



Corporate Social Responsibility in Practice- An Audit

Introduction:

The basic edifice of management harbouring the theories, concepts, principles, techniques and implementation rests on the pillars of man as the active manipulator of his environment. Corporate Social Responsibility (CSR) is one such management concept where good business is not only seen as maximization of shareholder value but also of stakeholder value. CSR is about the management of a company's impact on its stakeholders, the environment and the community in which it operates. It is more than just a philanthropic activity for some charitable causes. It is about the integrity with which a company governs itself, how it fulfils its mission, the values it has and what it wants to stand for, how it engages with transparency. Here the corporations have to move beyond the financial bottom-line to the social and environmental bottom-line.

Creativity view of history suggests the need for new forms of creativity and innovation in the era of globalization. From the liberation view of history, we learn the lessons of empowerment, and the fall of the fittest view indicates the need for continuous innovation and a better understanding of the change process.¹ Ethically accepted corporate activity and profit-making are not mutually exclusive. Sustainable growth and success demands ethicality in the process of dealing with stakeholders. Analysis of history shows three distinct approaches to understand the relationship between the victor and the victim. These are: Domination, Exploitation, and Oppression. (Fig. 1)

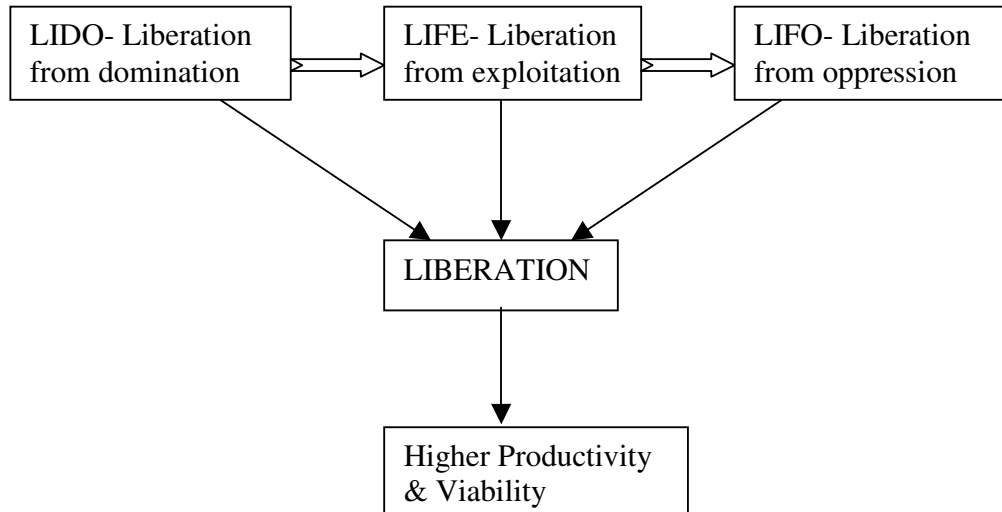


Fig. 1

Adapted from Sharma Subhash - A Brief History of History: Some Models of History and Lessons for Leadership and Management, Journal of Human Values 11:2 (2005),



The ideal of Ethics is certainly not a new concept. Since it is not possible to achieve it by mere mental process or literary thought we have to create a framework that meets the requirements of internal consistency and operational validity. Corporate social responsibility can thus be defined as “bringing corporate behavior up to a level where it is congruent with the prevailing social norms, values, and expectations of performance.”² However the relativity inherent in this definition need to be innovatively handled as formation of a corporate culture in a cross cultural scenario requires understanding of diversity and relativity and finding the principles which are non relative.

CSR in Operation:

The Committee for Economic Development in 1971³ issued a report which is being used as the base of our discussion in this article. The report consists of three concentric circles: The Inner Circle includes the clear-cut basic responsibilities for the efficient execution of the economic function- products, jobs, and economic growth.

The Intermediate Circle encompasses responsibility to exercise this economic function with sensitive awareness of changing social values and priorities: for example, with respect to environmental conservation; hiring and relations with employees; and more rigorous expectations of customers for information, fair treatment, and protection from injury.

The Outer circle outlines newly emerging and still amorphous responsibilities that business should assume to become more broadly involved in actively improving the social environment. Society is beginning to turn to corporations for help with major social problems such as poverty and urban blight. This is not so much because the public considers business singularly responsible for creating these problems, but because it feels large corporations possess considerable resources and skills that could make a critical difference in solving these problems.

Inner Circle:

CSR is not only about responsibility and relationship to the community outside it is also about how business operates and seeks to serve its own internal members because they come from the social milieu outside and relate back to it. The corporates need to take a prudent decision about what they want to offer to the society as a product. Whether the product would cater to an existing need or would create a need for a new product. Since the producers have the right to and necessary knowledge and skill to design, price, distribute and sell the product the impact through their product on the society can be immense eg. Vacuum cleaner or mobile phone. Whether the customer is treated as a ‘king’ or on the basis of ‘caveat emptor’ decides the level of CSR of the organization.

The process of production presupposes creation of jobs which by itself is a great service to the society. However is the concept of employee welfare embedded well through processes of non discrimination, elimination of child labour, living wages, social security, training, safety, health and well being, empowerment, lifelong learning and right to organize? Emerging CSR demands these.

Beginning with the internal stake holders the following finding is an eye opener- In a survey of CEOs prepared for the World Economic Forum in Davos, many



"acknowledged that their companies are still at the 'starting blocks' in terms of establishing key performance measures for corporate citizenship issues and integrating these into executive development and recruitment programmes, or into performance appraisals and incentive structures."

“The word profession implies professed attainment in special knowledge, as distinguished from mere skills; a practical dealing with affairs as distinguished from merely study or investigation; and an application of such knowledge for the use of others as a vocation, as distinguished from its pursuit for one’s own purpose. This sets the professional man in position which demands an attitude of service and leadership. His duties must be performed with a disinterested spirit in addition to the vocational spirit of earning a livelihood. Such men have a duty to the public; and in the performance of that duty they must exert their influence on that thought and practice of the day which affect the welfare and progress of the nation.”⁴ With increasing specialization the degree of interdependence has also increased therefore CSR demands such professionals. There cannot be rules for every relationship because rules are good as guidelines but not the end of all activity. We find that the thrust in most organizations has to be towards mutually understood vision and values to guide decision making. With increase in virtual organization and outsourcing processes collaboration and trust are the only way to get things done.

Intermediary Circle:

Businesses have to rethink and reengineer their purpose. The question that needs to be answered is does an organization require doing things that otherwise would be wrong? It has been argued that if we leave everything to the free play of competitive economic forces, voluntary self control by the industry and professionals will take care of socio economic and human arenas. However the reality has not lived up to this expectation. Significant dimensions have emerged reflecting polarization at various levels- traditional or secular, survival or self expression, competition or collaboration, efficient or effective, internal efficiency or external efficiency and finally economic man or altruistic man. Examples gleaned from the actions of leaders within organizations such as Enron, WorldCom, Tyco, Arthur Anderson, Oracle, AOL Time Warner, Sunbeam, and others identify the depth of need for scholarly research to develop responsive knowledge and action.⁵ In addition to social responsibility and cultural relativism, there is the issue of economic justice. Friedman⁶ (1962) wrote “there is one social responsibility of business...to use its resources and engage in activities designed to increase profits so long as it stays within the rules ... engages in open and free competition without deception or fraud.” From Friedman’s perspective, an individual leader has a primary obligation to increase profits and maximize the return for the shareholders within the law. Friedman maintained that it is the political authority that has the responsibility to foster social objectives. Ethical conduct under this capitalistic model could include using low cost labour in countries where it was not illegal regardless of working conditions and employee treatment. Similarly, operating plants that cause environmental damage or reckless depletion of natural resources would be considered ethical if it is legal in that jurisdiction. Conversely, Marxists believe that capitalism destroys the intrinsic value of



human labor if treated as merely a means of production or other input commodity (Krasemann, 2001)⁷.

Lane (2004)⁸ published the results of his study on Socially Responsible Investing (SRI). Unlike other studies that employ a negative process of excluding investments from a portfolio of certain socially or environmentally undesirable industries (tobacco, alcohol, gambling, defense, chemicals, mining, timber, and energy), this study followed an approach of positive screening for certain desirable behaviors. The behaviors ranked were in the areas of Environmental Practices and Social Justice (including diversity/employee relations, and human rights). A definite positive correlation was established between share value and market perception of the ethical conduct of public corporations. This perception is not only based on the honesty of leaders, but on the company's overall social responsibility.

As technology continues to make the world conceptually smaller, and the actions and decisions of leaders are immediately available for evaluation, the importance of an effective field of educational practice to develop the life-long learning of leaders becomes more critical. Similarly, the elements of social responsibility, access and human rights have never been so closely aligned between education and business as they are today. The successful multinational company of the future will not only depend upon a level of knowledge development, skills, and education among their employees, but also on a culturally diverse and homogeneously recognized and observed set of social and human values. This latter factor is necessary to ensure the dedication and loyalty of the employee and consumer toward optimizing future innovation and success.

The Outer Circle:

The extraordinary ability of the corporate community to influence the society and environment and its pervasive influence in all spheres of human activity necessitates the inculcation of values and culture to ensure sustainable growth. There is a growing awareness that government alone cannot bear the responsibility for development therefore various resources and talents need to be harnessed. Business responsibility – and its relationship to the community in which it operates and seeks to serve - is more important than ever. While pressures to make profits are unremitting; stakeholders expect ever-increasing standards of accountability and transparency.

There is a current trend in multinational organizations to shift the majority of their assets from tangible to intangible assets, namely, knowledge and other intellectual property. As this trend continues, the collective knowledge and skills of the global workforce becomes the single most important element in the differentiation and success of the enterprise. This asset transition is accomplished in part through out-sourcing and off-shoring, which pose questions relating to the scope of the enterprises' ethical responsibility. The enormous increase in competition with a free flow of information and other resources business have to continuously subscribe to cost cutting yet maintain the quality of the products. This search has naturally increased processes involving supply chain continuums and outsourcing. Therefore if we look at present day globalized business model it would look something like this :Fig. 2

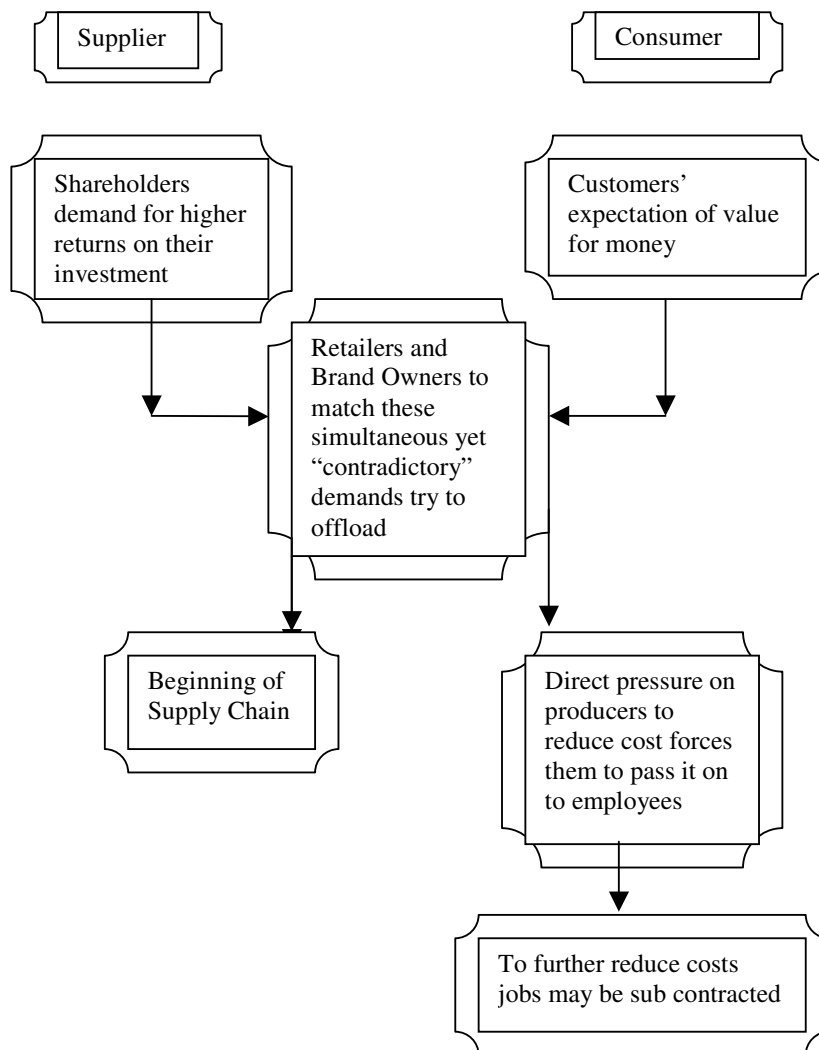


Fig. 2

Combinations of operational excellence with domain expertise are seen as increasing efficiency and effectiveness of business in a globalized world. By reduction in labour costs, reengineering processes, leveraging technology and taking advantage of the 24 hour clock and time differences the production levels have increased effectively. In spite of all the tension and stress there is growth in opportunities, global connectedness, high quality training and development, and, above all, professional growth in an environment conducive to operational excellence. Multi-process and multi-function programs that add greater value to clients are leading to transfer of entire processes not just tasks and outsourced firms are now being viewed as responsible partners not just captive outlets.



Corporate Social Responsibility is taking advantage of these opportunities for sustainable and holistic growth in both the inner and outer circles of the organization.

Developing countries like India have the great advantage of being “young” countries with extremely proficient working population. Every year, India graduates 2 million proficient English speakers with strong technical and quantitative skills, India’s top engineering schools pump out high-quality knowledge workers who are no longer simply coding software but moving up the value chain to high-level analytics and consulting. China graduated 325,000 engineers last year, five times as many as the U.S. The number of researchers in China soared from 531,000 in 1999 to 811,000 in 2002, more than Japan’s 676,000 and quickly approaching the European Union’s 1 million and the United States’ 1.3 million, according to the Organization for Economic Cooperation and Development. Obviously this attracts the global companies to leverage this advantage.

However, the problem lies in how the global organizations implement the outsourcing. Corollary to this buoyant picture we also have sordid tales of extreme drudgery and unethical management practices:

To achieve economies of scale in the global economy organizations have resorted to forced layoffs and changes in performance expectations. Though civil rights laws of various countries allow both compensatory and punitive damages as well as jury trials for cases of alleged workplace discrimination it is difficult to implement them due to various socio economic reasons. Social groups especially in developing countries desperately need employment as a means of escaping poverty and inequality. But unfortunately their vulnerability is turned into an opportunity by employers to pay them less, work them harder and longer, and avoid paying their rightful benefits. The result is a gradual but fundamental shift in who will gain from trade under the current model of globalization.

Oxfam’s research⁹ with partners in 12 countries involved interviews with hundreds of women workers and many farm and factory managers, supply chain agents, retail and brand company staff, unions and government officials. It has revealed how retailers (supermarkets and department stores) and clothing brands are using their power in supply chains systematically to push many costs and risks of business on to producers, who in turn pass them on to working women:

- In Chile, 75 per cent of women in the agricultural sector are hired on temporary contracts picking fruit, and put in more than 60 hours a week during the season. But one in three still earns below the minimum wage.
- Fewer than half of the women employed in Bangladesh’s textile and garment export sector have a contract, and the vast majority get no maternity or health coverage – but 80 per cent fear dismissal if they complain.
- In China’s Guangdong province, one of the world’s fastest growing industrial areas, young women face 150 hours of overtime each month in the garment factories – but 60 per cent have no written contract and 90 per cent have no access to social insurance.

The working conditions move in a vicious circle. The women take up jobs to support their meager incomes but working for low wages in unhealthy conditions eats into



whatever they earn extra. Added to the woe of having no savings for the future most of them do not have any facility of sick leave, maternity leave or any health or unemployment insurance schemes. This destroys their own health, break up their families, and undermine their children's chances of a better future. They are commonly hired on short-term contracts – or with no contract at all. The gimmick of 'flexible' worker adds to exploitation of the poor people's rights to protection.

A blind eye is turned to the abominable condition of these unprotected workers of the outsourced supply chain processes by the parent companies. Instead of supporting long-term development, outsourcing is reinforcing insecurity and vulnerability for millions as cost effectiveness demands cutting corners related to fair employment practices. The result: the very workers who are the backbone of wealth creation in many developing countries are being robbed of their share of the gains that trade could bring. The impacts are felt by workers in both rich and poor countries. Women and migrants from poor communities in rich countries – such as US and Canadian agricultural workers and UK and Australian home-based workers – likewise face precarious terms of employment in trade-competing sectors.

Over the past 20 years, the legal rights of powerful corporate entities have been dramatically deepened and extended. Through the World Trade Organization and regional and bilateral trade agreements, corporations now enjoy global protection for many newly introduced rights. As investors, the same companies are legally protected against a wide range of governments' actions. Workers' rights have moved in the opposite direction. Exploiting the circumstances of vulnerable people – whether intentionally or not – is at the heart of many employment strategies in global supply chains.

Corporate Social Responsibility requires that an analysis be made about the lack of employment opportunities and low income as both these aspects have tremendous macro level impacts that ultimately would demand answers from the business community. Poverty is the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Technological change and global competition accelerating changes in market demand and thus rendering traditional skills redundant, enhancing development related displacement, harming ecological factors, etc. are areas that businesses would have to proactively handle if they want long term sustenance and viability. "Governments themselves are often a source of shocks to households. This comes about through the way governments influence the economic, legal and political settings within which the household is embedded."¹⁰ (Baulch and Hoddinott, 2000). These changes in policies may be due to the demands of liberalization and globalization.

The process of development till recently pursued capital formation and raising of GNP in the erroneous belief that the mysterious 'hidden hand' and 'trickle down' effects would ensure the fair distribution of the gains of development. However in course of time it has become amply evident that affluence alone cannot be the goal for society as by itself it is



not an indicator of the quality of life. Corporates have to recognize this philosophy of empty plenty and work towards a process of change management that ensures holistic growth.

It is estimated that India accounts for 40% of world's malnourished children while containing less than 20 percent of the global child population.¹¹ (Measham Anthony and Meera Chatterjee,1999). Several reports in the media of starvation led suicide by weavers and small farmers highlight the hopelessness and despair faced by them despite their skills. Their lack of alternative income earning opportunities for earning a livelihood; or of access to assets and other resources that can help survive delayed payments due to market determined fluctuations; or even access to safety nets based on public support and action are aggravators. Access to food from the market necessarily requires purchasing power of some kind – based on income, wealth or debt. Timely help from the state requires 'voice', connections and committed, sensitive, responsive governance. Chronic conditions of ill health are drivers of poverty.

Poverty is usually defined in a limited way in terms of an income based poverty line. Several forms of human deprivation, including poor survival chances, unjust employment of children, child prostitution, bonded labour, environmental pollution, domestic violence, and social exclusion arising out of caste and gender discrimination, are not related to income in a predictable manner (UNDP,1997).

Mainstream development theories, policies and strategies supposedly analyse poverty through a neutral lens. However, most approaches are in fact not neutral because they assume the average male actor as the standard and consider the male actor as representative of the human actor. Consequently, policies that are supposedly neutral across all groups actually discriminate against vulnerable groups, (whether identified in terms of caste or tribe or disability or age or gender) as they address the lived experiences of these groups only to the extent to which they conform to or overlap with the norms set by the male actor¹²(Adapted from Kabeer1995).The combination of low entitlements, dependency and societal limitations that prevent realization of their capabilities due to denial of access to for example, literacy and education combined with 'market discrimination' result in their being concentrated in the low-paid end of the market. Their unequal situation in the labour market is linked to their increasing poverty. Not surprisingly then, given the double jeopardy of artificially low wages combined with the downward bias in estimating female work force participation, the contribution of females in the national income works out to be so low,¹³ (Shramshakti 1998:30) as authenticated by the Oxfam Report quoted earlier. Their disadvantage lies in less leisure, fewer opportunities, greater vulnerability, worse health and less education.¹⁴ (A,de Haan, and M. Lipton, 1998 : 22).

The attempt to introduce labour standards into trade agenda is not a recent development. Interestingly the on going debate is selective in its definition as it equates labour standards only with child labour. The question is should the standard be linked to trade? It assumes that ending child labour would benefit children when empirical evidence suggests the opposite. The Bangladesh Garment Manufacturers and Export Association,



which is heavily dependent on the US market undertook under pressure to eliminate child labour in the garment industry. Of the 50,000 children thrown out of work the majority found replacement work that was more strenuous, less safe and less paying. The argument overlooks the linkage between poverty and child labour. In poor countries sending a child to work is a rational economic choice as it supplements the family income. The import restrictive measures and trade sanctions are essentially directed against the export sector. In reality in the developing countries majority of children are deployed in the unregulated and unprotected informal sector which is a non export oriented sector.¹⁵ Another major worry is the loss of traditional crafts and skills because once the children get exposed to modern learning and technology there is no incentive and motivation to practice the trade followed by their forefathers. Therefore there has to be a conscious decision to encourage these crafts to ensure their continuity and viability.

The integration of national economies need to be based on social justice, and the improvement of labour conditions...¹⁶ as there is a strong interdependence between the economic, social and political dimensions of development. The need for voluntary international codes in multilateral fora exemplified by ILO's 1977 Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy reveal the concern at global level of the impacts of trans-national business.¹⁷

Outsourcing activities like the BPO industry is already transforming townships, creating more purchasing power, supporting large ancillary industries, instigating migration of talent to urban centers and changing the basic fabric of our society on consumption, service expectations and even relationships. People have more money to spend on consumables which is good for a developing country but a subtle question arises what kind of consumables? Are our youngsters becoming selfish and extremely shortsighted materialists? The institution of marriage is undergoing a total transformation due to the demanding pressure. There is mushrooming of crèches and baby care centers as both parents are employed due to the boom in the employment. How would organizations cater to the work- life balance would be soon looming large because the next generation also needs to be properly nurtured if we are looking at sustainable regenerative growth of a nation. Are we also facing the catastrophe of losing the vibrant and talented workforce to the deadly enemy called AIDS because of the change in lifestyles and the trend to experiment? "The time of the highest risk of HIV transmission coincides with the peak years of productive life in adult men and women", said Juan Somavia, Director General of the ILO. HIV/AIDS robs not only the work force of productivity and profitability by causing death and illness, but also by diverting healthy worker's time to care for HIV infected relatives. Surprisingly the corporate view of AIDS is as a charity or philanthropy issue when in fact it is an issue that affects corporate operations. Security is becoming a major concern urgently for the BPOs and call centres as the employees have to travel to and fro during "odd" hours. The recent case of the HP employee's gruesome rape and murder in Bangalore in India is staring everybody in the face and questions about labour laws and corporate social responsibility would have to be answered.¹⁸

The relative supply of knowledge workers in the advanced nations is diminishing and growing more expensive, while the supply in the developing world is rising and



becoming more cost-effective. However, the biggest challenge is to keep the employees motivated. There is a gap between their expectation and reality. They are becoming rootless, unable to find meaning in their endeavours. The increase in stress and lack of fulfillment are the major causes for dropouts from jobs and related psychological depression. Given the distinct cost advantages of moving jobs to the developing nations and the growing pool of researchers there who are able to assume the most sophisticated levels of work, it will be increasingly difficult for developed countries to justify leaving R&D work at home. Paralysis in structured traditional organizations when companies are afraid to try new concepts are killing them in front of organizations from foreign lands. One such area being innovation in CSR as the impact of these would be on both the internal and external community. “In 2002, the world Economic Forum unveiled the largest public opinion survey on trust that has ever been conducted. The survey, called “Voice of the People” interviewed 36,000 people across 47 countries on six continents. With this sample, results are statistically representative of the views of 1.4 billion citizens. Respondents were asked to rate their level of trust in 17 different institutions “to operate in the best interest of society.” The results show that global companies and large national companies are the third and second most distrusted institutions respectively. A more detailed follow up survey in 2003 conducted in 15 countries revealed that executives of multinational companies are the second most distrusted of eight categories of Institutional leaders....”¹⁹

The perceptions of technical competence, social competence, character, and commitment differ from culture to culture. Therefore, there is a crucial need in the practice of emerging CSR to create a systematic framework to understand cross-cultural misunderstandings. The way the parties –whether they be conceptualized at individual, group, organizational, or interorganizational levels- identify themselves and each other is likely to be significant in their ability to develop productive mutual relationships.²⁰ The findings of Salk and Shenkar (2001)²¹ of identity in international joint ventures add credence to the concept of culture. They were concerned with the participants’ choice of a primary social identity based on affiliation to a category such as national culture, parent organization, or the international joint ventures itself. However they question whether over time, there might be a change such that one of the other categories becomes primary. They suggest that social identities are not easily shifted and that “once established, (they) become a lens mediating the impact of contextual change on the enactment of the IJV (international joint venture) setting and functioning by its members.”

With outsourcing leading to higher productivity and lower prices for goods the economy would be able to create new jobs. The Bureau of Labour Statistics in US²² has estimated that the total employment is likely to increase from 144 million in 2002 to 165 million by 2012 largely as a result of outsourcing. Obviously there will be an augmented demand for employees and this gap would be filled by migrant labour and aging labour of the home country, as there is a dearth of young employees with a fall in birth rate in developed countries. Statistics reveal that workers over the age of 55 are expected to grow from 14% of the labour force to 19% by 2012.²³ The fall out of such a situation would require generation gap management or age management executives as the age range of workers

