

CSR & Social Governance

(Chapter 6)

(Total= 20 marks)

Time - 1 Hr

Answer the following question.

Case Study 1

Corporate or a Corporation is derived from the Latin term “corpus” which means a “body”. Governance means administering the processes and systems placed for satisfying stakeholder expectation. The root of the word Governance is from ‘gubernate’, which means to steer. When combined, Corporate Governance means a set of systems, procedures, policies, practices, standards put in place by a corporate to ensure that relationship with various stakeholders is maintained in transparent and honest manner and business is conducted ethically.

The phrase “corporate governance” describes “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.”

Corporate governance is the broad term used to describe the processes, customs, policies, laws and institutions that direct the organizations and corporations in the way they act or administer and control their operations. It works to achieve the goal of the organization and manages the relationship with the stakeholders including the board of directors and the shareholders.

Corporate governance means to steer an organization in the desired direction by determining ways to take effective strategic decisions. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organization.

Questions:

(5 marks each)

1. Explain the factors due to which corporate social responsibility (CSR) implementation & execution may be hindered in developing economies like India.

Answer

1. Lack of Community Participation in CSR Activities: Majorly, communities who are intended beneficiaries of a CSR program show less interest which will affect their participation and contribution. Also, very little efforts are being made to spread CSR within local communities and in still confidence in the people. The situation is further aggravated by inadequate communication between the organization and the community at the grassroots level.

2. Issues of transparency: Lack of transparency is one of the key issues. There is a perception that partner NGOs or local implementation agencies do not share adequate information and make efforts to disclose information on their programs, address concerns, assess impacts and utilize funds. This perceived lack of transparency has a negative impact on the process of trust building between companies and local communities, which is key to the success of any CSR initiative.

3. Lack of Consensus: There is a lack of consensus amongst local agencies regarding CSR project needs and priorities. This results in lack of consensus often result in duplication of activities by corporate houses in the areas of their intervention. The consequence results in unhealthy competitiveness spirit among local implementing agencies, which goes against the necessity to have rather than building collaborative approaches on important issues. This factor limits organization’s abilities to undertake an impact assessment of their initiatives from time to time.

4. Civil Society Strengthening: Capacity for strong performance in the community is the foundation for lasting social benefits. Worldwide, civil society is an important social and economic force with the potential to create a more free, fair, and just global order. The collective nature of civic action helps to ensure that the interests of all citizens—including women, the poor and other

marginalized groups – are adequately weighed by public institutions that make policy and allocate resources. Many civil society organizations face common challenges that limit their effectiveness namely, the ability to manage human and financial resources, weak advocacy abilities, and insufficient management ability to scale up promising innovations and results to achieve wider impact.

5. Social Impact Management: This addresses the issue of inclusive growth is more than mere poverty alleviation. It seeks to address the problem of equity through the enhancement of opportunities for everybody.

2. How does the High-Level Committee on CSR (2019) link Schedule VII activities of the Companies Act with the Sustainable Development Goals (SDGs)?

Answer

The High-Level Committee on the Corporate Social Responsibility, in its report released in August 2019, has presented an analysis of the alignment of Sustainable Development Goals with the CSR activities as given in the Schedule VII of the Companies Act, 2013. The analysis not only maps the SDGs against each of the relevant activities as given under the Schedule VII but it also provides an analysis of the activity wise expenditure made by companies under CSR after notification of the mandatory CSR in India.

The High level Committee on Corporate Social Responsibility constituted by the Government of India, in its report, concludes that the framework for CSR, NGRBCs, UNGPs and NAP for Business and Human Rights, together constitute the institutional framework for achieving the SDG agenda of 2030. Alternate models and pilots need to be encouraged at all levels: partnership governance structures, funding models, and innovative impact assessment of scaling best practices. With the institutional framework in place, this committee recommends that another committee be set up in three to five years to further consolidate the learnings in this sphere. Incentives for high-impact social development programs/projects that enable us to move the needle on SDG's should be considered by the next committee.

There is need to align Corporate Social Responsibility, National Guidelines on Responsible Business Conduct (NGRBC) and some of the key International CSR Standards to Sustainable Development Goals to devise an effective framework that allows companies to operate sustainably across multiple jurisdictions.

Case Study 2

Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment. In other words, the heart of corporate governance is transparency, disclosure, accountability and integrity. It is to be borne in mind that mere legislation does not ensure good governance.

Good governance flows from ethical business practices even when there is no legislation. Good corporate governance promotes investor confidence, which is crucial to the ability of entities listed on stock exchanges to compete for capital. Good corporate governance is essential to develop additional values to the stakeholders as it ensures transparency which ensures strong and balanced economic development.

Corporate Governance as a concept has CSR embedded in it, whereby companies not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stake holders, environment, consumers, employees, communities, and all stake holders. Other members of the public sphere. The basic premise is that when the corporations get bigger in size, apart from the economic responsibility of earning profits, there are many other responsibilities attached to them which are more non-financial/social in nature.

Questions:

(3 marks each)

1. It is need of the hour that the Companies need to broaden the horizon of their CSR policies and activities to align with global or national priorities and goals. Aligning CSR activities with global

sustainability goals encapsulated within the 17 UN SDGs provide businesses the opportunity to achieve these social and business objectives. Explain the benefits for the mentioned above concept.

Answer

Few of the benefits are as below:

- Aligning CSR activities with SDGs establish direct contributions to national and global targets of social, environmental and economic development/growth. A good economy or socially developed communities expand the market and people's purchasing power increases, which ensure further growth of markets.
- The measurable contribution with larger goals can enhance corporate reputation, which can add great value to help establish a responsible brand. The socially conscious millennial consumer is vying for responsible brands and do not hesitate to spend extra bucks to buy the product with such a reputation.
- Sustainable business practices and ethical business are increasingly becoming mandatory requirements to enter and grow in the mature markets globally. Adopting sustainability practices aligned with CSR initiatives can help grow business globally.

2. What are the Sustainable Development Goals (SDGs) and when were they adopted by the United Nations?

Answer

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

The 17 SDGs are integrated – they recognize that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.

Countries have committed to prioritize progress for those who are furthest behind. The SDGs are designed to end poverty, hunger, AIDS, and discrimination against women and girls.

The creativity, knowhow, technology, and financial resources from all of society is necessary to achieve the SDGs in every context.

Businesses cannot prosper in a world plagued with poverty, inequality, violence and environmental stress. Hence, for companies, doing well and doing good simultaneously is of paramount importance.

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

SDGs were adopted on 25th September, 2015 in Paris where 193 countries, including India, ratified and signed the convention to accomplish 17 SDGs. The SDGs have a much longer history of evolution but there is considerable evidence to support the claim that even globally, CSR co-evolved with the sustainable development movement

Q3. **(4 marks)**

EcoTech Industries Ltd., a mid-sized manufacturing company, has been operating successfully for over a decade. While its financial disclosures, including audited balance sheets and profit & loss statements, have consistently shown healthy growth, its stakeholders – especially investors and environmental groups – began raising concerns about the company's environmental practices. In response, the company initiated a detailed Corporate Social Responsibility (CSR) and Sustainability Report. The report disclosed the adverse environmental impact of its production processes, including carbon emissions and water usage, and highlighted the corrective steps being taken – like

installation of renewable energy systems and community water conservation projects. How does CSR and Sustainability Reporting contribute to transparency and stakeholder trust?

Answer

A business entity incorporated with an objective to earn profits has certain responsibilities towards its stakeholders. These stakeholders may include investors, employees, suppliers, customers etc. The stakeholders track the developments in the company by means of the disclosures which such incorporated entities are mandated to make under laws applicable to them. The disclosures to be made by such entities are of two kinds viz, financial, and non-financial. The financial disclosures include various documents like the balance sheet, profit and loss account, cash flow statements etc. Whereas the non-financial disclosures include the Boards' Report, Corporate Social Responsibility reporting and various Corporate Sustainability Reporting. These disclosures enable stakeholders to make informed decisions.

It has become a prerequisite for every company to create better CSR reports. CSR or Sustainability Reporting is a means for corporate disclosures, companies need to disclose to its stakeholders, the adverse impact they are making and potential risks to society, economy, and environment by their operations. Not only the adverse impacts, but companies need to disclose the remedial and preventive measures being taken by them in order to address issues arising out of their operations. These disclosures not only help companies to take competitive advantages but also assist in attracting investments, value creation for share-holders and business stakeholders, attracting and retaining consumers/customers, positive branding, and competitive market advantages.

Measuring the adverse impact a business is making on social, economic and environmental spheres through its existence and processes, and also measuring the initiatives being taken by the business in terms of protecting and taking remedial measures is utmost important. CSR and Sustainability Reporting is a way through which companies can disseminate their efforts towards social, economic, and environmental sustainability and can win trust of different segments of business stakeholders

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