as per their will. But now to sustain strategically in an ever-growing market, by fulfilling legal mandates such as CSR, companies need to be coordinate with NGOs or philanthropic institutions which match with its organisational goals and objective is necessary.

Following are the initiative which may lead to a proper collaboration of CSR into business firms.

Establish corporate social responsibility values and relevancy - it is important to establish a company's values and relevance towards corporate social responsibility. This can become the basis for any employees or talent who is on-boarded as you grow. They can look at your values and better understand the reasoning behind behaviors that promote corporate social responsibility.

Determine the skills related to social responsibility - If a firm has limited resources to participate in social responsibility programs, focus on those activities that can rely on the firm's time and talent. This includes specific skills that management can put to work within the company, as well as volunteer activities outside of the company.

Identification of potential projects - By networking, researching, and studying available needs and initiatives, a firm may be able to identify potential projects where they can assist. Accordingly, the firm has to allocate resources to each programme. A firm must keep in mind its core value while selecting a project.

Environmental sustainability - By focusing on specific initiatives related directly to the environment, which is one of the pillars of CSR, firms may find that they can save more money in terms of overhead costs. For example, the firm can focus on initiatives directed at lowering the company's impact on the environment through solar-based energy use and smaller office spaces

Implementation of projects - while implementing CSR projects in a selected area, the firm has to conduct a pilot study. Any step that firms take marks the difference in society, community, and

the environment at large. The firm may develop the CSR program parallel to its development. It shows firms do more than just making a profit.

Review of the project - after proper implementation of CSR projects, it requires a timely review of the same. Accordingly, the firm can take corrective steps. Reallocate the resources to need one. Therefore the firm can achieve its desire goals. For example, the reshuffling of the tasks that are assigns to the team.

3.13 SUMMARY

The whole discussion of the topic of CSR shows it is the topmost concern of the business firms. Also, the company act 2013 and CSR rules 2014 made it mandatory for corporations to invest 2% of their net profit as CSR. Business activities of firms have been continuously affected by society, community, and environment at large, positively as well as negatively. In this case, CSR has played the role of intermediaries. the fund contributed by the corporations as CSR ultimately use in the betterment of society at large, that returns to the corporations in the mode of increasing reliance of stakeholders, government, and consumers.

3.14 EXERCISE

Select the most appropriate alternative.

- Q1. CSR is mandatory for Indian companies to form which year..... (2013, 2014, 2012, 2015)
- Q2. What percentage of net profit of companies is required to be used as CSR..... (2%, 1.5%, 3%, 2.5%)
- Q3. Who is regarded as the father of CSR....
(Bowen, Friedman, Ackerman, Carroll)
- Q5. Companies Act 2013 schedulementioned about CSR activities. (VII, VI, V, VIII)
- Q6. The company matches donations made by employees to eligible nonprofit organizations are called.....
(Employee matching gift, employee reimbursement scheme, employee guarantee scheme)
- Q7. (CSR) can be defined as a Company's sense of responsibility towards the_____ and_____ in which it operates. (community, environment, world, state)
- Q8. It is proven that employees enjoy working more for a firm that has a good_____ (public image, local image, self-image, national image)

- Q9. After the proper implementation of CSR projects, it requires a timely_____ of the same
(Review, alteration, modification, delegation)
- Q10. The ISO 26000 standard was launched in the year_____
(2010, 2011, 2012, 2013)

Answer the following questions.

- Q1. Write a note on corporate philanthropy.
- Q2. Elaborate schedule VII.
- Q3. Comment on the future of CSR from an Indian perspective.
- Q4. How the integration of CSR into business took place?
- Q6. Discuss the drivers of CSR.
- Q7. Explain the Corral model of CSR
- Q8. What is the relevance of CSR in today's competitive business world?
- Q9. Comment on the scope of CSR
- Q10. Elaborate CSR and Government



Unit -4

AREAS OF CSR AND CSR POLICY

Unit Structure :

- 4.0 Objectives
- 4.1 Introduction
- 4.2 CSR and Environmental Concerns
- 4.3 Factors Influencing CSR Policy
- 4.4 Role of HR Professionals in CSR
- 4.5 Global Recognitions of CSR- ISO 14000
- 4.6 Summary
- 4.7 Exercise

4.0 OBJECTIVES

After studying this chapter the student will be able to:

- Understand CSR Policies
- Explain Environmental Concerns.
- Explain CSR Codes
- Understand the significance of CSR & sustainable Development.
- Understand the meaning and Significance of Regulatory Framework in India.

4.1 INTRODUCTION

A company can be admired or perceived as socially responsible when it fulfills its obligations towards the stakeholders. Stakeholders are the individuals or groups to whom a business has obligations. The stakeholders of a business are its employees, its customers, the general public, and its investors, society and government etc.

4.2 CSR AND ENVIRONMENTAL CONCERNS

Nowadays, there is growing concern towards environmental sustainability. Professional business firms follow strict environmental policies to ensure that they remain in full compliance with international environmental regulations and the specific

environmental requirements of each country where they do business. Business firms actively work to protect natural resources by doing the following

1. Conservation of Natural Resources: Professional business firms adopt environmental policy of conserving, reusing, and recycling natural resources. When it is feasible, firms conserve natural resources by using recycled materials and supplies, efficiently using energy, and participating in recycling programmes for their products after they have served their useful life. Companies encourage and support the sustainable use of renewable natural resources.

2 Reducing and Disposing of Waste: Companies reduce and wherever possible eliminate waste through source reduction and recycling at company facilities. All waste is safely and responsibly handled and disposed of. Some firms adopt Zero Waste - No Waste Policy. Therefore, such firms develop attitude and consciousness towards Zero Waste Policy through training

3. Developing Safe and Sustainable Products: Companies develop, produce, and market products that are safe for their intended use. Environmental policies and practices aim to protect, conserve, and sustain the world's natural resources and also protect the companies' customers and the communities where they live and operate.

4. Environmental Principles and Business Relationships: Companies strive to incorporate environmental principles into business relationships. Professional firms seek similar commitment to the environment from their major supplier. They participate in industry groups to set industry standards on environmental practices. They also strive to keep the customers informed about their efforts, and they welcome customers' feedback.

5. Improvement in Performance: Companies set objectives and targets to ensure continuous improvement in their environmental performance. Companies value employee contributions towards the firm's environmental initiatives. Companies regularly review the business activity and assess the environmental programmes, practices, and goals to evaluate progress and to identify areas in which they can make further improvement.

6. Communicating Environmental Progress to Stakeholders: Firms demonstrate their environmental responsibility to their stakeholders. They engage the stakeholders about their objectives and targets. They periodically communicate their environmental activities and progress thereof, to employees, shareholders, customers, and members of the public.

7. Environmental Audit Business firms need to conduct environmental audit. Environmental audit is an independent third party assessment of the current status of an organization's compliance with local environmental laws and regulations. Environment audit checks into the environmental performance of an existing operation or an activity. The main purpose of an environmental audit is the systematic scrutiny of environmental performance throughout a company's existing operations.

8. Pollution Control: Environment is deteriorating day by day due to industrial pollution, toxic chemicals, automobile emission and natural resource depletion. Pollution in its various forms - air pollution, water pollution, soil pollution, noise pollution, etc., is increasing tremendously. Therefore, professional minded business firms in India take necessary measures to reduce air, water, soil, and noise pollution.

9. Environmental Reporting: Business firms must report on the environment sustainability with respect to their operations. Environmental reporting is a public disclosure by a firm of its environmental performance information, similar to the publication of its financial performance information. However, environment sustainability reporting is not a mandatory requirement in India. Except for some high performing, visible companies, a lot of organisations in India haven't started using the GRI sustainability reporting framework effectively.

10. Environmental Education and Training: Environmental education is the best programme to deal with the environmental problems. It is most fundamental in our efforts to combat and control pollution, over-population and misuse of natural resources. Environmental education includes the following objectives:

- (i) Creating awareness of the environmental problems.
- (ii) Providing knowledge to deal with the problems.

DESIGNING CSR POLICY

The success of the CSR policy to achieve its objectives depends upon design and the steps that are followed to implement it. Companies need to design and implement systematically CSR policy.

Corporate Social Responsibility Committee shall,

- i) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
- (b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and (9 Monitor the Corporate

Social Responsibility Policy of the company from time to time. Identify the Focus Areas: Schedule VII of CA 2013 lists out about 38 activities grouped under eleven categories to be included in CSR policy of a company. Some of the activities are:

- 1) Eradicating extreme hunger and poverty
- 2) Promotion of education:
- 3) Reducing child mortality
- 4) Combating human immunodeficiency virus,
- 5) Ensuring environmental sustainability
- 6) Employment enhancing vocational skills

It is to be noted that a company cannot undertake all the activities listed under Schedule VII of the CA 2013. Therefore a company must focus on two or three such activities for the purpose of CSR

3. Determine Costs: The Company must determine the costs of implementing the selected CSR activities. If the costs are beyond the budget of the company, the company may reduce the number of activities which the company wants to focus.

4. Alliance with Foundation/NGO: A corporate firm that intends to implement CSR policy may set up its Foundation or Trust to look after CSR activities. Some firms may tie up with an NGO to undertake CSR activities on behalf of the company. An advantage for an alliance is that the company's employees can focus on core business activities of the firm, and the NGO or Trustee will look after the CSR activities.

5. Involve the Employees: Organisations that are successful in implementing CSR involve their employees. They encourage employees to use their skills to help the cause. For instance marketing staff may be encouraged to help the NGO with promotional efforts. Also, the company's IT staff can help the NGO relating to IT facilities.

6 Draft the Policy: The Company must draft a suitable CSR policy. The policy provides guidelines to implement the CSR policy. The policy must indicate:

- (a) The type of CSR project.
- (b) The amount of funds to be spent for the CSR project.
- (c) The start date and the completion date of the CSR project

- (d) The key personnel to implement the CSR project.
- (e) The outcome expected of the CSR project, etc.

7. Approval of the Policy: After taking into account the recommendations made by the Corporate Social Responsibility Committee, the Board of Directors will approve the Corporate social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company

8. Communicate with Stakeholders: A company implements the CSR policy to benefit the projects recipients, and the organisation as a whole. Information about the corporate efforts must be communicated to all the stakeholders - shareholders, customers, employees, business partners and the community. A company may promote its CSR activities through news releases, social media sites, networking events and public relations opportunities. Such communication may help to improve the corporate image of the firm in the minds of various stakeholders.

9, Implementation of the Policy: After effective communication to all stakeholders, the CSR policy will be implemented depending upon the modalities. Generally, in India large business firms set up their own foundation/trust to undertake CSR activities. Some of the employees of the company may list the foundation/trust to implement the various CSR activities.

4.3 FACTORS INFLUENCING CSR POLICY

The formulation and implementation of CSR are influenced by a number of factors. Some of the factors are internal to the organisation such as management philosophy and commitment of the employee whereas, other factors such as Companies Act, 2013, globalisation, are external factors inter-government bodies, etc. The various factors influencing CSR Policy are as follows

1. Management Philosophy: The management philosophy is the major factor influencing the formulation and implementation of CSR policy of a business organisation. The management of professional and progressive business firms places lot of emphasis on corporate society responsibility. They allocate part of the profits, whether mandatory or not, towards CSR activities such as eradication of poverty, community development, social development activities, etc.

2. Competitive Advantage: Nowadays, business firms are concerned with their brand image and corporate image to gain competitive advantage. One of the ways to enhance brand image and corporate image is to influence positively the minds of various stakeholders towards the organisation. Therefore, professional business firms undertake CSR activities to create a positive influence on the minds of stakeholders

3. Commitment and Dedication of Employees: For successful formulation and implementation of CSR policy, there is a need for commitment and dedication on part of the employees. A company may implement the CSR policy either by itself or by setting up a trust/foundation or by entering into an alliance with an NGO. Irrespective of the modalities of implementing

4. Globalisation: On account of globalisation, the MNCs and their u global subsidiaries are expanding their business worldwide. Therefore, the international agencies are raising concern relating to human rights, labour practices, corruption, environmental protection, ethical values and standards in H business dealings, etc. Such concerns have prompted business in firms to focus on CSR initiatives

5. Consumers and Investors: Nowadays, consumers and investors are showing increasing interest in supporting responsible business practices. Therefore, the consumer and investor groups 1 are demanding more information on how the companies are addressing risks and opportunities related to social and environmental issues.

6. General Public: The members of the society in several countries, especially, in the developed countries are concerned about environmental issues not only the current generations but also for the future generations. The public interest groups are demanding that the corporations should meet standards of social and environmental care, regardless of their area of operations - whether in developed countries or in developing countries.

7. Communications Technology: Advances in communications technology such as internet, cellular phones and other technology based instruments, are making it easier to monitor CSR activities of companies and disseminate information about them. Non-governmental organisations now regularly draw attention through their websites about certain business practices which they consider unethical

4.4 ROLE OF HR PROFESSIONALS IN CSR

CSR is the balanced integration of social and environmental consideration into business decisions and operations. Many organizations have invested heavily in CSR programmes in a bid to restore trust among their shareholders, employees and customers and improve their corporate brand,

Human resource professionals have a key role to play to help a company achieve its CSR objectives. Employee involvement is a critical success factor for CSR performance HR professionals should play a key role in ensuring that employees implement the strategy consistently across the organization. Sustainable human resource management (HRM) can be defined as using the tools of HR to create a workforce that has the trust, values, skills and motivation to achieve a profitable triple bottom line.

The role of HR professionals in CSR is briefly explained as follows:

1. CSR Policy Formulation: The HR professionals must be involved in designing the CSR policy. HR professionals must assist the company in drafting effective CSR policy. The policy provides guidelines to implement the CSR policy. The policy must indicate:

- The type of CSR project.
- The amount of funds to be spent for the CSR project.
- The start date and the completion date of the CSR project.
- The key personnel to implement the CSR project.

The outcomes expected of the CSR project, etc.

2 Communications on CSR: A company implements the CSR policy to benefit the beneficiaries of CSR projects, and the organisation as a whole. Information about the corporate efforts must be communicated to all the stakeholders - shareholders, customers, employees, business partners and the community. HR professionals must assist the company to promote its CSR activities through news releases, social media sites, networking events and public relations opportunities. Such communication may help to improve the corporate image of the firm in the minds of various stakeholders.

3. CSR Policy Implementation: The HR professionals must be involved not only in formulation of CSR policy /strategy, but they must take active part in its implementation as well. After effective communication to all stakeholders, the CSR policy will be implemented depending upon the modalities. Generally, in India large business firms set up their own foundation/trust to undertake

CSR activities. Some of the employees of the company may assist the foundation/trust to implement the various CSR activities.

4. Training of Employees: The HR manager must play an active role in training the employees relating to CSR activities. There is a need to impart knowledge, to develop attitude, to improve skills and social behaviour through training. Training must be effective so that the employees work with application and dedication to achieve the objectives of CSR projects.

5. Recognizing and Rewarding: HR manager needs to play an important role in recognizing and rewarding the employees for their efforts to make the CSR strategy a big success story. The HR manager must identify the right employees to recognize and motivate them. The HR manager must not take his own decision to reward.

6. HR support to Alliance Partners: HR manager may provide necessary support to the alliance partners in implementing the CSR project, if the CSR project is assigned to them. The HR manager may provide the expertise in selection and training and reward the right employees.

4.5 GLOBAL RECOGNITIONS OF CSR- ISO 14000

The purpose of, The International Organization for Standardization (ISO) is to date international trade and cooperation in commercial, intellectual, scientific economic endeavors by developing international standards. ISO originally was used on industrial and mechanical engineering standards. Now, it has ventured setting standards for an organization's processes, policies, and CSR practices. Technical Committee 207 is responsible for the ISO 14000 series of standards.

Features

1. ISO family: The ISO 14000 is one of the ISO families which are a protocol that has been introduced for implementing various environmental management programmes such as life cycle assessments and approaches to eco-labeling

2. Related to Environment: The ISO 14000 family of standards helps to provide practical tools for companies and organizations of all kinds who are willing to fulfill their environmental responsibilities.

3. Management of Environment: The actual environmental standards of ISO 14000 deal with how a company manages the environment inside its facilities and the immediate outside environment

4. Analysis of PLC: The standards also call for analysis of the entire life cycle of a product, from raw material to eventual disposal. These standards do not mandate a particular level of pollution or performance, but focus on awareness of the processes and procedures that can affect the environment.

5. No release from local rules : It should be noted that adherence to the ISO 14000 standards does not in any way release a company from any national or local regulations regarding specific performance issues regarding the environment.

6. ISO series

Some of the standards in the ISO 14000 series are:

- ISO 14001 - Specification of Environmental Management Systems.
- ISO 14004 - Guideline Standard.
- ISO 14010 through ISO 14015 - Environmental Auditing and Related Activities
- ISO 14020 through ISO 14024 - Environmental Labeling.
- ISO 14031 through ISO 14032 Environmental Performance Evaluation
- ISO 14040 through ISO 14043 - Life Cycle Assessment.
- ISO 14050 - Terms and Definitions.

7. Advantages

If ISO 14000 is similarly successful, the companies who are already ISO 4000 certified will have an advantage in global markets. Also, producers of consumer goods may find that many consumers not only try to purchase goods from environment-friendly companies, but will spend a little more if they feel they are helping the environment. In order to reap this benefit, a company must make their environmental efforts known through advertising and labeling

8. ISO 14001: 2015

ISO 14001:2015 and its supporting standards such as ISO 14006:2011 focus on environmental systems to achieve this purpose. The other standards in the ISO 14000 family focus on specific approaches such as audits communications, labelling and life cycle analysis as well as certain environmental challenges such as climate change.

SA8000

SA 8000 is an auditable certification standard was developed in 1997 by Social Accountability International (SAI) formerly the Council on Economic Priorities that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace. It is one of the world's first auditable social certification standards for decent workplaces, across all industrial sectors.

Features

1. Based

It is based on the UN Declaration of Human Rights, conventions of the ILO UN and national law, and spans industry and corporate codes to create a common language to measure social performance.

2. Auditing procedure

It provides certain auditing procedures rather than frameworks for a report. It has been included in the frameworks section because as an auditing procedure, it helps to serve the function of disclosure.

3. Code of conduct

It enables manufacturing businesses to monitor whether the goals of its code of conduct are being met or not. It could also be used for managing a supply chain's compliance with a code of conduct. However, it is neither a set of frameworks for a CSR report nor a code of conduct.

4. Principles

The SA 8000 has incorporated many of the principles of the International Labour Organization (ILO) as standards for auditors to verify. The SA 8000 is one of the world's first auditable social certification standards for decent workplace across all industrial sectors.

5. Management systems approach

SA 8000 takes a management systems approach by setting out the structure and procedures that organizations must adopt in order to ensure that compliance with the standard is continuously reviewed. Those organizations seeking to con with SA8000 have adopted policies and procedures that help to protect the human rights of workers.

AA1000

AA1000 is the first organisation that has emerged to help businesses emerge in CSR policies.

Features

1. AA1000 Training, Certification, and Licensing

Accountability helps individuals and organisations develop the knowledge and skills needed to understand and implement the Accountability principles as well as effective stakeholder engagement, and sustainability reporting and assurance through practitioner certification. (Certified Sustainability Assurance practitioner - CSAP) and training provider certification

2. Governance

The AA1000 Series of Standards have an independent governance structure designed to provide broad stakeholder representation from the public and private sectors, civil society and the standards community.

3. Stakeholder interaction

AA1000 has facilitated stakeholder interaction in which the design policies and indicators for a report are decided upon as part of an interactive process.

4. Principles

AA1000 series are principles that are based on certain standards so as to help organisations become more accountable, responsible and sustainable. They address issues affecting areas like governance, business models and organizational strategy as well as provide operational guidance on sustainability assurance and stakeholder engagement.

5. Integration

The AA1000 standard has been designed for the integrated thinking that is required by the low carbon and green economy, and also to support integrated reporting and assurance. These standards are developed through a multi stakeholder consultation process which helps to ensure that they are written for those they impact and not just those who may gain from them.

6. Used by all

These standards are used by a broad spectrum of organisations such as multinational businesses, small and medium enterprises, governments as well as civil societies

UNDP: (UNITED NATIONS DEVELOPMENT PROGRAMME)

The United Nations Development Programme (UNDP) is the United Nations i development network, established by 1965 and headquartered in New York UNDP advocates for change and connects countries to knowledge, experience and resources to help people build a better life.

1. Message of UNDP

UNDP is committed to minimizing the environmental impact of its operations and to achieving overall climate neutrality. By demonstrating that we run our operations in a resource efficient, sustainable, and, accountable way, UNDP strengthens its global position as a strong and reliable partner."

2. Mission

UNDP works in more than 170 countries and territories, helping to achieve the eradication of poverty, and the reduction of inequalities and exclusion. We help countries to develop policies, leadership skills, partnering abilities, institutional capabilities and build resilience in order to sustain development results

3. Help by UNDP

It provides expert advice, training, and grants support to developing countries with increasing emphasis on assistance to the least developed countries. The strategic plan focuses on key areas including poverty alleviation, democratic governance and peace building, climate change and disaster risk, and economic inequality.

4. "Walk the talk" aspect

As a leading agency in the fight against climate change, UNDP is committed to "walk the talk by demonstrating that the operations run in a resources-efficient sustainable and accountable way

5. Emphasizing on natural resources

UNDP is working towards minimizing the environmental impact associated with the operations, from green building renovations and use of photovoltaic power to generate electricity to staff training and bicycling programs. They are providing importance to fossil fuels and natural resources.

6. Climate Neutrality and Sustainability Plan

Recently UNDP adopted a 'Climate Neutrality and Sustainability Plan for Global UNDP Operations committing UNDP to reduce Greenhouse Gas emissions by 10% over 5 years and achieving climate neutrality for global operations effective 2014

7. The Sustainable Development Goals (SDGS)

It is also known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity UNDP provides support to governments to integrate the SDGs into their national development plans and policies,

8. 17 Goals

These 17 Goals build on the successes of the Millennium Development Goals. While including new areas such as climate change, economic inequality, innovation, sustainable consumption, peace and justice, among other priorities.

MAJOR CODES ON CSR

1. UN Guiding Principles on Business and Human Rights

These principles provide the guidelines to governments and business enterprise to fulfill their obligations towards human rights, fundamental freedom and the existing laws. These principles act as global standards for addressing human rights violation related to business activity. These principles focus on the protection of human rights by both the state and the business enterprise.

2. OECD CSR Policy Tools

Organization for Economic Co-operation and Development (OECD) guidelines contains recommendations on core labor, environmental standards, human rights, competition, taxation, science and technology combating corruption and safe guarding, consumer rights. The OECD CSR Policy tool helps the companies to assess and evaluate their CSR projects. It guides the companies to determine other CSR activities that can be undertaken. The policy tool provides guideless regarding action plan, tasks, responsibilities, monitoring, communication strategy based on the OECD guidelines and the ISO 26000 implementation guidelines.

3. UN Millennium Development Goals

The largest gathering of world leaders adopted the UN Millennium Declaration the Millennium Summit in September 2000. These have become known as the Millennium Development Goals (MDG's). The MDG's set time bound targets, by which progress in reducing poverty, hunger, disease, lack of adequate shelter and exclusion-while promoting gender equality, health, education and environmental Sustainability -can be measured.

4. Equator Principle

Equator principle is a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally. They were developed by private sector banks- led by Citigroup. ABN AMRO, Barclays and West LB and were launched in June 2003.

5. Role of International Labor Organization (ILO)

ILO seeks the promotion of social justice and internationally recognized human and labor rights. It formulates international labor standards in the form of conventions and recommendations setting minimum standards of basic labor rights.

6. GAAP

Financial accountants follow Generally Accepted Accounting Principles (GAAP) in order to ensure that reports reflect the condition and performance of the organization and its activities. There are seven factors that contribute to the usefulness of information identified by GAAP are relevance, timeliness, reliability, verifiability, neutrality, comparability and consistency.

CSR AND SUSTAINABLE DEVELOPMENT

1. History

Brundtland Commission defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." The Section 135 of the Companies Act gives legal backing to Corporate Social Responsibility as a welcomed step towards holistic development of the nation.

2. Relation

Corporate Social Responsibility plays a vital role in attaining sustainable development. Organizations have a social and moral responsibility towards protecting the environment. Nowadays, many organizations are focusing on environmental issues for their CSR activities.

3. Examples

Organizations like Sony, Panasonic and orchard hotels are now focusing on issues that are related to the environment such as toxic gases, waste production and water contamination, etc.

4. CSR for Stakeholders

In India there is lot of opportunities for sustainable development as poor development in many areas, hence acquiring CSR for variety of stakeholders.

5. Need of CSR and SD

The results of this extensive analysis showed progressive damage and degradation of the country's natural resources including forests, biodiversity, water resources, clean air and healthy soils. On the basis of the economic estimation of this damage, it was concluded that India was losing over 10% of its GDP annually in the form of depletion of natural resources. Such a trend at some stage will start imposing major costs on business and industry, and therefore there is a clear conformity of interest between shareholders in business enterprises and stakeholders in society.

6. Advantages: It includes: In India, according to section 135 of Companies Act 2013 has been enacted to give effect to various commitments with respect to corporate social responsibility.

- CSR has encouraged private participation in the development of society.
- Fulfilling CSR obligations helps both the company as well as society. It helps the company on one hand to build its brand image and the society on the other hand is also benefited by CSR activities thereby promoting holistic development
- The Section 135 of The Indian Companies Act 2013 encourages voluntary compliance on the part of the organizations and no sanction has been imposed for not spending the amount.

7. Disadvantages: It includes:

- There is no sanction for not spending CSR amount and the punishment is imposed only for not reporting the CSR expenditure
- The object clause of CSR has not been defined properly.
- Maximum limit of CSR expenditure is not mentioned in Section 135 of the Indian Companies Act.

CSR expenditure is not a deductible expenditure under The Income Tax Act

CSR THROUGH TRIPLE BOTTOM LINE IN BUSINESS

Triple bottom line is a phrase introduced in 1994 by John Elkington and later used in his 1997 book "Cannibals With Forks: The Triple Bottom Line Of Century Business," which seeks to broaden the focus on the financial bottom line by businesses to include social and environmental responsibilities. A triple bottom line measures a company's degree of social responsibility, its economic value and its environmental impact. A key challenge with the triple bottom line, according to Elkington, is the difficulty of measuring the social and environmental bottom lines which necessitates the three separate accounts being evaluated on their own merits. The Triple Bottom Line is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. The financial performance of a business is one aspect of its triple bottom line and therefore CSR reports share the principles for financial accounting. In addition, CSR reports are issued in a voluntary regime and therefore, it enables the reporting entity to follow the additional principles of transparency, clarity and completeness put forth by the GRI. Therefore, the basic principles followed by organizations for triple bottom line in business are:

1. Consistency

Two characteristics that contribute to consistency in a voluntary regime are prevalence of use and the probability that a framework will become prevalent in the future. A study done by KPMG revealed that GRI is the most prevalent framework in use. Out of 1,600 companies that were surveyed use the GRI whereas less than 1% uses the AA1000.

2. Comparability

A framework that covers social, environmental and economic performance as well as allows the business to expand its reporting in a predictable way will also contribute to comparability over time. The GRI covers the economic, social and environmental performance and thereby provides for categories and indicators. It also includes a protocol for topics that are not covered, thereby allowing a reader to predict where to find such information in the future.

3. Relevance

The relevance of a report depends on the users or stakeholders. The AA 1000 has been built on incorporating stakeholders into an iterative process of setting goals, performance and gathering data. AA8000 and the SA8000 aim at social performance and the report readers looking for environmental performance information may not find a report relevant. CERES and the ISO 14000 family includes procedures for stakeholder interactions and focuses on environmental performance.

4. Reliability

A report is said to be reliable when it is accurate. The use of indicate particularly quantitative indicators can help to increase the accuracy of a rep. The GRI's G3 and G4 provide indicators that are both qualitative as well quantitative. Auditing is one of the indicators but however, it is not a part of process for accreditation. The ISO 14000 family provides only a method identifying the indicators but does not provide indicators. The SA8000 and AA10 on the other hand use qualitative indicators.

5. Verifiability

A report is verified once it is audited. The SA8000 and AA1000 include certain auditing procedures for accreditation. The GRI includes auditing as one of indicators. However, GRI leaves it to the business to decide whether to internal audit, hire neutral third parties or rely on stakeholder interaction in lieu of auditing process. The ISO 14000 also includes auditing as part of its process but does not provide the manner in which performance or a report should be audited.

6. Timeliness

It is a framework that specifies the frequency of CSR reporting and also sets the terms for the information reported. The GRI is the only framework that specifies reporting based on goal performance that should be included with data from past performance.

7. Neutrality

A report is said to be neutral when it is issued with the purpose to inform and not to influence decisions of report readers. The AA1000, SA8000 and ISO 1400 focus on certain aspects of CSR. A report formed under these tools may have limited scope. The GRI covers the widest range of activities and also responds to the widest range of interests of all the frameworks.

8. Transparent

A report is transparent when there is complete disclosure of information. The AA1000 has incorporated a depth of stakeholder interaction wherein the stakeholders are active in goal making decisions, measuring performance and report formation. This enables to ensure transparency. The SA1000 and AA1000 can include a third party auditing process which also helps to ensure transparency. The GRI provides for greater detail in its reports in all the areas of the triple bottom line which also increases transparency.

4.6 SUMMARY

Stakeholders' contribution gets the organization into working. Catering to each group of stakeholders is of utmost importance. Organization frames Corporate Social Responsibility Policies towards stakeholders like Customers, employees, government, environment and society at large. The module discusses not only the CSR policies but also the International Standards Organization Certification in the same direction. The unit also throws light on major codes on CSR given by bodies like UNDP, UN, OECD, ILO, GAAP etc. are other global bodies which emphasize on sustainable development.

4.7 EXERCISE

1. Explain the CSR towards various Stakeholders.
2. Explain the CSR towards Government.
3. Describe the designing about CSR Policy.
4. What are the factors influencing CSR Policy? Explain.

5. Explain the Role of HR Professionals in CSR.
6. Discuss the Global Recognitions of CSR.
7. What is ISO- 14000? Explain its functions.
8. What is SA 8000? Discuss its role in the CSR.
9. What is AA 1000? Explain its work in the CSR.
10. Write a note on UNDP.
11. Elucidate the Global Reporting Initiative.
12. Explain the various major codes on CSR.
13. Write a note on CSR and Sustainable Development.
14. Explain the CSR through Triple Bottom Line in Business

