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CORPORATE SOCIAL RESPONSIBILITY - ROLE OF GOVERNMENT

Neha Singhal
Assistant Professor
Department of Commerce
Sri Venkateswara College
University of Delhi, India

ABSTRACT

Interpretations of the term Corporate Social Responsibility (CSR) are many, but academics have achieved approximate consensus about what it consists of. An issue that started off as an interest- and motive-based activity for businesses is becoming more commonplace and has increased in importance over time. Governments have a role to play in ensuring that corporations behave according to the rules and norms of society; corporations stand to gain from CSR activities due to its social influence and acceptance. Hence governments play an important part in supporting corporate social responsibility initiatives. Governments can legislate, foster, partner with businesses and endorse good practice in order to facilitate the development of corporate social responsibility. Business has played a significant historical role in societal development, through philanthropy, or by having a motive beyond money making. For the past half a century, there has been a call by society in general for corporations to assume responsibility beyond mere financial gains for the shareholders. This paper tends to examine the need of corporate social responsibility and the role of government in promoting it.

INTRODUCTION

The issue of strengthening CSR has emerged during the recent financial scandals, such as cases of Enron and WorldCom in the USA and Procomp in Taiwan. Those fraud cases were enabled primarily by a lack of transparency (i.e. underreporting), along with less accountability (i.e. ethical irresponsibility). CSR model (Chih Hung Chen) is reflected by four major constructs: (i) Accountability: It is a concept that completely separates from responsibility: one could be responsible without being accountable because “responsibility may be assigned, enforced, or even mistakenly applied to an individual or group by an external force” (Wood & Winston , 2007). In business fields, a company that provides accountability acts in compliance with prevailing norms and justifies conduct that deviates from those norms (Sedikides, Herbst, Hardin, & Dardis, 2002). While there is a growth in the demand for companies to demonstrate accountability with regard to their business actions (Feltus & Petit, 2009), researchers suggest that the appropriate measures and reporting techniques help the determination of what a company is accountable for (Crowther & Green, 2000). Simply put, accountability is the duty to provide an account (e.g. a CSR report) of those actions for which one is held responsible. Openness is one of the key virtues of accountability (Tetlock, Thompson, Levine, & Messick, 1999) since accountable firms not only have to communicate with stakeholders regarding the types of behaviors that support the organization’s vision, values, and effectiveness, they also need to publicly model those ideas as well. In addition to openness, firms with accountability engage in answerability by taking proactive initiative to explain decisions, actions or commitments (Wood & Winston, 2007).

(ii)Transparency- has been defined as the degree of asymmetric information about control errors (Faust & Svensson, 2001). Corporate transparency is viewed as a group of characteristics of the process that enable participants outside the firm to understand and analyze the firm-specific information (Bushman, Piotroski, & Smith, 2004). Greater transparency can contribute an increase in credibility of a firm’s CSR and better strategic outcomes (Jensen, 2002). Intended to ensure and strengthen public confidence in the integrity, quality, and effectiveness of their products and services, companies in doing business must develop strategies to fulfill the goal of transparency.

When the scandals relating to WorldCom and Enron occurred, they undermined consumers' confidence, which inevitably translated into a public pressure for more transparent reporting and evidence of better ethical conduct. For companies, however, the choice of the optimal degree of transparency is a trade-off game associated with flexibility (Chortareas, Stavage, & Sterene, 2002).

(iii)Competitiveness- plays a critical role that leads a company to sustainability. To be competitive, companies have to provide not only the quality of products or services, but also demonstrate the CSR management of business (Price & Newson, 2003). Research has shown that top global companies reveal part of their effective management through comprehensive social and environmental policies (Snider, Hill, & Martin, 2003). Throughout these mechanisms, companies can have greater prominence in the minds of stakeholders and therefore build up a strong reputation (Rindova, Williamson, Petkova, & Sever, 2005).

Moreover, from the transaction point of view, while there may have been no previous transaction between a particular seller and buyer, a good reputation may signal the seller's competence and goodwill (Campbell, 1999). Organizational reputation is mainly built upon the dimension of collective responsiveness and recognition that a firm has long accumulated in its business field (Rindova, Williamson, Petkova, & Sever, 2005). Stakeholders observe a firm's behaviors and accumulate perceptions overtime. Reputation therefore reduces stakeholder uncertainty, and the buyers can rely largely their trust on the sellers' reputations (Morgan & Hunt, 1994) to evaluate the cost and benefit (Barone, Manning, & Miniard, 2004). As competitiveness is enhanced, firms may experience improvement of financial performance (Sharma, 2005).

(iv) Responsibility-Internally, companies need to develop internal responsibility management systems that establish corporate standards and codes of conduct and ensure that they are being implemented (Waddock, Marc, & Kirk, What will it take to create a tipping point for corporate responsibility, 2006). Externally, such systems provide credibility, internally, companies at a minimum need to adhere to globally accepted norms or standards of practice (Waddock, Marc, & Kirk, What will it take to create a tipping point for corporate responsibility, 2006) (Bansal & Hunter, 2003). In order to fulfill public expectations about corporate responsibility, Waddock et al. (2002) proposed a total responsibility measurement (TRM) approach for helping companies think through the responses to these pressures.

Corporate Social Responsibility Committee: Every company (Srinivasan) (Tom , Halina, & Bruce, 2002) having: (i) a net worth of Rs. 500 crores or more or (ii) a turnover of Rs. 1000 crores or more or (iii) a net profit of Rs. 5 crores or more; during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least than one director shall be an independent director.

The Board's report under clause 134(3) shall disclose the composition of the Corporate Social Responsibility Committee. The Corporate Social Responsibility Committee shall:

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activity or activities to be undertaken by the company as specified in Schedule VII; (b) recommend the amount of expenditure to be incurred on the activities referred to in (a) above; and (c) monitor the Corporate Social Responsibility Policy of the company from time to time. Activities which may be included by companies in their CSR policies: (i) eradicating extreme hunger and poverty (ii) promotion of education (iii) promoting gender equality and empowering women (iv) reducing child mortality and improving maternal health (v) combating human immunodeficiency virus, AIDS, malaria and other diseases (vi) ensuring environmental sustainability (vii) employment enhancing vocational skills (viii) social business projects (ix) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of SC/ST/OBC, minorities and women.

Role of a Government: Government actions are essential for creating an enabling environment for private sector development that diminishes risks, lowers costs and barriers of operation, and raises rewards and opportunities for competitive and responsible private enterprises. The challenge for governmental agencies in promoting a CSR agenda is to identify priorities, raise awareness, create incentives and support, and mobilize resources from cross-sectoral cooperation that are meaningful in the national context, as well as building on existing initiatives and capacities. Some key roles which a government can actively choose to engage to support a CSR

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agenda, (Tom , Halina, & Bruce, 2002)include (but are not limited to) the following: (i) regulating- This can come in the form of laws, regulations, penalties, and associated measures to control aspects of business investment or operations. Governments at different levels can regulate the behaviour or practice of business by defining minimum standards for business performance embedded within the legal framework; establishing targets for business to achieve; setting up enforcers and inspectorates to oversee business conduct; promulgating codes or laws to confine undesirable business conduct; or imposing license of operation or mandatory environmental friendly industrial systems. Examples of this include establishing a minimum age for labour forces. (ii) facilitating- Through facilitation, governments enable companies to engage in CSR to drive social and environmental improvements. Government may provide tax incentives and penalties to promote responsible business; ensure business can access information needed; facilitate understanding of minimum legal requirements for issues relating to responsible business practice; include CSR elements in related policy areas (such as industrial policy, trade policy, environmental policy, and labour policy); offer capacity building, business advisory services and technical assistance to business when needed; or, support supply chain initiatives and voluntary certification.

(iii) brokering-government can act as a broker in partnering public sector agencies, businesses, civil society organizations and other stakeholder groups in tackling complex social and environmental challenges. Government can do this by initiating dialogue in multi-stakeholder processes; supporting joint government-industry collaboration in capacity building and developing sectoral CSR guidelines; engaging stakeholders in standards-setting processes; promoting public-private partnerships for community development; and mobilizing resources. In this role as broker, government can also stimulate the engagement of key actors in a CSR agenda by, for example, providing funding for research or leading campaigns, information collaboration and dissemination, training, or raising awareness.

(iv) warranting- it can take various forms, including commitment to implement international principles; education or awareness raising programmes; official policy documents; publicity of good CSR practice conducted by other leading companies; specific CSR related award schemes

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(such as a National Green Business Award); or, endorse specific pro-CSR indicators, guidelines, systems and standards.

Initiative by Government: The next section introduces some initiatives which combine some of the different roles that government may undertake to raise the CSR profile of a country. (i) creating an enabling environment- There is substantial evidence that governments around the world have begun to take on a CSR agenda.93 Some studies emphasize the influence of public policy as a critical factor in establishing a context within which CSR practice can flourish.94 Public policymakers can thus initiate policies and measures enabling CSR to flourish using several means. Some key means used to introduce an enabling environment for CSR in a country include the following initiatives.

(ii) creating awareness and raising public support- CSR cannot be imposed against the will of enterprises, but can only be promoted together with them under involvement of their stakeholders. The first step to promote CSR in a country is necessarily to fill the knowledge gaps about the significance and contribution of CSR to business success and sustainability, as well to increase awareness and acceptance (Bertelsmann & GTZ, 2007).

(iii) Establishing a specialized CSR agency- Governments in many countries has decided to set up specific agencies with a specific mission to promote CSR practice in their respective countries. In Thailand, the CSR Institute (CSRI) was established in 2007 under the SET to promote CSR practices among its listed public company members. (iv) reforming regulatory frameworks to meet CSR-related standards- Government plays an important role in setting standards that reflect a minimum standard of good CSR practice or performance requirements. The government is thus in a position to determine if any legal requirement is needed to ensure compliance with these minimum social and environmental standards. It also can make necessary changes to regulatory frameworks in cases where laws, tax and administrative compliance may hinder the development of responsible business practice. It should be noted that the government role of defining minimum legal requirements on environmental or social issues can be accompanied by access to justice for individuals who are affected by the misconduct of business.

(v) Fostering interaction with businesses, NGOs and other key stakeholders-Government is in a unique position to convene necessary stakeholders in order to address social problems through a CSR agenda. In one way or another, governments can partner with foundations and corporations to support business responsibility initiatives. It plays a key role in facilitating meaningful stakeholder dialogue with the business community (for example, by building the capacity of civil society actors or by directly facilitating dialogue and multi-stakeholder processes).

In India, two dialogue forums directly relevant to CSR policy development were initiated.

First, the *Coordination Committee to Promote Affirmative Action in the Indian Industry* comprises the relevant government ministry offices (mainly the Ministry of Commerce and Industry), Associated Chambers of Commerce and Industry of India, Federation of Indian Chambers of Commerce and Industry, as well as senior representatives of industry. The aim of the partnership is to finalize a Code of Conduct on Affirmative Action and to set up an ombudsman with regional benches to monitor the compliance of the voluntary code of conduct by its members. Another forum is the *India Partnership Forum (IPF)* which is also involved in this multi-stakeholder dialogue forum. *IPF* has a more CSR-focused brief and addresses issues other than affirmative action, its areas of interest being the adoption and operationalization of a social code for business, the formulation of CSR, providing support to public policy measures on CSR, ensuring the mainstreaming of CSR education in business schools, capacity building for community development, capacity building for sustainable reporting processes and indices, building a CSR knowledge base, and providing communication and advocacy on CSR. In some cases, governments require companies to enter into stakeholder engagement through mandatory legislation. In many cases, governments can harness the community development potential of corporate philanthropy and social investment through dialogue to optimize their alignment with community needs. In certain cases, they can mandate corporate contributions in return for a license to operate. Such partnerships also aid in raising awareness of specific social problems and link to the engagement of business as well as the expertise of stakeholders in other sectors. Furthermore, a business-NGO partnership can provide leverage for the availability of private resources to be directly channeled to meet social and environmental solutions.

Providing support to increase capacity and effectiveness for business in CSR initiatives- Other interventions by governmental agencies in some developing countries have included capacity building activities designed to help domestic producers meet CSR standards. Outlines of a broadly complementary initiative in India serve as a good example.

The Indian Textiles Committee, part of the Ministry of Textiles, has taken up a national campaign to sensitize the textile and clothing industry, particularly in the SME sector, to address emerging challenges resulting from the forthcoming liberalization of the Indian textile and clothing industry. The Committee is working with the Ministry of Commerce, state governments, and local industry and trade associations on the campaign. Approximately 7,500 company representatives will have taken part in 25 workshops. The aim is to disseminate information on various standards and compliance mechanisms including ISO 9000 QMS, ISO 14000 EMS, and Social Accountability (SA8000) standards, as well as offer technical assistance to encourage implementation.

Conclusion

There is a strong link between CSR and inclusive and sustainable development. CSR provides a strategic and competitive opportunity. It is considered a cross-governmental issue, with a broad agenda related to social, environmental and international issues. Government should therefore seek to develop frameworks within which to assess local or national priorities as they relate to a CSR agenda. Government can help by mapping existing needs, opportunities and constraints in the local or national context in order to define appropriate modes of intervention within an overall national strategy. However, capacity constraints within the government itself should not be overlooked, particularly given the resource implications. Therefore, the CSR strategy of any government should go through a development process wherein locally appropriate modes of intervention are utilized rather than simply copying models from other countries. International cooperation may address the risks of reinventing the wheel and creating different levels of competition distorting requirement. Such cooperation can also mitigate capacity constraints such as by setting up a community of practice.

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