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# CSR: THE RESPONSIBILITY OF BEING RESPONSIBLE

Corporate social responsibility (CSR) is an arena in which it is often relatively easy for business leaders to make fine speeches and secure applause by using appropriate words. Given a budget, a competent public relations team can usually provide one or more CSR case studies that can be mentioned or featured in an annual report. However, if special effort has been devoted to establishing that particular activities are socially responsible, cynical observers might wonder whether other ones representing the great bulk of a company's operations might not be.

Why do so many business leaders put so much stress on the importance of being responsible, corporate values and moral conduct? Is it to win accolades and awards for being upright citizens, or because of a sense of guilt, or to divert attention from harmful activities undertaken by their companies? Are they sinners who have seen the light? Should we assume they talk about these things because they are areas of deficiency within their companies that need to be addressed?

## **The Requirement for Responsible Business**

Trust in business is at a low level in many countries. It may get worse before it gets better. Disruptive technologies may

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decimate certain employments more quickly than new jobs and replacement activities are created. Some of the world's leading companies are turning out to be giants with feet of clay. Motor car engines are programmed to beat pollution tests. Advertisements are placed alongside extremist content that is posted and hosted on websites. Early pioneers of social networking worry about its impact, particularly on children and young people.

If not yet dead, truth is often elusive and hard to come by. Fake news abounds and can influence elections. Some companies employ chatbots to spread bogus endorsements. Others pay journalists to write favourable stories and/or bribe politicians and officials to secure contracts. In India, despite an estimated three million places of worship corruption still thrives. Uncertainty breeds insecurity. When situations and requirements can change before projects are delivered and plans implemented, promises can be difficult to keep. It is little wonder that so many people are cynical and distrustful.

CSR is sometimes justified as good business sense and as a way of building or rebuilding trust and reputation. If it enhances productivity and/or performance or increases commitment and/or creativity, maybe the relevant elements of it should become core business. If trust or reputation are issues, might these be better addressed by being more open, honest and innovative, paying more attention to stakeholder interests, a different business model or adding more value? Rather than decorating the icing, should the emphasis be upon improving the cake?

## **Clarifying Responsibility and Scope**

Terms such as "responsible business" and "corporate social responsibility" raise the question of responsibility to whom? From a governance perspective there are the issues of identifying the stakeholders to whom a board is accountable and/or has responsibilities, and how to prioritize them when the interests and requirements of different stakeholders do not always necessarily coincide.

If the words "social responsibility" imply a responsibility to a wider community beyond one's customers, suppliers, business partners, employees and investors, how far should it reach and in what areas? Should it extend to one's places of operation and their problems, for example, water saving in Bengaluru? Should

the ripple of responsibility and desired impact embrace a geographic region or country, for example changing work arrangements and journey patterns to reduce the atmospheric pollution that is reducing life expectancy in cities across India?

Should a company's assumed responsibilities in some way match the scope and extent of its business operations, i.e. be proportionate? In the case of a company engaged in international trade, might concern with the acidification, pollution and/or warming of the world's oceans be a suitable arena for corporate action, for example, starting, joining or supporting initiatives to reduce the amount of plastic waste that is found even in remote and deep waters?

An international company could justifiably be concerned with global issues, such as climate change or sustainability. Each company has to balance scope and remit with potential for having an impact and making a difference. CSR priorities could be aligned to the environmental, social and governance (ESG) criteria of investment analysts and institutional investors and their fund managers. They could be selected to reduce the risks associated with certain challenges.

### **Responsibility Criteria and Guidelines**

Criteria could be set for the approval of CSR projects. Points could be allocated according to their potential impact upon various economic, social and environmental issues. Should corporate reputation for being a "good citizen" be included? Should one align internal corporate CSR objectives to an external local, national or global agenda? Could CSR initiatives contribute to a company's action to further one or more of the United Nations 17 Sustainable Development Goals or voluntary national obligations under the Paris Agreement on climate change?

From a compliance perspective, responsible conduct might be seen in terms of meeting the requirements of various laws, regulations and codes, which raises the issue of whether to just comply with the "letter" of legislation and other measures, or how far one should go beyond this in relation to their "spirit". The former might seem simpler as the latter could involve understanding the purpose of requirements and subjective judgements. However, doing more than the minimum might earn plaudits, more favourable responses and help to build certain relationships.

Some business leaders champion corporate values in an attempt to establish foundations and influence behaviour. To a cynic these are invariably bland. Sometimes they derive from a founder or chief executive officer's thoughts, culture or childhood. So-called "universal values" often mean different things according to local law and practice and one's culture, political viewpoint, religious faction or personal philosophy. Responsible conduct may be more influenced by principles,

guidelines or justification in terms of environmental, sustainability, inclusion or other impacts.

Guidelines and board policies need to be sufficiently clear to provide guidance to people with differing roles in a variety of circumstances. In some areas an absolutist approach may be required to prevent penalties and sanctions for illegal acts. Elsewhere excessive rigidity might prevent staff from going the extra mile and achieving the reputational and other benefits that might result. Where people have discretion and are uncertain, help lines and escalation routes may need to be provided.

### **External Requirements**

Responsibilities established in laws, regulations or codes and license, listing and other requirements can vary by jurisdiction and sometimes by sector. Some may just apply to an organisation and its people, while others might go beyond this and extend to a supply chain and even be extra-territorial and apply to acts that are committed anywhere in the world. Directors need to ensure that executives and other staff are aware of these varying responsibilities, and that arrangements are in place to monitor and audit relevant activities and ensure compliance.

Ensuring that a company and its people are responsible in relation to just the bare minimum of legal and other requirements can be a complex and costly operation, but the penalties and sanctions for non-compliance in certain areas and locations can be severe, including large financial payments and the loss of a license to operate. Beyond the minimum, the question of doing more raises the issues of where, for whom, in what circumstances and to what extent, and cost-effectiveness.

Doing more than a legal or minimum requirement invariably involves opportunity costs. Choices in terms of for whom to do more can raise the issues of who pays, cross subsidies and when to stop. In general, people may welcome more of what they perceive to be beneficial until its marginal utility is zero. Doing more in terms of the extent to which one is "responsible" can raise expectations, waste scarce resource and lock in higher costs. Can one do too much or be successful with less?

Citizens as well as companies can be subject to laws, regulations and codes. On occasion they may feel a disconnect between requirements upon them and those to which an employer, business partner, corporate customer or supplier are subject. Their views on how a company should act may differ from how they respond. Opinions may also vary within a board, among stakeholders and throughout a wider organisation and across its supply chain on what constitutes a responsible policy, action or response.

### **Measuring CSR and Responsible Operations**

How should one measure the extent and impact of CSR activity?

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Ideally, using indicators that can track progress over time. For example, in relation to a goal of reducing the quantity of unwanted waste that results from corporate operations, one could monitor the volume or weight of waste generated divided by the volume or weight of goods produced. A company worried about the negative impact of plastic upon the environment could monitor the time it takes for its discarded plastic products or packaging to breakdown or cease to be harmful to sea life.

It has almost become a tradition for advocates of CSR to criticize many financial measures of corporate performance such as profitability or return on net assets as being too narrow and missing various negative impacts and externalities. However, public, corporate and customer reactions to evidence and suggestions of irresponsible conduct are changing. Many purchasers and users are becoming both better informed and more concerned about the environment and issues such as climate change. The shared economy is growing. Unfair labour practices, exploitation and reports of poor health and safety can lead to consumer boycotts.

Suppliers can find themselves dropped from supply chains if they do not meet criteria established by their customers in areas ranging from bribery and modern slavery to environmental protection, or survive audits of their practices at home and overseas. A failure to satisfy ethical investment criteria can lead to reduced purchases of one's stock. Awareness of transgressions can quickly spread by social media.

If there is greater transparency, and as more decision makers across various stakeholder groups apply ethical and responsibility criteria, will traditional financial measures of performance such as profitability stage a comeback. If irresponsible conduct and harmful activities are quickly identified and punished, will a measure such as a "bottom line" or return on capabilities and resources employed become a more acceptable indicator of contribution, effectiveness and performance.

### **Questioning Corporate Social Responsibility**

CSR remains fashionable and in India there are Companies Act requirements relating to it. For business leaders it represents an opportunity, but it is also an area of risk. Because of the effort devoted to publicizing CSR activities they are often visible. Stakeholders may or may not agree with the priorities a board establishes. If in general a company is doing well they may be supportive, but what if a company is struggling. Will stakeholders view CSR as a distraction from core activities?

Effective directors question and challenge. They should not go with the flow and simply nod through CSR initiatives. They should question their rationale, the motives for introducing them, their effectiveness and impact, and whether there are

spin-off benefits for core business activities. What will stakeholders make of them? Will they be seen as cosmetic and as a diversion, or will they be regarded as genuine, worthwhile and sustainable? Could they be used to engage and develop staff, to test new approaches or to explore new arenas of opportunity for corporate capabilities?

Sole owners of unincorporated businesses can spend on CSR projects of their choice. Directors can similarly spend their own money on good causes. They can also devote any free time to them. If sufficiently motivated they could establish a social enterprise. The first duty of the directors of a for-profit entity is to the company itself. Responsible directors should spend money wisely and only on activities that are not ultra vires but are in a company's best interests. When making decisions they should take the interests of stakeholders into account.

### **Strategic Considerations**

Could CSR activity and CSR expenditure beyond what one is compelled to do by law be regarded as irresponsible? Would more value and benefit for a greater number of people be created if the time, energy, creativity and other resources that are allocated to CSR were instead devoted to innovation to improve corporate offerings and capabilities, operate a more sustainable business model, introduce new ways of working and learning, or achieve a technological breakthrough that could open up new possibilities and/or help mankind to tackle pressing problems?

One assumes that CSR provisions were included in the Companies Act because politicians believed that companies would not act in certain ways unless they were compelled to do so. Should Indian business leaders regard them as an unwelcome intrusion into how eligible companies choose to distribute a proportion of qualifying profit? Should they resent being compelled to tackle social issues that successive Governments have had plenty of time to address or relish the challenge?

Where corporate CSR initiatives are less cost-effective than public equivalents, should business leaders object to the diversion of effort involved? Where they are more cost-effective, should private expertise be brought in to transform public provision and/or should areas of the public sector be privatized or contracted out to commercial companies? Might successful corporate CSR activity open up new arenas of opportunity for enterprise and the market economy?

### **International Conference on Corporate Social Responsibility**

The Theme of the forthcoming International Conference on Corporate Social Responsibility in Bengaluru is "Responsible CSR: A New Agenda Beyond Governance". Its implication is that adopting any old form of CSR just to satisfy a legal requirement is

not good enough. It could be irresponsible. Directors should both expect more and press for it. The Bengaluru conference is an opportunity to reflect on the purpose and priorities of companies, CSR strategies and how social responsibilities and responsible business considerations can be embedded into corporate strategy.

Participating in the discussions in Bengaluru will provide an opportunity to influence the nature of a new agenda for CSR, the creation of shared value, social innovation and social entrepreneurship. Delegates will also have an opportunity to consider global trends in social accountability, international standards, alignment with UN Sustainable Development Goals and how to partner with social enterprises and non-governmental organisations. Listening to Golden Peacock

Award winners could yield insights into ways of operating more responsibly and successfully.

Successive generations of entrepreneurs and business leaders have made a massive contribution to innovation, discovery, development, knowledge and wealth creation. Many of them were trusted and respected during their lifetimes. Their influence underpins many widely valued aspects of contemporary societies and international civilization. Today's generation of entrepreneurs and business leaders have the potential to both create and change. While there are challenges, there are also unprecedented opportunities to be responsible, have a beneficial social impact and restore trust and respect in business, corporate leadership, enterprise and entrepreneurship. ■



## Winners' Digest

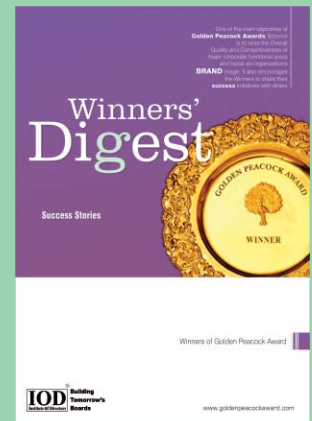
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