



WHY CORPORATE RESPONSIBILITY MATTERS

Corporate social responsibility is no longer a good-to-do PR activity for corporations. It has become an integral part of business and an inescapable priority for business leaders. An effective CSR strategy not only allows businesses to solve social and environmental problems in a far more scalable and effective manner, but also differentiates them and delivers bottom-line returns

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The world is waking up to environmental and social issues never seen on the same scale as before — where resources including water are dwindling, climate is changing and becoming unpredictable, prices of essential commodities are on the rise, and social issues such as a growing and aging populations and urban over-crowding are impacting on countries the world over.

India is not immune to these changes as is evident by the recent events in Kashmir which point towards changing climate patterns. Protests across the country against increasing inflation and scarcity of resources are also not uncommon. As research points out, this will only get worse. According to recent reports, by 2030, the water demand in India will exceed supply by 50 per cent and the energy demand is gradually outstripping supply with most Indian cities facing an average of 3.5 hours of outages per day.

Global Footprint Network, a global organisation that measures humanity's demand for and supply of natural

resources and ecological footprint, declared August 19, 2014 as the day when humanity exhausted nature's budget for the year. This means that we have overshot this year's budget and will now be drawing from the resources for our children and grandchildren. This overshoot can be credited for some of the issues that the world is facing today, and will have an impact on future generations.

Questions such as how much and how fast we need to change in order to reverse the negative impacts are being answered by empirical evidence. However, there is no doubt that we need to make drastic changes to our economics. In order to do this, we all will have to make our contribution — government needs to encourage sustainable business practices, industries need to realise that sustainable business is the "new usual" and consumers shall have to make sustainable choices.

Businesses have an ever increasing role to play in addressing some of these challenges as they cannot

succeed in societies that fail. They have to take responsibility for their actions and minimise their negative economic, environmental and social impact on society. In today's world of rising activism amongst consumers and other stakeholders, and 24x7 social media, businesses can be instantly exposed in the event of any perceived wrong doings. As Paul Polman, CEO of Unilever, one of the most admired leaders in sustainability says, "We cannot close our eyes to the challenges the world faces. Business must make an explicit positive contribution to addressing them." With sheer talent, resources, reach and influence at their disposal, businesses both small and big can effectively shift behaviour and habits. When businesses create shared value instead of just shareholder value, they can solve social and environmental problems in a far more scalable and efficient manner.

What is corporate responsibility?

Known by various names across the world, corporate citizenship, ESG

(environment, social, governance), social responsibility, conscious capitalism, corporate social responsibility (CSR) — there is no single universally accepted definition of corporate responsibility or CR. The most accepted definition given by the World Business Council for Sustainable Development (WBCSD) 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."

Corporate responsibility is nothing but businesses' growing in a way that is good for business and for development of the people it employs, the community it interacts/operates in, and the environment. The idea that business can, and should, work towards solving some of society's and the environment's unique challenges like inequality and climate change is at the core of corporate social responsibility.

In 1970, economist and Nobel Laureate Milton Friedman, in an article, had defined CSR programmes as "hypocritical window-dressing". However, the times have changed. Ten years ago, companies thought it's a moral thing to do CR. They wanted to do the right thing by investing in the community. For instance, only about a dozen Fortune 500 companies issued a CR or sustainability report. However, now a vast majority does. The world is now identifying their materiality issues better through the advanced GRI G4 guidelines, and are now moving towards integrated reporting. More than 8,000 businesses around the world have signed the UN Global Compact pledging to show good global citizenship in the areas of human rights, labour standards and environmental protection. CR is no longer a good to do PR activity; it has now become an inescapable priority for business leaders.

India vs the world

In India, corporate social responsibility is not a new term. While philosophers like Kautilya talked about doing business ethically, large industrial families during liberalisation gave back to the society by building educational

and religious institutions. However, CSR in India has been largely linked with philanthropy or cheque-book donations. Only in the recent years, has it moved from institution building (temples, educational institutions, and so on) to more structured community development programmes.

The government also has a role to play in ensuring that businesses start linking CSR in their core operations. In 2007, the government came up with the Corporate Governance Code which listed down ethical business guidelines for corporations. Over the years, after several laws and regulations, the Companies' Act 2013 was finally introduced in April 2014, which has mandated companies to do CSR. As a part of the Act, companies of a certain size (net worth of ₹5 billion or more, turnover of ₹10 billion or more or net profit of ₹50 million or more) have to spend at least 2 per cent of the average net profits of the company made during the three immediately preceding

financial years, in pursuance of its CSR policy. Approximately 16,000 companies come under the ambit of the law, and will spend around ₹22,000 crore, towards development activities as part of their CSR policy.

While there have been several debates on making CSR mandatory, I personally believe that the law is a great step forward and will act as a catalyst to galvanise companies into making a long-term sustainable impact in the communities in which they operate. While some companies already have CSR initiatives in place, there is much more ground to be covered. For many others, with no experience in CSR, it is going to be a tough start.

According to a recent survey conducted by Good Values amongst leading Indian and British corporates, 87 per cent respondents agreed that the law will help them move to strategic CSR programmes and activities. However, businesses need more clarity on the law with several areas

of Schedule VII not completely clear like contributions or funds provided to technology incubators, and so on. Another challenge that businesses are facing today in implementing the CSR law is credibility of NGOs (52 per cent), and lack of CR (32 per cent) resources. Around 29 per cent of those surveyed also mentioned lack of knowhow as another hurdle.

One of the major issues is that majority of the companies in India see the CSR law as an additional cost. However, the lens that the corporate world needs to look through is how it could be turned into an investment that can differentiate their business and deliver bottom-line returns. Internationally, companies use CR not only as an opportunity to maximise the social benefits but also to increase the business benefits. This way, it becomes a win-win for the business, government and the society at large.

As more and more Indian companies expand their footprint internationally and compete with global companies who are far ahead on CR, they need to quickly step up. In a recent Accenture study, 93 per cent of participating Indian companies said they were strongly committed to international growth, with 47 per cent planning to expand aggressively. Moreover, with international investors eyeing India, CR can become a key differentiator for Indian companies against their competitors.

Influencers and drivers of CR

Globally, the corporate responsibility strategy of companies is typically centered around four key pillars: environment, marketplace, community and workplace. This contrasts with the practice of Indian companies, majority of who focus more on the community pillar, which is only one of the key elements of CR but not the whole idea. However, with global influences and with communities becoming more active and demanding, companies will have to get more strategic in nature.

Corporate responsibility is influenced by PEST factors across the world.

P (political): Governments across the world are increasingly looking to corporates to act as partners, share responsibility and funding for social



Some of the activities listed in Schedule VII of Section 135 of the Companies' Act 2013, where companies can spend their CSR budgets:

- Eradicating hunger, poverty and malnutrition; promoting preventive health care, including sanitation and making available safe drinking water.
- Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly, and the differently-abled and livelihood enhancement projects; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water.
- Protection of national heritage, art and culture, including restoration of building and sites of historical importance and works of art, setting up public libraries, and promotion and development of traditional arts and handicrafts.
- Measures for the benefit of armed forces veterans, war widows and their dependents.
- Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports.
- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.
- Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government.
- Rural development projects.
- Slum area development.



issues. India, for instance, is the only country in the world where companies are now mandated to devote 2 per cent of their profits towards social and environment issues. This has created a debate internationally encouraging more countries to create a similar policy. The entire world is now watching India.

E [economic]: Internationally and in India, there is intense competition amongst companies to differentiate themselves. Corporates fight for positioning on CR to achieve differentiation and leadership and are increasingly integrating it with brand values and other corporate functions. For example, companies like Tesco, Waitrose, Marks & Spencers, and Walmart are aspiring to become the most sustainable retailer in the world by setting ambitious targets. Not only this, one can see the emergence of ethical brands within larger mother companies. For instance, Nike launched 'Nike considered', a commitment to integrating sustainable product innovation across Nike products. Investors and analysts are also

increasingly linking 'social issues' to business value drivers.

S [social]: World over, the distrust in corporations is increasing and one can see rising activism amongst NGOs and consumers. Even a small negative event can dent one's reputation built over years. For example, Google, Vodafone and Apple were recently in the news for tax-related issues. Meanwhile, UBS was held accountable for unethical banking practices and had to pay heavy fines.

T [technology]: In today's world of social media, increasing consumer activism and 24/7 media, managing stakeholders, and a company's reputation are top priorities for company boards particularly in the US, Europe and other developed countries.

Corporate responsibility offers companies a great opportunity to build reputation, differentiate themselves from competition and ultimately to drive their business. CR has multiple benefits that can be explained as 3Ps:

Protects: CR is like insurance. At times, you cannot measure the exact return from it. However, it helps reduce or mitigate

risk especially when crisis strikes.

Pays: CR acts as investment. It helps companies build reputation and attracts and retains employees, investors and customers. As per a recent report, 67 per cent people globally prefer to work for socially responsible companies.

Around 64 per cent consumers in Asia Pacific said that they will pay extra for products and services from companies committed to positive social and environmental impact.

Provokes: CR brings about change. It helps bring positive social benefits and also increases potential exposure amongst communities in which it functions, helping it get the license to operate. Conversely, if not managed correctly, it can pose real risks and reputational damage to companies and brands resulting in a negative business impact.

Creating an effective CR strategy

An effective CR strategy not only maximises social impact but also delivers bottom-line returns, and the management and top leadership have an essential role to play in driving it. For instance, Marks & Spencer's and Unilever are admired for sustainability because Plan A and Sustainable Living Plan respectively, are being driven by their CEOs and leadership teams. The first and the foremost step to create an effective CR strategy is to have the buy-in from the board for each step of the process. If the board is not convinced on the strategy and its strong linkage to business, chances are that it may not be approved or dropped over long-term.

The second step is to identify the elements of CR under four pillars — environment, community, workplace and marketplace, through intensive stakeholder consultations. What is important here is to identify the right stakeholders, and to ask them the right questions. Once you have identified the areas that you want to focus on under each of these pillars, you need to embed them through strategies, policies systems and trainings, followed by developing a robust measurement and reporting framework for each. For instance, a company decides to focus on gender diversity under workplace pillar. It should create a strategy for the same, setting targets, develop policies

to execute it through implementing agencies, and impart training to employees or staff involved in the execution process. The programme should then be monitored on a regular basis according to international benchmarks and the reporting should be robust, transparent and accurate.

While doing this, one should also ensure that the risks to business are identified and minimised or mitigated so that in an event of a crisis, the negative impacts to reputation can be reduced.

Another key step in creating an effective CR strategy is to have the right focus. It is not uncommon for companies in India to be involved in a wide range of CSR programmes across education, health, animal husbandry, environment, and so on, all at the same time. What this does is decrease both the short- and long-term social impact and business benefits. If companies are more focussed and work towards one "big idea", it would not only lead to maximising the social impact but will also lead to increase in business benefits. Being focused in the right areas also helps in creating a legacy and a best practice model that can be replicated to have a "multiplier effect" that helps address social issues on a large scale.

"A big idea" is something that's relevant and emotive to stakeholders, meets a clear societal need and fits in with brand and company's objectives. Forging a distinctive reputation via innovation and focused strategy not only helps in building thought leadership but also drives competitive advantage and in some cases has proved to increase sales. Aviva's global charity programme, Street to School, is a case in point. Aviva's corporate responsibility programme works towards moving underprivileged children from the streets to school. It not only fits in with the business objectives of the brand, but also helps in influencing the stakeholders like employees, customers, government and media. In India, the programme and its initiatives like the "Aviva Great Wall of Education" have helped improve the brand reputation and also increased sales across key cities.

Last but not the least, companies often do good but do not talk about it.



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Communication is one of the key steps in creating an effective CR strategy. Top global leaders in sustainability are those who communicate their programmes, both internally and externally, to different stakeholders. Paul Polman is identified as one of the world leaders in sustainability as he communicates Unilever's plans and its progress, either through videos or tweets on social media, or through internal newsletters to employees. In India, P&G's "Shiksha" programme is not unheard of, while Aircel ensures consumers are aware of the work it is doing as a part of "Save our Tigers" campaign. While this may or may not get results in the short-term, it will help companies create a differentiated position for themselves against their competitors in the long-run, when socially conscious consumers will start rooting for companies who are more sustainable or are doing good to the society.

As Mahatma Gandhi had said, "The future depends on what we do in the present", let's start working today to build a better future, where businesses, society and environment, can all grow together.

Paul Gillespie is the founder of the leading international CR and Sustainability agency Good Values. He is passionate about CR and delivering ideas, strategies and programmes that ensure companies achieve a 'bottom line' return from their work in this space.

