

# **CSR: MEANING, THEORIES, RULES, CODES AND STANDARDS**

Subject: AUDITING AND CORPORATE GOVERNANCE

Study material for B. Com.(H)-Semester VI (Sec-3 & 4) for (week 3) 16-22 March 2020

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# The Global Aspect – CSR

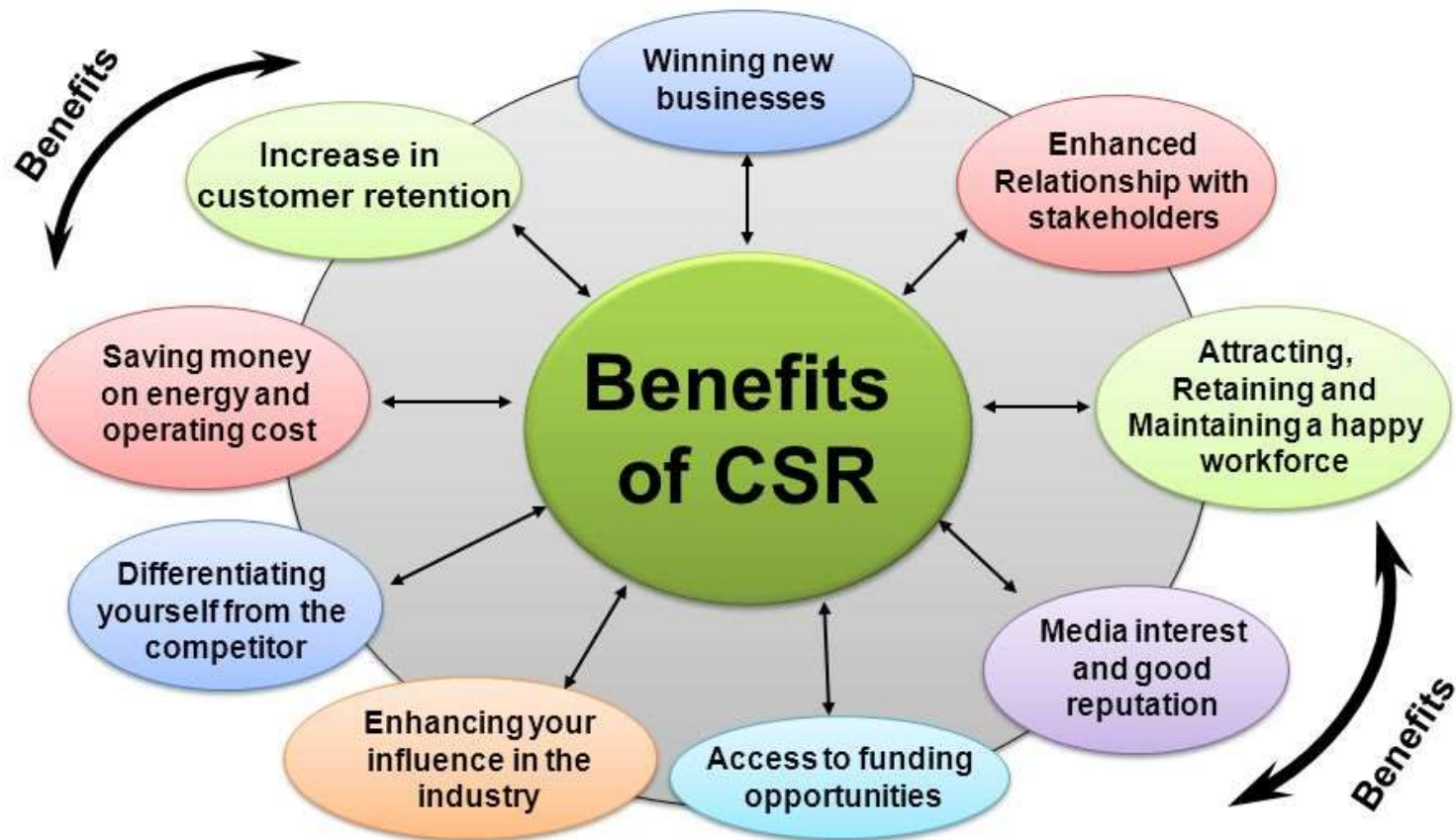
- CSR related concepts
  - Triple bottom line
  - Corporate citizenship
  - Philanthropy
  - Business responsibility
  - Corporate sustainability

**World Business Council for Sustainable development** - "the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."



# Benefits of CSR

*Corporate Social Responsibility*





# The Triple Bottom Line

The **triple bottom line** is a form of corporate social responsibility dictating that corporate leaders organize bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social land, and with respect to the environment. There are two keys to this idea. First, the three columns of responsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results.

Three columns are:

1. Economic Sustainability
2. Social Sustainability
3. Environmental Sustainability

**People** **Planet** **Profit**

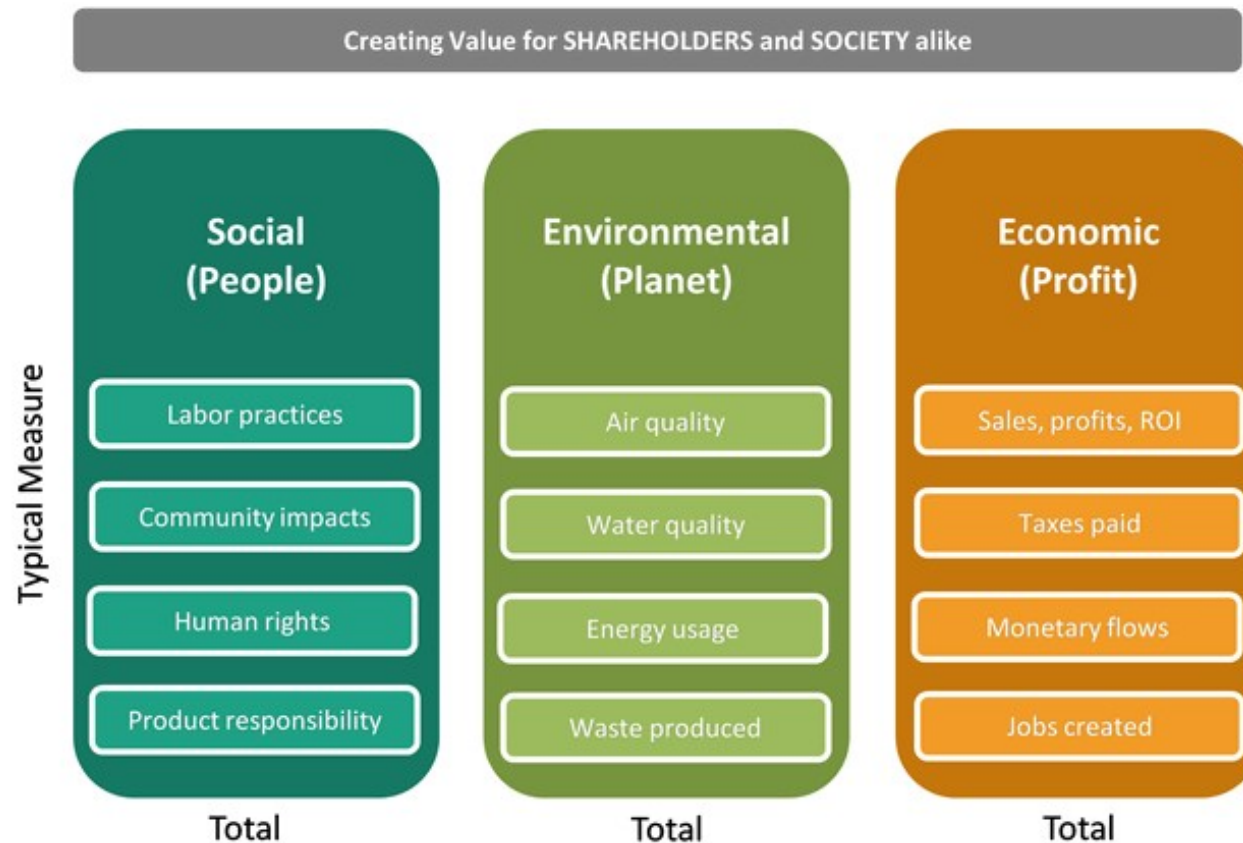


**3BL**

**SUSTAINABILITY**

# TRIPLE BOTTOM LINE

## Concept of Triple Bottom Line



# Carroll's Pyramid of Corporate Social Responsibility (CSR)

Carroll's "pyramid of CSR" is perhaps the most well-known model of CSR. It shows the different expectations society has of an organization at any given time and helps characterize the nature of businesses' responsibilities to society.



Adapted from Carroll, A. (2016). Carroll's pyramid of CSR: taking another look. *International Journal of Corporate Social Responsibility* 2016, 1:3.

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## Carroll Model(1991)



[www.totalqualitymanagement.wordpress.com](http://www.totalqualitymanagement.wordpress.com)

## Corporate Social Responsibility (CSR)

### Carroll's Four Part Definition

#### *Understanding the Four Components*

Responsibility	Societal Expectation	Examples
Economic	Required	Be profitable. Maximize sales, minimize costs, etc.
Legal	Required	Obey laws and regulations.
Ethical	Expected	Do what is right, fair and just.
Discretionary (Philanthropic)	Desired/ Expected	Be a good corporate citizen.

# Trusteeship Theory

- Gandhi's theory of trusteeship is based on two basic premises—
- A) The rich cannot accumulate wealth without the cooperation of the poor.
- B) Western socialism and communism are not the last words on the question of mass poverty.

#### ❖ Trusteeship

- Gandhi's Theory of Trusteeship is a firm step towards establishing Social Justice , Economic Equality and Economic Growth.
- He said there should be No Accumulation and Useless Possession.
- Gandhi propounded a Theory of "Social Capital".

#### ❖ Sarvodaya

- It is a Non-Violent Socialism , for Distributive Justice.
- Gandhi's concept of Sarvodaya is based on the concept of the Unity of Existence.
- Gandhi's Sarvodaya centre's around the Small Republic where the mass of people manage their affairs without depending on the State.

- A business will manage its resources so as to please its multiple stakeholders
- In the organisation's best interests to maintain its relationship with these parties
- A stakeholder is anyone who can affect or is affected by the success of a firm
- Stakeholders will usually consist of:
  - Consumers
  - Employees
  - Suppliers
  - Community
  - Shareholders
  - Financiers
  - Government



## Stakeholder theory

Stakeholder theory presents a large motive for CSR reporting

- Consumers and suppliers are likely to favour altruistic actions and provide the company more business
- Governments are concerned with the well-being of the environment and society
- A greater pool of potential employees and retention of current ones
- The increased information given to financiers should benefit how they are perceived as a going concern
- Shareholders may value a company's social impact and maintain their investment. However, they may also disapprove of the information, in that many positive programs that benefit society come at a cost and therefore reduces shareholder contributions

Satisfying all these stakeholders will help ensure the continuity of a business

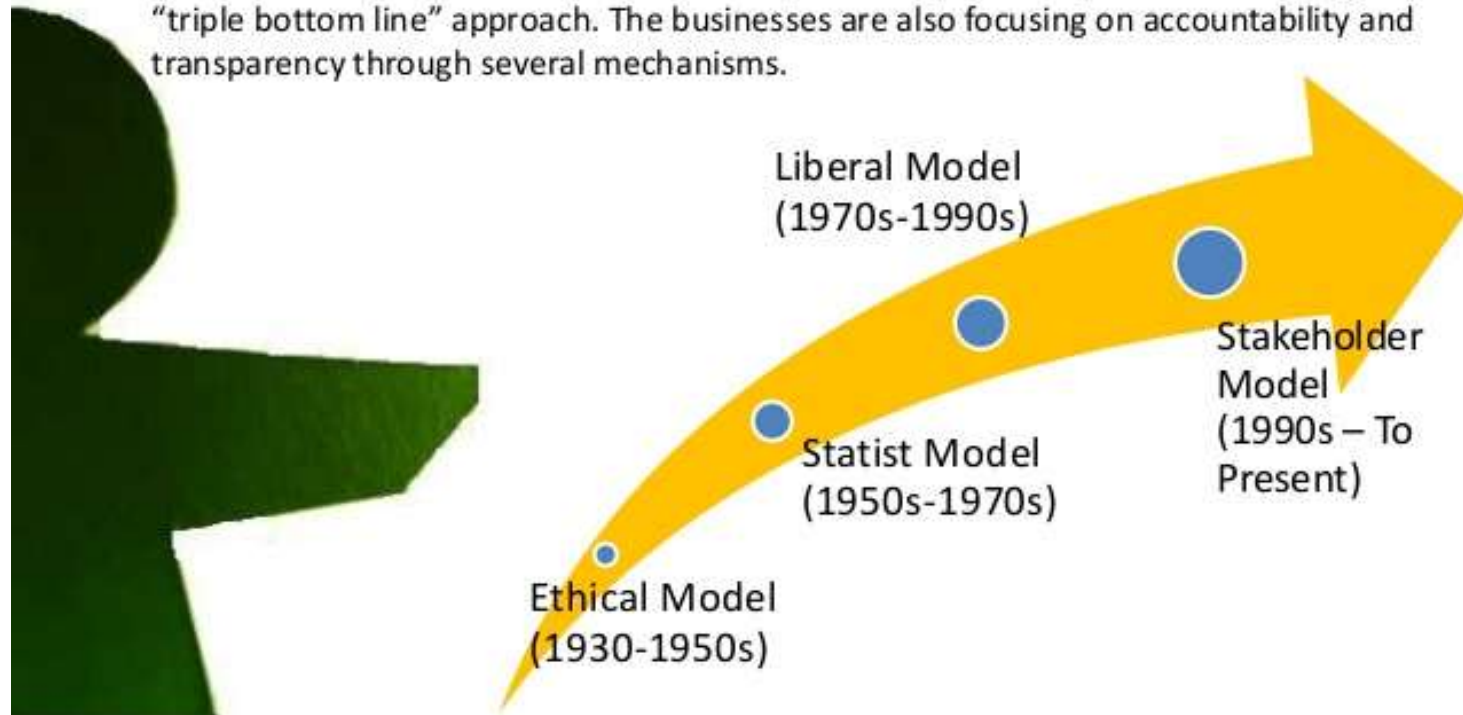
"The driving force of an organisation becomes, under a voluntarism philosophy of management, to satisfy the needs of as many stakeholders as possible"  
(Freeman 1984)

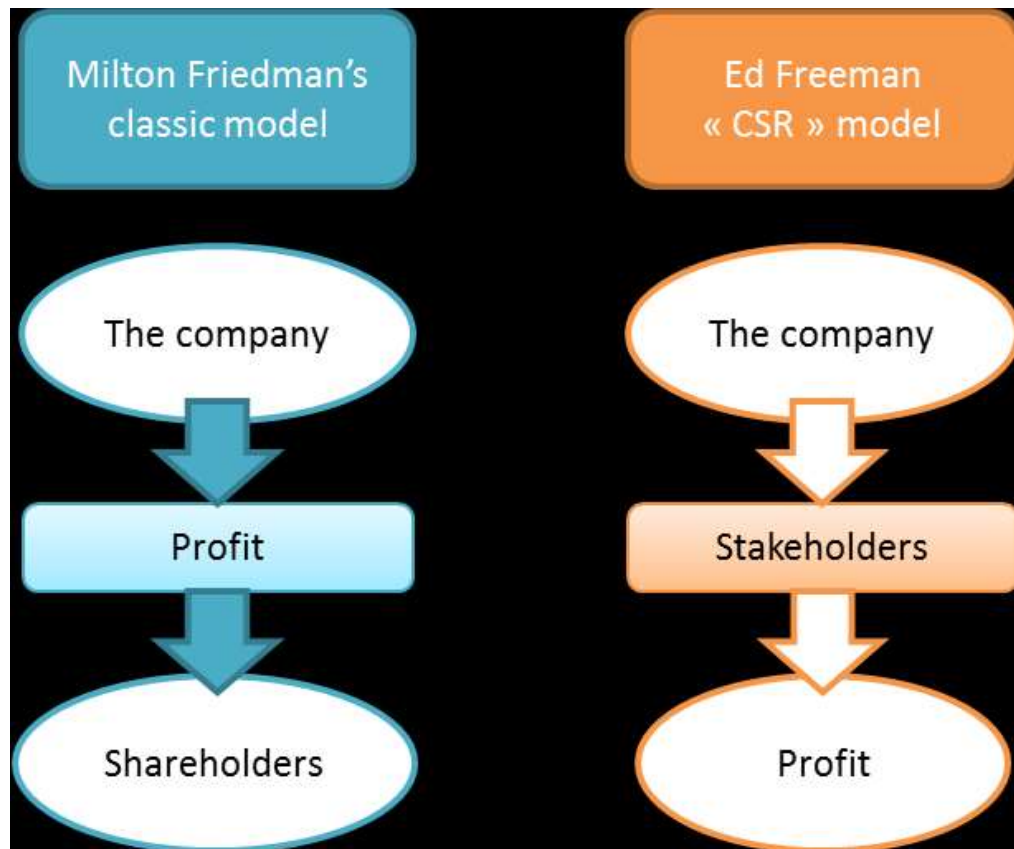
## **The effect stakeholder theory has on CSR reporting**

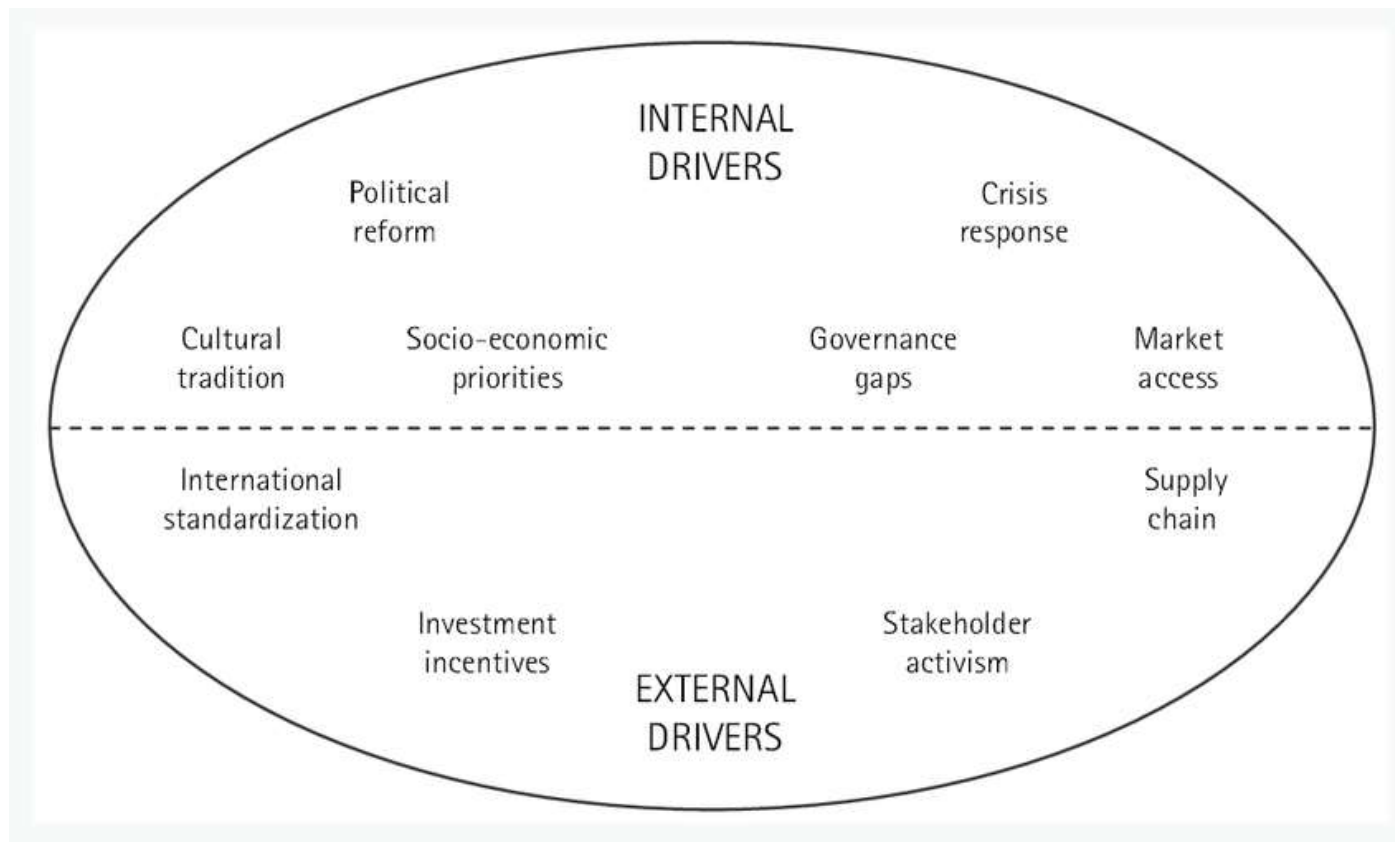
## CSR – Hierarchy Model

### Stakeholders Model:

The evolution of CSR in India has followed a chronological order of four thinking approaches, though the stakeholder model came into existence during 1990s as a consequence of realisation that with growing economic profits, businesses also have certain societal roles to fulfil. The model expects companies to perform according to “triple bottom line” approach. The businesses are also focusing on accountability and transparency through several mechanisms.







## Drivers of CSR in developing countries



Various kinds of crises associated with developing countries often have the effect of catalyzing CSR responses. These crises can be economic, social, environmental, health-related, or industrial.



The flipside of the socio-economic priorities driver is to see these unfulfilled human needs as an untapped market. CSR may also be seen as an enabler for companies in developing countries trying to access markets in the developed world.



Despite the debate about the Western imposition of CSR approaches on the global South, there is ample evidence that CSR codes and standards are a key driver for CSR in developing countries. Often, CSR is driven by standardization imposed by multinationals striving to achieve global consistency among its subsidiaries and operations in developing countries.

### Economic drivers

### Social drivers

### Political drivers

Company image/reputation  
Improved risk management  
Competitive advantage  
Pressure from business partners  
Pressure from costumers  
Pressure from investors  
Competitiveness

Pressure from NGO/CSOs  
License to operate  
Pressure from local communities  
Research

Improved standing with government  
Legal, regulatory drivers  
Political pressure  
License to operate

# For the Greater Good

## A Formal Framework for Social Spending by Corporates

### WHEN

From April 1, 2014

### HOW MUCH

2% of average profit of previous three years

Profits from overseas branches and dividends from other cos not included in net profit for calculation

### WHO

Companies with net worth of over ₹500 crore or turnover of over ₹1,000 crore or net profit of over ₹5 crore

Foreign cos registered in India included

### WHERE

CSR activities will have to be within India



### WHAT ALL

Livelihood enhancement and rural development projects

Promoting preventive healthcare & sanitation

Measures for benefit of armed forces veterans, war widows and their dependents

Working towards protection of national heritage, art & culture

Reducing inequalities faced by socially & economically backwards

Protection of flora & fauna, animal welfare, agro-forestry etc

### HOW

Company's board will decide in accordance with its CSR policy and the decision of its CSR committee



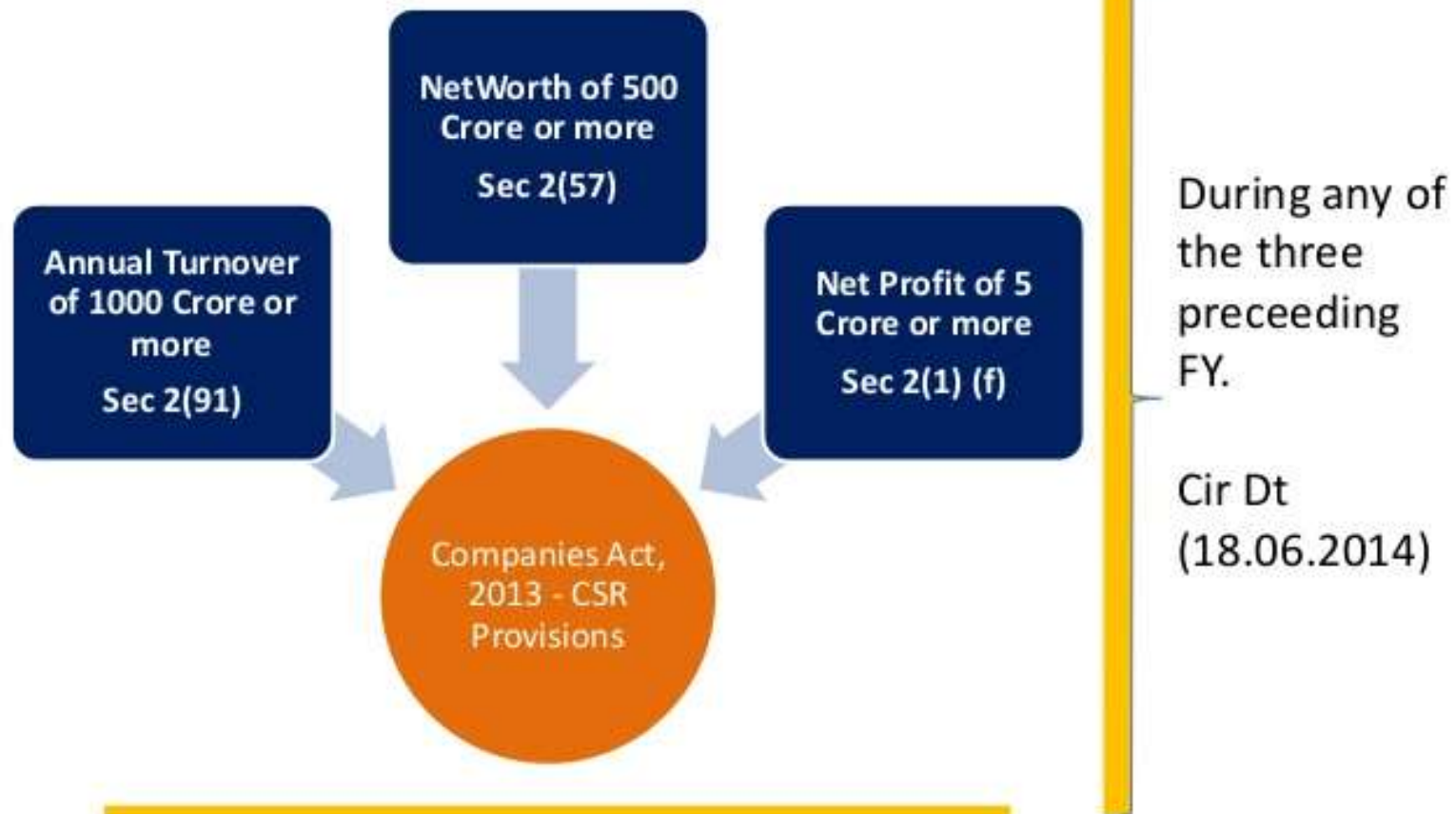
### DO'S AND DON'TS

Surplus from CSR cannot be included in profit

CSR work can be done through a registered trust or society or a separate co

Co can collaborate with other cos but will have to report separately

## Applicability of CSR provisions in India



If Applicable, Minimum **2% of "Average Net Profit"** to be spent on CSR activities

## CSR Committee

Formation | Policy framework | Policy Implementation | Control on Expenditures

### NEXT STEP AFTER APPLICABILITY

Networth  $\geq$  500 Crore  
(or)  
Turnover  $\geq$  1000 Crore  
(or)  
Netprofit  $\geq$  5 Crore

#### Role Of Directors

- Form a CSR Committee
- Approving a CSR policy also Additions & Deletions.
- Implementation
- 2% Expenditure
- Disclosure Aspects
- Business Responsibility Report.

#### CSR Committee

- Three or more directors with atleast one Independent director
- Formulate and recommend a CSR policy to the board
- Recommend activities and the amount to be incurred
- Monitor the CSR from time to time

## Role of CSR Committee and the board

### CSR Committee

- Formulate and recommend a CSR policy
- Recommend activities and amount of expenditure to be incurred
- Monitor the policy from time to time



### Board

- Constitute a CSR committee
- Approve a CSR policy (indicating the list of activities along with the expenditure) & publish the same in its report and on the website
- Spend at least 2% of average net profit during the three immediately preceding financial years. If not, specify the reasons for not spending the amount
- Ensure that the activities as are included in CSR policy of the company are undertaken by the company

# CSR Tools

- ***Intergovernmental standards: OECD Guidelines for multinational enterprises, ILO tripartite Declaration of Principles concerning multinational enterprises and social policy, UN Norms...***
- ***Other CSR tools:***
  - ***Reporting framework: the Global Reporting Initiative (GRI)***
  - ***Rating indices: own rating indices used by SRI agencies, Dow Jones Sustainability Index, FTSE4Good index***
  - ***Certification schemes: SA 8000***

## Standards

ISO9001, ISO14001, EMAS, ISO50001, OHSAS18001, SA8000, ISO/IEC27001, ISO26000

## Global Initiatives

GRI, Global Compact, The OECD Guidelines for MNE, UN Guiding Principles on Business and Human Rights, ILO MNE Declaration

## Principles

Business Principles for Countering Bribery, Caux Round Table Principles, CERES Roadmap for Sustainability, ETI Base Code, Business Social Compliance Initiative

# ISO 26000

## SOCIAL RESPONSIBILITY

### ISO 26000 characterization

#### ISO 26000 use

- Is voluntary
- Meet demands of (mostly local) society
- Orientation on SR *core subjects* and *issues* (but there are also other SR issues)
- **Identify/select issues of actual importance**
- Specify your possible **contributions to society, regardless by which internal processes**
- Make *your* way known



Each organization is different...  
...each society is different...  
...each situation is different...  
⇒ each use of ISO 26000 is unique



### HOW DOES ISO 26000 DEFINE SOCIAL RESPONSIBILITY?

Social Responsibility (SR) is the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behavior that:

- ❖ Contributes to sustainable development, including the health and welfare of society
- ❖ Takes into account the expectations of stakeholders
- ❖ Is in compliance with applicable law and consistent with international norms of behavior, and
- ❖ Is integrated throughout the organization and practised in its relationships.



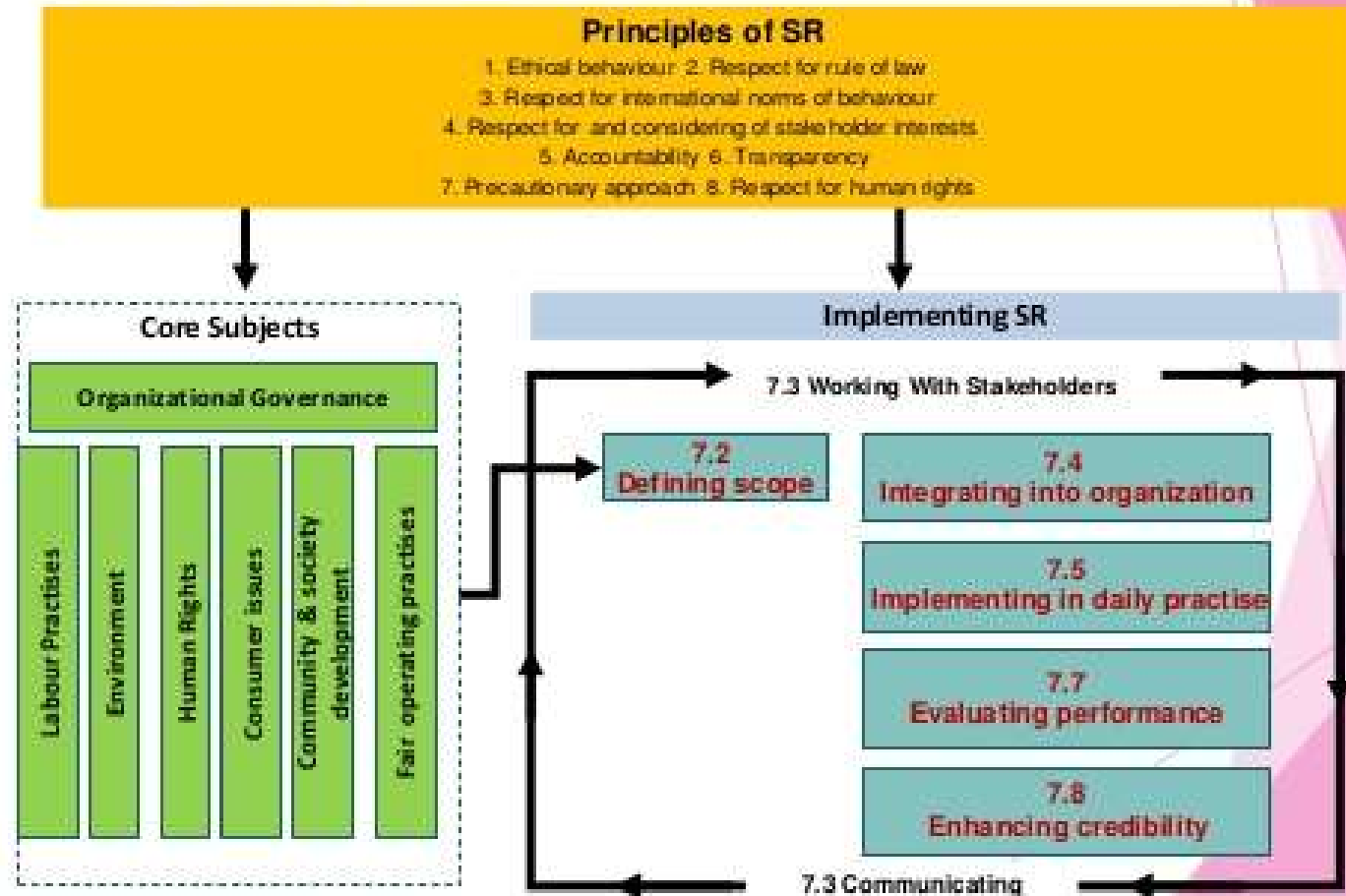
Visit : [http://www.ursindia.com/iso\\_26000.aspx](http://www.ursindia.com/iso_26000.aspx)



## The 7 Principles

1. Accountability
2. Transparency
3. Ethical behaviour
4. Respect for stakeholder interests
5. Respect for the rule of law
6. Respect for international norms of behavior
7. Respect for human rights

# ISO 26000 Roadmap





## GLOBAL REPORTING INITIATIVE

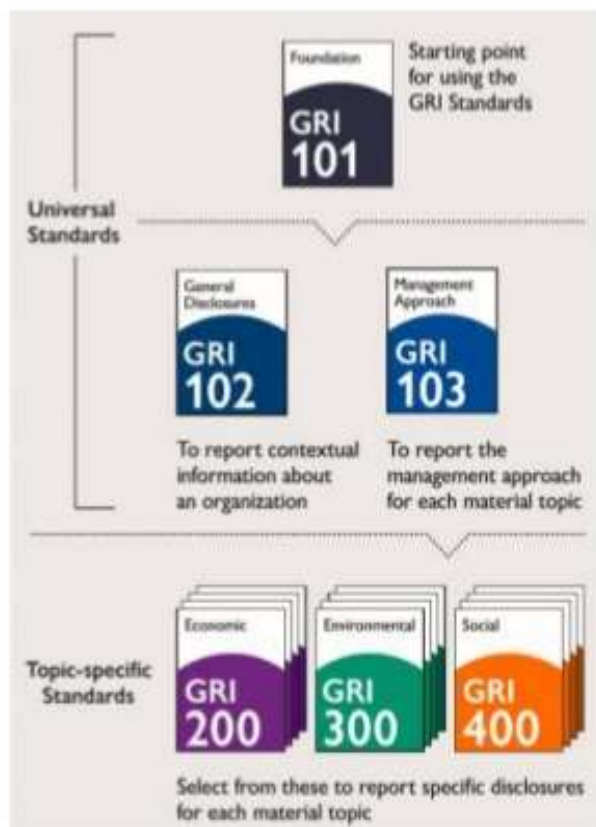
- The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.
- The Guidelines are for voluntary use by organisations for reporting on the:
  - **Economic**,
  - **Environmental**, and
  - **Social** dimensions of their activities, products, and services.



# GLOBAL REPORTING INITIATIVE

- The Global Reporting Initiative (GRI) is a network-based organization that pioneered the world's most widely used sustainability reporting framework
- ◎ GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance
- ◎ The Reporting Framework sets out the principles and Performance Indicators that organizations can use to measure and report their economic, environmental, and social performance
- ◎ Sustainability reports based on the GRI Framework can be used to demonstrate organizational commitment to sustainable development, to compare organizational performance over time, and to measure organizational performance with respect to laws, norms, standards and voluntary initiatives.

## The GRI Standards



- GRI 101, 102, 103  
3 universal Standards,  
applicable to all organizations

- GRI 200, 300, 400  
33 topic-specific Standards,  
organized into Economic,  
Environmental, and Social  
series

Organizations select and use only  
the relevant topic-specific  
Standards, based on their  
material topics



# SUSTAINABILITY REPORTING FRAMEWORK

## Standard Disclosures:

- 1 - Strategy and profile
- 2 - Management approach
- 3 - Performance Indicators



## Principles for defining contents:

- Materiality
- Stakeholder inclusiveness
- Sustainability context
- Completeness

## Principles for defining quality:

- Balance
- Clarity
- Accuracy
- Timeliness
- Comparability
- Reliability

## CSR Implementation Framework





## Comparison of the standards

Features	GRI	AA 1000	SA 8000	ISO 26000
Scope	Triple bottom line reporting	Social & ethical accounting, reporting	Social accountability	Social responsibility
Corporate activity	Reporting & assessment	Management system	Codes, issues & assessments	Guidance
Sustainability pillar	Triple bottom line	Primarily social, secondarily environmental economical	Social - mainly labour	Sustainable development
Application	Normative aspects: indicators	Non normative	Normative	Normative
3rd party audit	Yes	Yes	Yes	Yes
Indicators	Set	Up to company	Set	
Orientation	Results	Process	Result	Result

THANKYOU