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Course
On

Human Resource Development

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Lecture 59: Diversity, HRD Ethics and
Future of HRD (Contd.)

Okay so welcome to the next session, you remember in the previous session we talked about the role of HRD in ethics.

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Session 4



Role of HRD in CSR and Sustainability

Now in this session basically we are going to talk about role of HRD in CSR and sustainability and development, and here we going to see that how HRD can play an effective role in developing social responsibility of the people, or social responsibility of the organization, that is your work in CSR which leads to sustainable development. Part of that we have already

discussed in the third session, in this session we are moving further to explain corporate, social responsibility.

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Corporate social responsibility (CSR)

- An ambiguous and problematic concept that is difficult to operationalise (Pedersen, 2006).
- It is sometimes impossible to determine corporate motives for developing CSR policies (Crane and Matten, 2007).
- The external focus of CSR is about the impact of an organisation's activities on communities, the environment and external stakeholders such as customers and suppliers.
- The internal focus is about how an organisation is managed and the impact this has on employees.

(Mankin, 2009)



Now if we look at this term it has been widely talked about in the literature, you will find that a lot of people have been engaged in these kind of activities since long, but it is still a very problematic concepts in the sense that it is very difficult to define exactly what does it mean, so you know that sometimes it is very difficult to see that why corporates are going to have and develop CSR policies, why they are trying to help.

Maybe sometimes they are trying to help or going for these kind of activities to appease people, to satisfy local people also, this might happen, otherwise to satisfy the government norms and standards which does not reflect the true motive for developing CSR policies or going for CSR administrative in the organization.

Now the fact is whether you are being forced by the external factors and that is why you want to engage in certain activities related to communities, environment, and other customers and suppliers, or internally you are so motivated or you are really interested to see that how as an organization does not become only a profit making body, but it is also equally responsible to the society commentary in the environment.

So there are number of factors so basically when we are talking about corporate responsibility the idea is that you are also responsible, you are going to act as a responsible citizen for the community, society, customers, others in the process, other stakeholders and also about the organizer, right, so when we are going to talk about corporate social responsibility you must keep these things in mind. So moving further about corporate social responsibilities, okay.

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The responsibilities of CSR

According to Crane and Matten (2007) CSR encompasses the following responsibilities:

- Economic
- Legal
- Ethical
- Philanthropic

Now if you look at this responsibility it could be in different areas, it encompasses different kind of responsibilities for the people, it could be in the field of economics, so helping people, monitoring, that could be legal, because there are certain legal frameworks or ethical frameworks, you think that it is your responsibility as a moral citizen it is your responsibility, you are accountable for these kind of things or you also engage sometimes in philanthropic activities.

So philanthropic activities should not come under CSR activities, it is something that you are doing for good of the society that is okay but it is something that is what you call volunteers, sometimes you are forced by certain things, sometimes there is a fear of certain things because of that you are going to engage in these kind of activities, or sometimes simply want to help somebody.

So all kind of charitable activities by the organization does that come under the purview of CSR, but sometimes these kind of responsibilities also considered and treated as CSR activities. So

when you are going to talk about CSR responsibility basically they might come under any of these things, we have already talked about many of them. Now we are moving further to see.

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Underpinning theories

Shareholder theory and stakeholder theory.

Shareholder theory gives priority to profit maximisation based on a corporation's legal obligations to generate shareholder wealth (Key, 1999).

Stakeholder theory looks beyond profit maximisation and focuses on social and environmental values, based on a corporation's moral obligations to all those who have a stake in the business (Freeman, 2001).

That what is the various theories basically which try to explain what CSR is? Now there are two major theories in the literature that could be find out, one is known as shareholders theory, the other one is the stakeholder's theory.

Now if you look at the first theory that is shareholder's theory, it means that an organization has a number of shareholders who have invested money in the organization, so the organization should try to ensure through their productivity, revenue generation, these kind of things to ensure profit maximization, it means most of the organization has been set by the objectives to maximize the profit and they think it is the obligation on the part of the organization to generate wealth which can be distributed to the shareholders who have invested money in the organization, right, that is one thing.

But if you look at the stakeholder theory it says that it is not the shareholders who are the only stakeholder in the process, you are not going to work only for profit maximization, but the other stakeholders are also in the process, with communities, societies, environment, so you also have a moral obligation to understand your responsibility for these stakeholders who belong to society, maybe people. maybe community, maybe customers, even the environment and that is why you remember that we have been talking about this triple bottom line where you are equally

responsible apart from the economic factors, the people and environmental factors because all these three have stakes in the business.


So you should not forget about this, so it means that you should not only be concerned about profit maximization, that could be your primary responsibility but at the same time you should also be equally responsible to other stakeholders in the process. Now if you look at these theories in detail.

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Levels of CSR activity in Indian Companies

- Companies are reasonably strong on governance, weak in disclosure, stakeholder based CSR and, sustainability.
- At least a third of all companies fail to beat the half way mark on all the fronts.

Rank (2014)	Company
1	Mahindra & Mahindra Ltd.
2	Tata Power Company Ltd.
3	Tata Steel Ltd.
4	Larsen & Toubro Ltd.
5	Tata Chemicals Ltd.
6	Tata Motors Ltd.
7	CAIL (India) Ltd.
8	Bharat Petroleum Corporation Ltd.
9	Infosys Ltd.
10	Jubilant Life Sciences Ltd.



And try to find out different kind of activities that has happened by the Indian companies, so I was trying to get data, so you will find that yes the kind of activities that they do in terms of their disclosures and sustainability reporting stakeholder by the CSR activities and sustainability and how strong they are in governance, so when we are talking about governance means how transparent systems, policies, procedures you have to govern the organization, okay,

It means that how you work, that is more important, how different activities are governed, right, so if you look at the data suggest that yes most of companies which have been listed there are very, very strong when it comes to governance, okay, but they are very, very weak when it comes to reporting in terms of the disclosures, CSR activities, and sustainability, okay. It means that most of these companies which have been surveyed here at least one third of them, at least 33 percent companies fail to beat the half way marks, they have not even reached up to 50 percent when it comes to disclosure, CSR and sustainability reporting, right.

Now if you look at the plan that was plotted in 2014 by an organization which was asked, basically asked to survey the various companies, they could find these companies have been engaging in CSR activities and they are on the top of the list starting with say Mahindra and Mahindra , Tata Power, Tata Steel, L&T, Tata Communications, Tata Motors. Gail, BPC, Infosys, and Jubilant Life Sciences.

Now if you look at these companies you will find that at least four Tata companies have been doing well when it comes to governance and CSR activities, right. So this is the level of CSR activities in Indian organizations.

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Moving further, now if you look at this matrix, basically this matrix have been created from a report which was the published by IIM Udaipur 2015, and this report talks about India's top

companies for CSR and sustainability 2015, right. So when I was going through this report they have created a kind of matrix to explain the spending and the score, the CSR score of all the companies which have been surveyed.

Now if you look at spending, that CSR spending where how much they are spending, on average basically spending of their net profit on CSR activities and if you look at the CSR score which moves from low to high. If you look at spending which is very, very low, okay and also the CSR activities is very, very, CSR score is also very, very low, so they are known as starting hour, it means that they have just initiated spending more on CSR activity or they started spending something.

So many of them on CSR activities and the total number of companies in this is around 50 companies, right. Similarly some companies have started spending but they are going to spend this or utilize that money in a very effective way so that they were able to create a better CSR score for them, and in 20 companies, 20 companies are there in the list,

Similarly you will find that though some companies have been spending lot of money but if you look at the efficiency their CSR score is very less, It means that they have not been able to effectively utilize that money, though they are spending money but it has not been effectively utilized and that is why you will find that the CSR score of these companies are very less, and at least 50 companies, they have been doing very well.

For example if you look at the CSR spending that is very good and similarly you will also find that the CSR score is also relatively high, so they are known as pace setters, these are the companies which could be used as bench marks in terms of utilization of the money on different CSR activities and also they have been very, very productive and they have been doing well on that account when it comes to CSR activities.

It means these CSR activities have really resulted in betterment of what you call this factors related to society or the environment. It means that they have invested wisely and that is why they are known as pace setters, okay. So using this CSR matrix you can find out that almost 30 to 40 percent companies have been very effective when it comes to spending on CSR activities.

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Companies	In Crores
RELIANCE INDUSTRIES LIMITED	652.0
NTPC LIMITED	491.8
OIL AND NATURAL GAS CORPORATION LIMITED	421.0
TATA CONSULTANCY SERVICES LIMITED	294.2
SOUTH EASTERN COALFIELDS LIMITED	270.9
ITC LIMITED	247.5
CENTRAL COALFIELDS LIMITED	212.8
NMDC LIMITED	210.1
TATA STEEL LIMITED	204.5
INFOSYS LIMITED	202.3
POWER FINANCE CORPORATION LIMITED	195.5
HDFC BANK LIMITED	180.0
ICICI BANK LIMITED	170.0
GAIL (INDIA) LIMITED	160.0
WIPRO LIMITED	150.0

Moving further, now if you look at top CSR spending companies you will find this data and the data suggests that these are the top 15 companies, spending companies and the source of this information is Ministry of Corporate Affairs because they publish these kind of data on CSR spending annually by all the companies and here you will find that reliance is on the top.

Then you have NTPC, ONGC, TCS, South Eastern Coalfields, ITC, Central Coalfields, NMDC, Tata Steel, Infosys, Power Finance Corporation, HDFC, ICICI, Gail and Wipro. So these are the companies which have been spending reasonably good amount that is more than the limit the government has set up, 2% of their profit.

It is not exactly 2% of their profit that they are making but at least they are spending substantial money on CSR activities. So if you look at this list and if you see that many of them may be acting as pace setters.

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And some of them will be smart utilizes where they are going to spend their money wisely to get a good score, that means the influence that the impact that they have been able to create on society and the environment is appreciable you can say, right.

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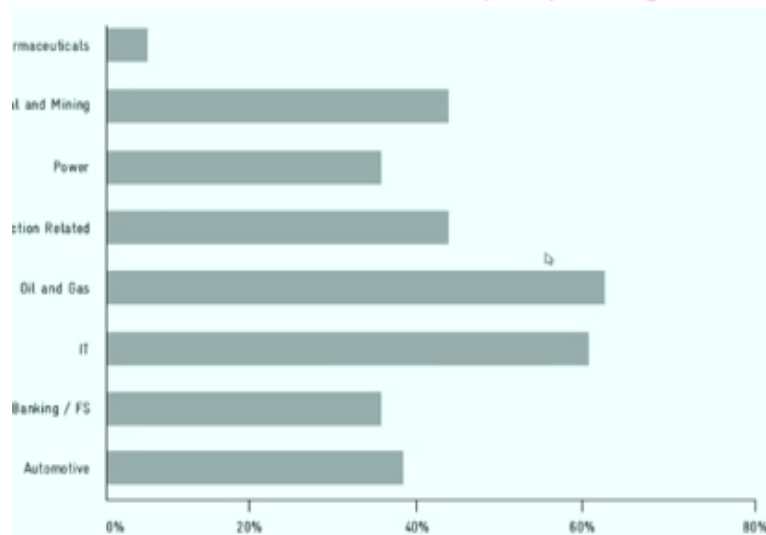
Top 15 CSR spending companies
Source: Ministry of corporate Affairs

Companies	In Crores
RELIANCE INDUSTRIES LIMITED	652.0
NTPC LIMITED	491.8
OIL AND NATURAL GAS CORPORATION LIMITED	421.0
TATA CONSULTANCY SERVICES LIMITED	294.2
SOUTH EASTERN COALFIELDS LIMITED	270.9
ITC LIMITED	247.5
CENTRAL COALFIELDS LIMITED	212.8
NMDC LIMITED	210.1
TATA STEEL LIMITED	204.5
INFOSYS LIMITED	202.3
POWER FINANCE CORPORATION LIMITED	195.5
HDFC BANK LIMITED	194.8
ICICI BANK LIMITED	171.5
GAIL (INDIA) LIMITED	160.6
WIPRO LIMITED	159.8

Now after getting this data on CSR spending by the company we move further to discuss about the things.

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Sector wise Sustainability Reporting



See, if you look at this data which suggests that what is the sector wise sustainability reporting? This basically suggests that when you are going to engage in CSR activities it helps in sustainable development. Now if you look at this data, this suggests that the two major sectors which are spending lot of money on, or are able to disclose what they are doing in the name of CSR and other activities.

So basically if you look at the sustainable reporting this data suggests that oil engage sector and IT sector is doing well. It means that they are able to go for more disclosures, what they are doing in the name of CSR activities. Then you have metal and mining companies followed by what you call construction, banking, and automobiles. What is surprising is the pharmaceuticals basically, they are spending very little money on these kind of activities, right, hardly 5 to 6 percent, so this is reporting.

There were proper disclosures where they are going to report about different kind of activities that they undertake in the name of CSR activities is very, very less. This contrast is that those companies which are not doing well, this will also try to disclose more and more about their sustainability practices, what they are doing in the name of sustainability. So maybe they are more concerned about profit maximization, they are not looking at the other agenda, so if you look at the stakeholder theory you can see that most of the company are trying to take care of all the stakeholders.

But while some companies are only interested in profit maximization, and they are only looking at the agenda of this and to satisfy their shareholders because they have invested money in the organization. They think that their objective is to make profit for the organization because it is the basic primary objective for which the organization have been set, right.

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We move further, now you see that what kind of disclosures are made by the various companies, right, so it could be classified into three kind of activities, in addition to CSR they have been able to inculcate these things in their systems and practices and management both, right. Now we will start with CSR activities, see what kind of sustainability initiative have been taken by the Indian organizations, it include like they are going to finance or finance these kind of activities, donations, sponsorships right, and different activities, assisting in disaster relief activities, providing education or creating education apps, or education centers.

Providing health care facilities, creating infrastructure, they are like making road and these kind of things okay, cultural conservation by supporting these kind of activities, okay. They also engage people in livelihood activities by training them in certain activities so that they can earn livelihood and then they also participate in environmental conservation practices like roping more trees okay and making them aware about how to participate in these kind of activities, right.

Now if you look at core banking or core business practices it means that they are trying towards green operations, they are try to say that how climate change is going to impact them okay, and they are going for green supply chain, try to use more renewable energy, they are focusing more on health and safety of the people okay, and they try to make sure that work place is more sustainable in nature.

Moving further if you look at some other things like organization and management okay, so that they are giving awards if you are going to engage in these kind of activities people you are trying to go for certifications and say audits of the organization related to see certain ISO systems and practices which are related to environment, right. They try to develop systems in policies, have code of conduct to, and try to inculcate in the systems and practices that mean companies are going for say green operations, right.

So you make it a policy that you are going to have a paperless office, you are going to have green buildings, right, so it could be a part of the policy and systems, right, and make sure that you are going to follow certain code of conduct related to sustainable practices, okay, and you also communicate with employees and stakeholders that this is your agenda when it comes to sustainable practices, okay.

So many companies have done it, the only thing is that they are spending more on CSR compared to other activities, right, but gradually they are moving from CSR and they are trying to inculcate these kind of things into the systems and practices and making it part of the management philosophy, right. So apart from this sustainability imitative by the organizations you will also find.

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Shareholder theory

- A CSR strategy underpinned by shareholder theory encourages a short-term perspective.
- Financial scandals associated with this approach: Enron (where losses and debts were hidden in various subsidiaries); World Com (\$3.9 billion was wrongly accounted); and Adelphia Communication (who invented 500,000 subscribers) (Zink, 2005).
- Criticised as an overly simplistic view given that business organisations have to satisfy the needs of stakeholders other than shareholders (Freeman et al, 2004).

(Matten, 2009)



Look at shareholders theory in detail and see when, remember we were talking about shareholders theory and stakeholders theory okay, it means that your basic job is profit maximization which could be a short term perspective and you know because of this there would have been lot of analytical instances where the companies have been engaged in certain practices and systems, okay, which could not be called specially responsible or ethically responsible, right.

You know that the famous example of Enron, right, so where you try to I mean hide certain things okay, like your huge losses and debts, okay. World.com, that is another example that can be given okay, where 3.9 million was wrongly accounted or Adelphia communication okay, who invented 5 lakh subscribers. Similarly India also had this example of this okay, and they have gone for these kind of scandals, okay.

So the basic idea was to make more and more profit by engaging these kind of activities okay. So what I want to say here is that see it is not simple to understand this kind of thing unless you are able to see that it in a broader perspective, so it is not only that you are going to satisfy the need of the stakeholders who invested the money, right, you also need to look at other stakeholders in the process okay, so that is why these shareholders theory has been criticized and that is why we have been talking about stakeholders theory okay.

Where we are going to look beyond shareholders okay, because there could be a other stakeholders also in the process where you are going to see that not the short term perspective that gaining profit in the short term but you are going to see that how you are going to sustain

this kind of profit in the long term, and it is possible if you are going to inculcate in ethically and socially responsible behavior.

And you are able to satisfy not just the stakeholders or shareholders who have invested money but other stakeholders in the process, right, and that is why it is very, very important for the HR to look into these issues, okay. So the perspective of CSR changes provided the kind of theory that you have followed whether you follow shareholders theory or stakeholders theory, so if you follow shareholders theory you are going spend the minimum that is prescribed by the government, if you follow stakeholders theory you are going to spend as much as possible.

Beyond that 2 percent that is minimum prescribed by the government under the companies act for the benefit of the people and the society.

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Benefits of CSR: Organisation

- Improves and enhances company image and reputation
- Attracts new customers
- Increases customer satisfaction and builds longer term customer relationships
- Accumulation of customer goodwill
- Employee benefits result in higher productivity
- Limits government interference
- Sources of finance are more readily available
- Minimises the likelihood and cost of fines and legal actions

(Mankin, 2000)



So if you are going to follow these kind of CSR practices you know that it has lot of benefits for the organization, right, you are going to have a better image and reputation for yourself, as a company you can track new customers, customers will be most inside, you will going to be in long term customer relationship, okay, and the goodwill that you are going to earn from the customer because the kind of systems and practices you adapt, and it depends upon what you do in the community and society and they are going to recognize and appreciate this.

And it also results in high productivity, government will not interfere because you are not doing something that is not required and ethically desirable and then you will find the data says that companies who engage in ethical and social practices, okay, they are better financed by these financial institutions, okay. Whether the financial institutions understand that you are not engaging in certain practices and then tomorrow you are not engage in any kind of scandals or unethical practices, okay.

Because of which you, I mean you yourself be artistic, right, so it is always beneficial for the organizations from all perspectives if you look at it, and then you are not going to be under any kind of legal net because fines and legal access may be there if you are not going to follow certain practices, which is basically comes under the regulatory framework. So your behavior should be governed under two framework, that is regulatory framework and also under the code of conduct where you are going to follow certain norms and practices which is good for your organization, apart from these benefits of CSR for the organization.

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Benefits of CSR: Employee

- Increases employee trust in management;
- Attracts new employees;
- Increases employee satisfaction, motivation and morale;
- Improves employee retention.
- The consumer feels good about buying products from companies they trust.
- The consumer will talk positively to family, friends and colleagues about the company.

(Martin, 2009)



It is also good for the employees in terms of creating better trust, attracting new employees; they would be more happy and satisfied because they know that you are doing something that is good. you will be able to retain people and also customers feel that yes, you are going to buy products from companies that can be trusted, because if you take the name of company, they will say oh! This is a very good company, so the kind of reputation and randomness that you build is going to attract more workers and if you are going to create these kind of trust and goodwill probably you will be talked about in very positive way among your colleague's, friends, family, everyone.

Apart from these benefits to the employees society may also get benefits because they are going to come with this companies, you know that lot of NGO's are associated with these organizations and these NGOs are going to help this organization to ensure these kind of activities that they should take up related to the society, community, or the environment.

And it also helps in evaluating certain social ills because you can go for; we have rehabilitation programs in case of health or theses other things or you can develop infrastructure or scores, or you can sponsor these kind of things which could be organized by various agencies and that is where you can play a very important and significant role, by the growth and development of the, you know that sometimes players are being sponsored by the organization.


Even the training abroad is being sponsored by many organizations, so that is how they come and try to help people to improve their quality of life and wellbeing, right.

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Potential problems of a poor approach to CSR

The organization	The employee	The consumer	Society
Poor publicity—impacting on company image and reputation	Less commitment to the company	Views the CSR cause as a publicity stunt	Environmental degradation
Loss of customer goodwill	Lower levels of productivity	Takes custom elsewhere	Breakdown in community cohesion
Consumer boycotts products and/or services thereby reducing turnover		Makes derogatory remarks about the company to family, friends, and colleagues	
Increases the likelihood of fines and litigation thereby adding to the costs of the business			

(Mankin, 2009)



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Moving further you see that if you adopt a very poor approach then what happens? If you are not doing well and if the results are not very encouraging then there is a possibility, this possibility is for everybody, whether it is organization employee, consumer or society. If it is organization you had bad image, bad goodwill, customers are not going to buy your product, they will even back on it, okay, right.

And then you have possibility for going for legal actions against you, employees will not be happy and satisfied, they will be less committed, the productivity will be low. Consumers again is not going to happen because they think that you are using it as a public city stand, that is all, but you are not taking care of the customers.

Similarly if you are not doing something for the society and you are doing something that is not good for the environment then there will be degradation of the environmental factors, there could be divide and breakout in the facilities of the community because you are not working for them, you are not promoting those things which is required for these kind of activities. So if you are having a poor approach towards corporate social responsibility there could be lot of potential problems that you might face, so it is better to go for that and the results suggest that if you have a very positive attitude and approach towards CSR activities.

Spend lot of money wisely to ensure the growth and development then it always helps the organization in a better way, not only in terms of performance but you also have all kind of thing

that we have discussed just now in terms of reputation, what will randomize better customer attention, profit, all kind of things might come out.

So we have to see that now what is the role of HRD in the CSR activities, see the idea is that you are going to invest in CSR activities that is also investment in the people, so if you have surplus resource apart from your profit, you are going to spend in that way it is always good for the organization because we are going to create human capital.

For example if you are going to sponsor a satellite for better training approach you are going to invest in that person so that he is going to bring fame for the country, so it is, this investment always has a good return, so you will find occasionally you stick to the training part, if you look at HRD and talk about the whole growth and development of the employees.

And you can also train people and employees that how they can go for CSR activities which is going to be reflected in different kind of say criteria that we have used to value CSR activities. But if you are not being trained and you do not know what kind of activity should be taken then you cannot be either pace it or smart out, you will be in the bottom end or both sides, spending as well as your CSR score, so it is very important to look at these things.

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HRD and CSR (2)

In terms of the HRD literature:

- The HRD role is seen as being more influential at a strategic level (e.g. developing democratic values in the workplace and focusing more on social justice than performance improvement according to Hatcher, 2004).
- According to Maycunich Gilley et al, 2003:
 - The design, implementation and review of social audits;
 - The design, implementation and evaluation of improvement projects;
 - The communication of CSR benefits through daily HRD practice.

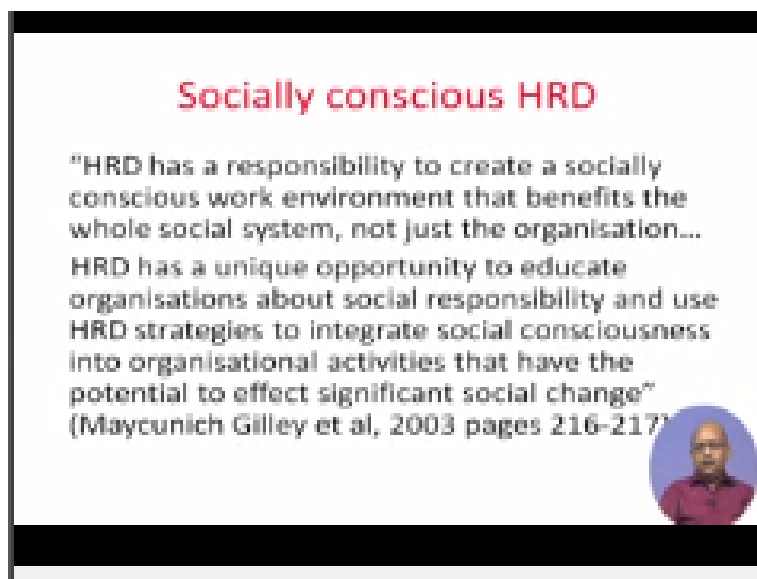


Similarly in terms of HRD you know that you have to act as a strategic partner, means that you need to create values and systems so that you are able to focus on social justice other than

performance improvements. So when it comes to social justice you also need to take care of other stakeholders apart from the stakeholders of the companies, so you have to see that how you are going to design those activities.

How you are going to audit it, how you are going to implement and evaluate these kinds of projects and now you know the company is trying to separate it from the HRD and some progressive components have separate CSR department entirely devoted to CSR activities so that their money is wisely spent and they get better rate on their investments that they are going to make in the name of CSR activities, right.

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So the major role of the chart is to create a socially conscious effort on the part of the human resource development, so you need to create environment that benefits the whole social system that the organization, and that is why you are going to educate people and organizations about it and make sure that HRD status is integrated into social consciousness, and into organizational activities which is basically has a potential to effect significant social changes, not only change in the performance and the behavior, and that is it, it has a more important role.

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HRD and CSR (3)

Act as an advocate for employees when an organisation breaches the psychological contract.

Ensure that decisions are arrived at democratically by involving all stakeholders.

Teach and promote ethical management and leadership.

Challenge and improve traditional performance measures to include socially responsible metrics.

Raycunich Gilley et al (2003)



Then you also act as an advocate for the employees, because if the psychological contract is reached then there is a problem, make sure that you are taking decisions more democratically involving all the stakeholders in the process because they are going to affect it, you also teach and promote ethical management and leadership, challenge and improve traditional performance measures, include social response matrix, ideally it is good to talk about it.

But you find that many companies are not doing these kind of things, somehow they are trying to spend the minimum prescribed 2 percent of the profit, and that is their compulsion, it is not even voluntary, so if you look at the role of HRD it must be on ensuring profit for the organization and make sure that all the stakeholders are equally benefited out of it. Thank you very much.