Issues for Parliamentarians

To facilitate informed discussions among Indian Parliamentarians on key economic policy issues

CUTS International

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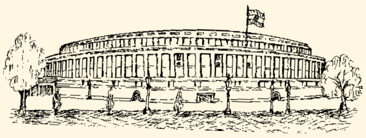
Good Economics is Good Politics



Parliamentarians' Forum on Economic Policy Issues (PAR-FORE)

From Charity to Better Business Behaviour in India

Is the current understanding of CSR in India relevant and adequate? What are the different delivery systems for CSR programmes in India? What are the differences between CSR and Business Responsibility/Responsible Business Conduct? How can a supporting policy environment for its operation be developed in the country?

These are some questions that need to be addressed in order to take discussions on the subject forward, and enhance clarity among key stakeholders. This Issue Note attempts to address some of these questions to help policymakers and key opinion leaders to have an informed discussion on the subject.

BACKGROUND

This is an appropriate time for discussions on businesses' contribution towards society, not only within our country but also globally. The financial crisis and a string of recurring corporate misdemeanours worldwide have badly damaged peoples' confidence and the level of trust in business. Regulatory frameworks are being sharpened and stakeholder pressure is gradually building up. This should compel businesses to adapt, evolve and deliver greater benefits to society. In India, the emergence of a dynamic and expanding private sector makes it an imperative to review business's role in society, not only for the present but also for the future. The subject of Corporate Social Responsibility (CSR) has been misunderstood for a long time in the country, and many businesses believe (quite erroneously) that merely by using their 'purse power' they can undo the damage done, when businesses are run ignoring their adverse impacts on society.

It is high time now that India Inc. introspects on how it can contribute better towards meeting its role in the present Indian society in a sustainable and inclusive manner. The government and policymakers need to play a key role in this process, especially to create the right enabling environment to inspire business to deliver lasting societal benefits.

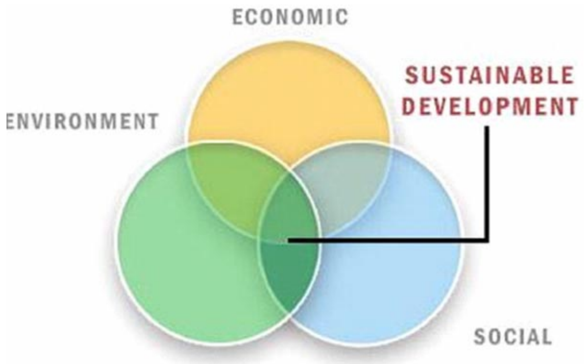
Businesses' contribution towards society has generally been looked at under the purview of CSR in India. The subject has a long and evolving history in the country. However, the present external environment, growing stakeholder awareness and improved access to information has prompted a re-look into the concept of CSR and its tenets.

CORPORATE SOCIAL RESPONSIBILITY – DEFINITION AND CONCEPT

CSR has been defined in a number of ways by leading global institutions. One of the most comprehensive definitions was coined in 1998 by the World Business Council for Sustainable Development (WBCSD) – an alliance of 200 leading global businesses committed to promoting the role of business on sustainable development issues. According to this definition, "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

In 2011, the EU adopted a much simpler yet more comprehensive definition of CSR as, "the responsibility of enterprises for their impacts on society". This replaced its earlier (2001) definition of CSR: "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". The new definition marks a significant progress towards encompassing all dimensions of sustainable development into CSR policies and practices, as compared to the earlier one – with an emphasis on impacts. A noteworthy difference is the addition of 'economic' elements. It thereby touches on all three elements (social, environmental and economic) of sustainable development now.

Figure 1: Sustainable Development



The *OECD Guidelines for Multinational Enterprises* (2001) has remained the most comprehensive instrument in existence today on business responsibility, multilaterally agreed by governments. Adhering governments (44 countries, mostly developed and a few developing countries), representing various regions of the world are committed to encouraging enterprises operating in their territory to observe a set of widely recognised principles and standards for responsible business conduct wherever they operate. These are voluntary in nature and policing is done through National Contact Points in the member states, which receive complaints against enterprises. It does not have any enforcement powers but uses the 'naming and shaming' tool to improve business behaviour.

Over the years, a number of international initiatives, guidelines, approaches, etc. have tried to define businesses' expected interaction with society, using different tools and metrics. They have also influenced (national and international) policy processes and practices (by government, business and civil society) related to the topic. As is evident from the timeline presented in Table 1 (pg 3), new approaches/guidelines have been introduced quite frequently since 1997. This clearly illustrates how the debate on this issue has evolved and gained momentum over the last decade or so.

BUSINESS'S CONTRIBUTION TO SOCIETY IN INDIA

Throughout the world, the subject of businesses' contribution towards society has expanded from being of pure altruism (philanthropy) to including corporate responsibility, and further integrating responsible business conduct into its purview. There are distinct differences between each of these concepts as their exponents would suggest.

The subject of business responsibility has a long evolutionary history in India. The evidence is witnessed in the words of great thinkers and visionary leaders of the country right from Kautilya in the 4th Century B.C. (as recorded in the *Arthashastra*[1]) to Jamshetji N Tata[2] in modern India. The urge to promote business responsibilities has been central to the Indian tradition of business development.

What is now popularly referred to as CSR is inspired by Mahatma Gandhi's concept of *trusteeship*. Gandhiji felt that capitalists should consider themselves as *trustees* of the assets vested with them, and conduct themselves in a socially responsible manner. This demanded that they manage the assets in the best possible way, take a part of the profit to sustain themselves and dedicate the remaining profit for upliftment of society. Here 'asset' has a broader connotation: it can also include knowledge or skill[3].

Among the modern business leaders who have commented and contributed to the subject immensely, N R Narayana Murthy's name deserves special mention. He considers that, "CSR is really about ensuring that companies can grow on a sustainable basis, while ensuring fairness to all stakeholders". Perhaps this is one of the most appropriate ways for businesses to look at the subject in present times.

CSR TYPOLOGY

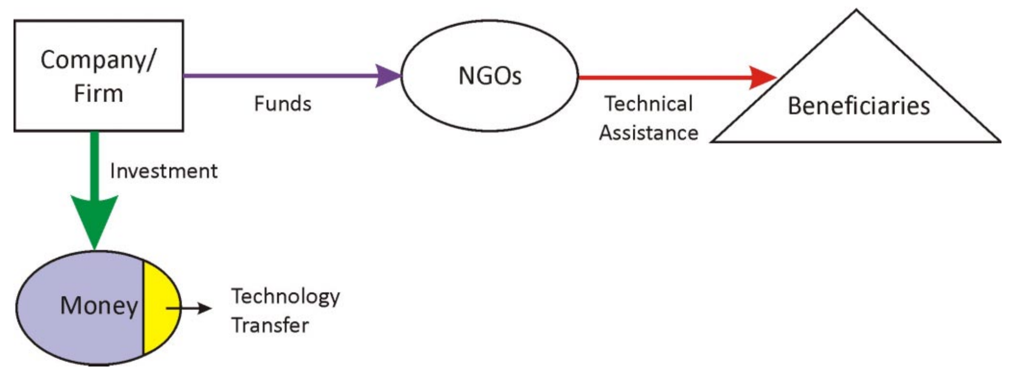
There are clear differences between philanthropy, CSR and business responsibility: the three most common delivery systems used by business to meet its societal expectations. However, often during discussions on the subject, such distinctions are ignored and these terms used inter-changeably. This note segregates businesses' efforts towards meeting societal expectations into the three different approaches as presented in page 4.

Table1: Chronology of international Guidelines & Tools for computing, documenting and reporting Business's contribution to society	
Guidelines	**Brief Description**
SA 8000 (1997)	Released in October 1997, the Social Accountability 8000 (SA 8000) Standard is the first global ethical standard. SA 8000 has been developed based on the conventions of the International Labour Organisation, the Universal Declaration of Human Rights, as well as the United Nations Convention on the Rights of a Child. It is applicable to all companies regardless of scale, industry and location. Its objective is to ensure ethical sourcing and production of goods and services.
GRI Sustainability Reporting (1998)	A sustainability report enables companies and organisations to report sustainability information in a way that is similar to financial reporting. Global Reporting Initiative (GRI) developed a framework and tools for preparing sustainability report of organisations that gives information about their economic, environmental, social and governance performance.
United Nations Global Compact (2000)	The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.
OECD Guidelines on Multinational Enterprises (2001)	The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises.They provide voluntary principles and standards for responsible business conduct consistent with applicable laws, covering ten specific aspects.
GRI G3 (2003)	It is an updated version of the GRI sustainability report. In *GRI G3*, the sustainability performance indicators are organised into categories: economic, environmental and social. The social category is broken down into labour, human rights, society and product responsibility subcategories. The launch of the G3 Guidelines in 2006 led to a dramatic increase in the number of sustainability reports produced by organisations
UN Principles for Responsible Investment (2006)	Environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.
UN Norms for Responsibility of Transnational Corporations (2006)	These Norms promote universal respect for, and observance of, human rights and fundamental freedom as set forth in the Universal Declaration of Human Rights, by Transnational Corporations
ISO 26000 (2010)	The International Standard ISO 26000:2010, *Guidance on Social Responsibility*, provides harmonised, globally relevant guidance for private and public sector organisations of all types based on international consensus among expert representatives of the main stakeholder groups, and so encourage the implementation of best practice in social responsibility worldwide.
UN 'Protect, Respect and Remedy' Framework (2011)	The UN 'Protect, Respect and Remedy' Framework rests on three pillars: (i) the state duty to protect against human rights abuses by third parties, including business, through appropriate policies, regulation and adjudication; (ii) the corporate responsibility to respect human rights, which means to act with due diligence to avoid infringing on the rights of others and to address adverse impacts that occur; and (iii) greater access by victims to effective remedy, both judicial and non-judicial.

Source: CUTS compilation (2012)

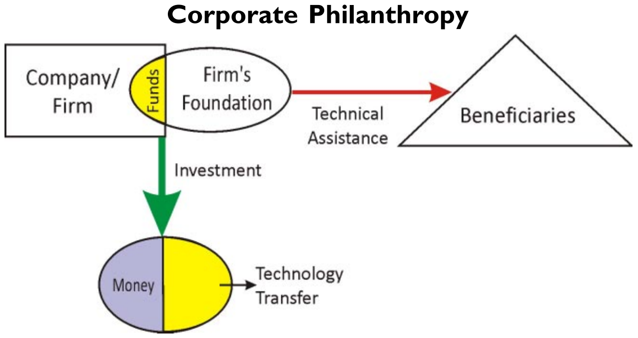
i. Individual Philanthropy: The 'Idea of Giving' is ingrained in the Indian culture and tradition. The way it is typically practiced (as encountered) in India today is for a business entity or an individual to donate an amount to another entity (often an NGO or Trust) for it to engage in community/societal development activities. Donation made by individuals/business entities to NGOs working on specific social issues is an example of individual philanthropy. The business entity/individual has often little or no control over the design of the delivery mechanism of such activities, and little contact with the ultimate beneficiaries.

Figure 2: Individual Philanthropy



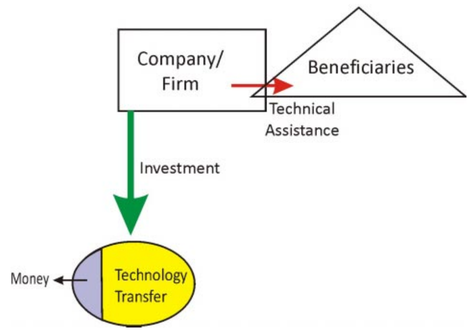
ii. Corporate Social Responsibility/Corporate Philanthropy: In this approach, the business that is interested in undertaking/contributing towards community or societal development activities, allocates a certain amount of its funds either to a department within the business entity, or creates another organisation (e.g., a foundation) for undertaking such activities. A number of big corporate houses in India have their foundations, e.g., Reliance Foundation, Bharti Foundation, etc. Through this approach, the business entity usually exerts considerable control over the delivery of such activities, and its contact with the ultimate beneficiaries is enhanced.

Figure 3: Corporate Social Responsibility/ Corporate Philanthropy



iii. Business Responsibility: According to this approach, the business entity refines/readjusts its model of doing business from within and in the process makes greater positive contribution to societal development. A simple underlying principle for making a start in this direction is to abide by all applicable rules and regulations at the workplace, at the marketplace, for the community and the environment (the least that a firm is expected to do). Such an emphasis on integration of 'responsible business behaviour' in its core business model is driven by the top management and inspires innovation and transformations in the organisation. Such businesses operate keeping in view their contribution to the beneficiaries, and maintain direct contact with them.

Figure 4: Business Responsibility



THE CURRENT DEBATE IN INDIA

The current debate on CSR in India among government, civil society and business community seems to be raising more questions than answering them. Various quarters have approached the issue differently, leading to this confusion. There is such a variety in these discussions that many in the audience (including people who are expected to promote business responsibility in India), are confused. It is important that some of the basic tenets of businesses' contribution to society are clarified, to initiate an informed discussion.

A recommendation made by the Parliamentary Standing Committee on Finance in late 2010 has brought unprecedented attention to the subject of CSR in the country. The Committee recommended that leading Indian firms (whose net profits is beyond a certain threshold) should allocate two percent of their average net profits, calculated over the last three years for undertaking CSR programmes. It was also suggested by the Committee that this recommendation be operationalised through the Companies Bill 2011. There was, quite understandably, a lot of noise raised by the business community against such a recommendation. Over the last several months since this recommendation was made, the government's position has oscillated from favouring it to opposing it. Eventually, however, this recommendation has been included in the draft **Companies Bill (Section 135)**, which has now been cleared by the Cabinet and will be presented in the Winter Session (2012) of the Parliament for enactment into law.

Businesses do not have to go out of their way to be socially responsible and relevant. Indian businesses can meet their societal expectations by continuing to consistently operate by abiding applicable laws of the land. Compliance with applicable laws/rules can significantly improve the state of 'responsible business behaviour' of a firm. Reference can be made here of laws, which have been framed to safeguard interest of society from possible adverse impacts of business operations - at the workplace, in the marketplace, in adjoining communities and on the environment.

The Indian government embraced the **National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs[4])** in mid-2011. The development of the NVGs is a welcome move and indeed provides a framework for defining and operationaling business responsibility in India. The NVGs is expected help firms identify areas in its core business model that need improvement from a 'resposible business behaviour' perspective. There is a need now, for concerted discussions regarding operationalisation of the NVGs in India – especially in terms of addressing challenges that may impede its uptake in key sectors.

WAY FORWARD (ROLE OF GOVERNMENT)

The NVGs provide the framework for businesses to enhance their performance on 'business responsibility'. However, there is a need to popularise the NVGs among business and professional associations, so that there is greater uptake. The government is expected to play a key role in ensuring such 'uptake' (integration) of NVG principles by businesses across the sectors, both at the central and state levels. Other stakeholders, such as CSOs, media, business chambers, also have to play their roles from being promoters of the NVG principles to ensuring compliance with applicable laws. It is critical that businesses incorporate their social, environmental and economic responsibilities in the very process of decision-making, from top to the bottom (board-room to the field staff). Long-term benefits should drive such decisions, instead of short-term gains for businesses. A number of businesses in our country have been pioneers on this, and need to come forward and lead the way for others.

Finally, uptake of the NVG principles by business would neither be achieved automatically, nor in haste. In order to catalyse this, the government need to play an extremely important role, in five distinct areas, viz:

- Mandating
- Enabling
- Recognising
- Demonstrating
- Partnering

Role of Government	Explanation
Mandating	While various sections of the government will continue to regulate how businesses conduct their operations in relation to specific laws and acts, the multi-disciplinary nature of the subject (business responsibility), suggests that it is extremely important to be coordinated by a single Ministry/ Department in the Central Government. The Ministry of Corporate Affairs at the Centre is ideally suited for undertaking this role since it is the principal regulator and facilitator of corporate business and has the authority to mandate public disclosure by business entities.
Enabling	The next logical step for the government would be to provide sector specific guidance so that businesses in different sectors can translate the NVGs into actionable items for the discharge of their business responsibility. The government should examine the possibility of creating *Centres of Excellences*, where young professionals can be trained to pursue the business responsibility agenda.
Recognising	The government should enable the recognition of 'business responsibility' leaders through suitable awards. Accredited and certification agencies, which are specialised to assess adoption of elements of business responsibility by firms, should be tasked with the job of identifying such leaders.
Demonstrating	The government procurement system can be an effective driver to promote adoption of business responsibility. Appropriate procedures should be incorporated in the Public Procurement Process, in order to enable greater demonstration of business responsibility by firms.
Partnering	The government should declare that all PPP projects, whether in the infrastructure, services or manufacturing sectors, will be required to adopt and implement the NVGs

Source: Task Force on Business Responsibilities, under the Working Group on Business Regulation (Planning Commission, 2011)

ISSUES FOR DISCUSSION

- Is it not appropriate to clearly distinguish between the three delivery systems by which business can address its societal expectations (The 'CSR Typology')?
- Should the 9 NVG Principles not guide business's decisions for investing in CSR activities as per Section 135 of the draft Companies Bill 2011?
- Is the government cognisant of the fact that it has to play certain roles to facilitate uptake of the NVGs? What preparations has the government made in this regard?
- What steps should be taken by the government and how soon, to operationalise the NVGs in key sectors?
- How can the impacts of promoting business responsibility in sectors be measured?
- How would a dynamic agenda of promoting business responsibility in the country help achieve sustainable and inclusive growth in the current Plan Period (2012-17)? What metrics would be required to measure and monitor its progress?

ENDNOTES

1 *Sukhasya Mulam Dharma* – the basis of happiness/prosperity is righteousness (ethics)

2 Jamsetji Tata said, "In a free enterprise, the community is not just another *stakeholder* in business, but is in fact the very purpose of its existence."

3 http://appliedgandhi.blogspot.com/2008/06/trusteeship-corporate-social.html

4 Available at: www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

CUTS acknowledges the inputs received on this note from members of the *Task Force on Business Responsibility*, Chaired by Shri Bharat Wakhlu and constituted under the Planning Commission (Government of India)'s *Working Group on Business Regulatory Framework* (2011).

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