

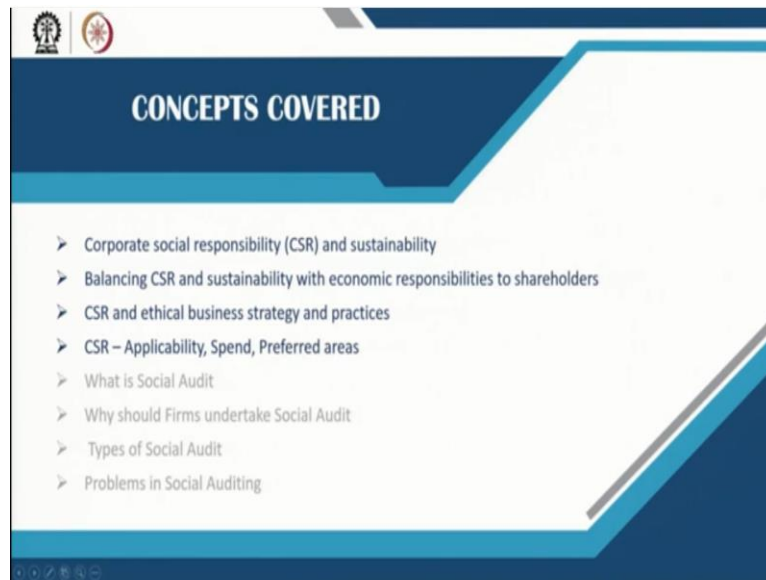
Strategic Management for Competitive Advantage
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Lecture 45
Corporate Social Responsibility and Sustainability

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Welcome to the strategic course management for competitive advantage. In the last class, we completed corporate governance. Now, today we will start a new module, which is strategy and social responsibility. In this in first lecture, we will be going through Corporate Social Responsibility and Sustainability.

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In this lecture, the concepts that will be covered are corporate social responsibility and sustainability. As I have told you, then balancing CSR and sustainability with economic responsibilities to shareholders, has to be balanced; then we will talk about ethical business strategy and practices and how important is it.

Then, we will also discuss corporate social responsibility which is applicable to which type of companies then what should be the spending criteria and what are the preferred areas that an organization shall do CSR activities. This is all we will be discussing in the first lecture. Thereafter, we will go for the; what is a social audit? How? Why should firms undertake a social audit, what types of social audits and problems in social auditing?

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14. Strategy & Social Responsibility

➤ Social Audit and responsibilities

- Co.'s societal responsibility and sustainability
- Managers have 4 responsibilities

Economic- Must do	Legal- Have to do	Ethical- Should do	Discretionary- Might do
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Source: A.B. Carroll

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To start with the social audit and responsibilities. So, first, every company has some responsibility to society and that goes beyond the profit-making or economic criteria. So, suppose a company take a decision, its board decided to close down the plant. Can they do it just like that?

They cannot because it is a major decision and that decision will affect not only the employees of the company but their families, and their dependents, then the local community, the suppliers, customers, and everybody will be affected. So, it is not a simple decision, but this has to be that is why the company's mission and objective have to fit in the society, fit in the country's structure, should fit in the business, and what business they are in everything matters.

So, the previously in the previous earlier businesses and all mostly it was guided by economic criteria, there is one philosophy is there that Friedman and all they say the business of business is business not that your charities or social work. So, that is a very extreme view.

That view nowadays no one is following or the government will not allow you because when you are in society, a company when they are in a society, it is in a marketplace. The market is what they are taking, consuming the land, they are consuming air, and water they utilizing communication systems, internet, they are utilizing transportation systems. They are utilizing the electricity, and whole utilities.

And so the companies also have a responsibility towards society to pay it back. This is the social responsibility and only if the company goes for the societal and environmental nowadays that environment is also very important. So, if you cannot look at both these, your business will be affected; we will be talking more about it in the next slide.

But before then, that gives sustainability. These managers have 4 responsibilities; what are these 4 responsibilities managers have? These are as per Carroll Economic responsibility, Legal responsibility, Ethical responsibility and Discretionary responsibility. What is Economic Responsibility?

It is must do it is the primary concern for the business is the profit-making, that is, the production and the services that they offer, goods and services they offer to the society and society or the customers value those products or services and that some since it has values they are willing to pay.

So, the company earns revenue, and in this way, the business company can repay the suppliers, repay creditors and also repay shareholders. This is a must-do for any business organisation. Then there is legal compliance, legal that you have to do is mandatory; you have to follow the law of the land, you have to follow the (employment cell) employment law of that country, and you have to follow the pollution, and environmental laws.

So, you cannot go on polluting the environment, waste management, or everything those are guided by the then Companies Act and Security Exchange Board regulations. So, there are many-many regulations and all you have to abide by. So, these are the mandatory or statutory legal laws; you have to, duties you have to follow.

Then there is ethics. This is what the company should do; what is ethical? Ethical is when society thinks or expects certain behaviour from the company or any individual society thinks this is appropriate you should behave like this. So that way, society also thinks the company should do this; this is ethical that should do that this is.

Suppose the company wants to lay off some people; it is going through financial hardships. So, they can do it, but they should take into the confidence of the employees. They may assist them in getting, another job that they may give, train them, enhance their skill and facilitate them to

get another job outside; these are the ethical responsibilities (they are doing), they should do, these are the ethical responsibilities. Then discretionary responsibility, this is might do that it is not mandatory or it is not that they have to do it.

But despite that, somebody can do, for example, some philanthropic work, you are donations to charities, or you construct a, construct some sanitary toilets and all outside in the locality these are discretionary you earn goodwill and people are very satisfied they do not expect that, but when they get it you are doing it they are delighted these are discretionary. So, in fact your corporate social responsibility falls in ethical should do and discretionary in these two domains.

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The slide is titled "14. Strategy & Social Responsibility". It contains a bulleted list under the heading "What is CSR and its purpose?":

- Types of stakeholders
- Reconciliation of stakeholders objectives
- Sustainability – triple bottom line

Handwritten notes in red ink are present:

- A definition: "CSR is concerned with the ways Co exceeds the minimum obligations to stakeholders through specified regulations and corporate governance."
- A diagram of a tree where the trunk is labeled "S.P.A." (Profit, People, Planet). The branches are labeled "Performance/Values" and "Economic", "Social", and "Environment".

The slide also features a small video inset of a man in the bottom right corner and logos for IIT Kharagpur and NPTEL at the bottom.

Now, coming to what is CSR? And what is its purpose? We will talk about it. So, what is CSR? A CSR, can you answer? Okay, I will tell you. A CSR is a way, CSR is concerned with the way an organisation may exceed its minimum obligation to stakeholders through those the specified regulations and corporate governance; I will write it for you.

So, CSR is concerned with how the company exceeds the minimum obligations to stakeholders through specified regulations and corporate governance. This is just one definition. I am telling you there are plenty of definitions for CSR the other one I will define it here in the next one or two slides that will be more elaborate.

So, you can define CSR like this. Now, to go through it that stakeholders so, and also CSR is best described as the reconciliations of different stakeholders' objectives; there are stakeholders, and there are many stakeholders in an organisation. Who are the stakeholders? Can you name a few? Stakeholders are your internal employees, your customers, your suppliers, your shareholders, your creditors, and your joint venture partners than anybody you name its local communities.

Then the pressure groups. So, everyone is a stakeholder and, in short, you can see the stakeholders are those who are influenced by or can influence the decision-making often organisations. So, you can for the purpose of categorisation, the stakeholders can be grouped into two, two types of stakeholders one is saying contractual stakeholder and the other is a community stakeholder.

Who are the contractual stakeholders? Contractual stakeholders are your employees, your customers, your suppliers, and your shareholders; they have some, they abide by some laws, and you have some obligation through the laws to look after them, so these are the contractual stakeholders.

Another is the community stakeholders; who are the community stakeholders? Your local neighbourhoods, community, and pressure groups, are the ones that are less protected by the law through by the law as far as the company's work is concerned, activities are concerned. So, CSR is mainly concerned with those community stakeholders.

So these stakeholders have different interests, so the varying interest there is a conflict this conflicting interest CSR tries to balance that, CSR tries to reconcile these conflicting demands or the interest of different stakeholders. So, then CSR is also closely linked with sustainability. In the very beginning, I told you that sustainability.

Because what are today's business objectives are not confined to economic criteria or only merely profit-making; it is also concerned with looking after the environment, looking after societal aspects, benefits and all. So, today's balance sheets are that having said triple bottom line, it is not only the economy that profit and loss account, on economic terms, so, what is this triple bottom line, this triple bottom line is what it is also called 3Ps triple bottom lines are say economic, social and environmental, economic, social and environment.

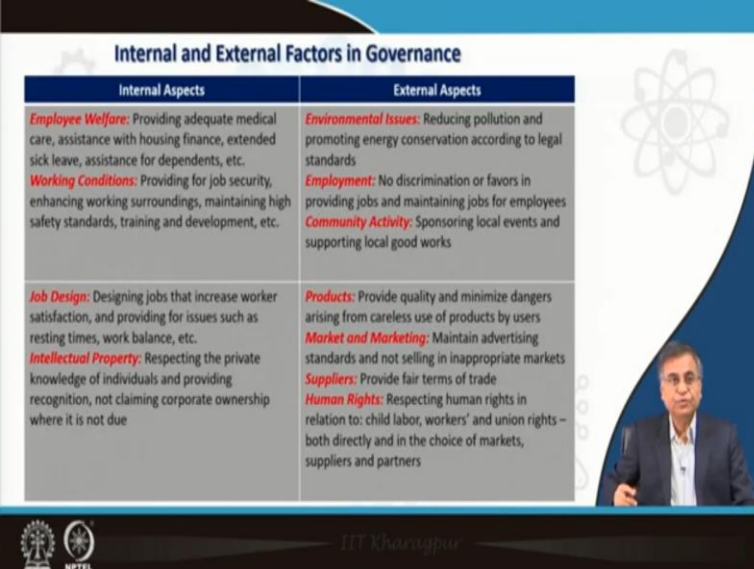
So, you cannot they pollute the environment, you must look after the for clean air, clean water, and clean surroundings, so, no noise pollution, no air pollution, no waste management have to be done all these are the to take the care of the environment. You have seen that a few years back, Starlight is a part of Vedanta company.

So, Starlight near Chennai was closed down by the local communities because they were polluting the atmosphere, so, they had to close down so and social welfare; you have to look after the people, your employees, their dependents, and their local community at large.

So, these are the, so the performance metrics nowadays is having, these are the performance metrics. Metrics for the triple bottom line, the triple bottom line is this is also called 3Ps. 3Ps are what? 3Ps are the same profit; economic is profit, then social is what? People and the environment is a planet. So, both are the same. So, these are what you have to look after.

So, only if you look after the social and the environmental aspects, then only will it give you sustainability in the business, you can sustain the business, and you can have a sustained competitive advantage in the market. So, CSR is also linked with sustainability this way, clearly.

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Internal Aspects	External Aspects
Employee Welfare: Providing adequate medical care, assistance with housing finance, extended sick leave, assistance for dependents, etc. Working Conditions: Providing for job security, enhancing working surroundings, maintaining high safety standards, training and development, etc.	Environmental Issues: Reducing pollution and promoting energy conservation according to legal standards Employment: No discrimination or favors in providing jobs and maintaining jobs for employees Community Activity: Sponsoring local events and supporting local good works
Job Design: Designing jobs that increase worker satisfaction, and providing for issues such as resting times, work balance, etc. Intellectual Property: Respecting the private knowledge of individuals and providing recognition, not claiming corporate ownership where it is not due	Products: Provide quality and minimize dangers arising from careless use of products by users Market and Marketing: Maintain advertising standards and not selling in inappropriate markets Suppliers: Provide fair terms of trade Human Rights: Respecting human rights in relation to: child labor, workers' and union rights – both directly and in the choice of markets, suppliers and partners

Now, next we move to the internal and external factors in governance; what is this? These are the governance process that gives you the general directions of the CSR activities.

So, what are the internal aspects of organisations? These are the say for governance and all employee welfare, that is what providing adequate medical facilities not only to the employees but their dependents also like a spouse or the father, mother if they are not having those specified income level, then extended sick leave assistance for dependents that I told you these are the employee welfare the companies provide as goodwill and all.

Then working conditions, companies should give, provide the atmosphere work surroundings that help to have better productivity so safety standard, minimum safety standards have to be maintained, training and development, providing job security all these are part of working conditions.

Then the job design, the job design should be such that it enhances the productivity of the people and also it should be to enhances the satisfaction, job satisfaction of the people and the like they should have a work balance. The provisions for resting, restrooms and all these are many and the job should not be too laborious if it is too laborious specific allowances should be given, so, job designs are those.

Intellectual property that is respecting the private knowledge of the individual; if some individuals do some creative work beyond office hours and also not related to his work, suppose someone writing a book novel and all that should not be the intellectual property of the organisation; it should be those things should be that individuals property, intellectual property, so, you recognise the individuals providing recognition.

External aspects are environmental issues like you have to reduce pollution as I told promote energy conservation according to the standards specified in the country, that particular state or country then employment-related issues like there should not be any discrimination for providing jobs and maintaining jobs for employees.

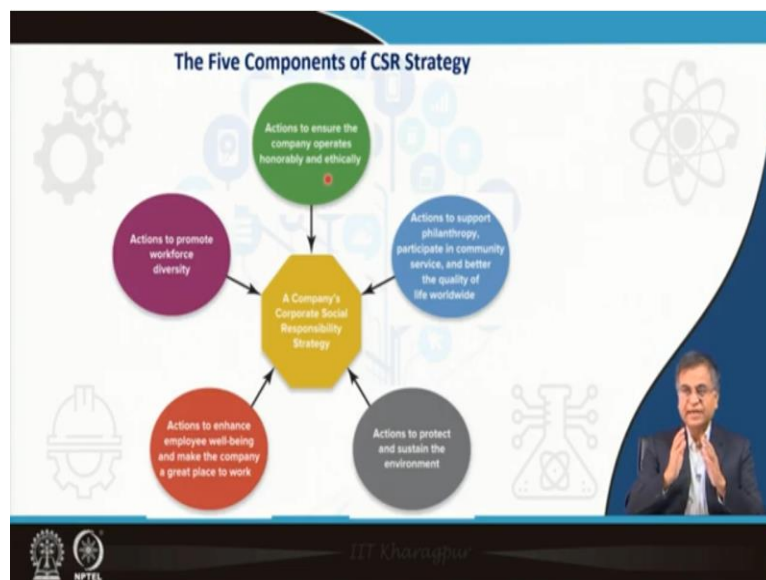
The community activity like sponsoring local events and supporting local good working, works and all then also the products related like the product should be the whatever the company is producing should be a quality product and there should be very robust, and it should minimise the dangers from careless handling of the product.

Suppose the telephones, telephones and all if falls from the hand it should withstand that, it should not break or nonfunctioning immediately, so, that design aspect has to be there within the products, so careless they can absorb those shocks and all. Then market and marketing maintain advertising standards like not selling inappropriate products or advertising wrongfully, which are not ethical things.

So, those things have to be maintained by some ethical marketing standards. Then, suppliers, the supplier should have fair terms, and fair terms of trade, the contract should be such that you give them incentives for good qualities, good delivery on time and all and also impose a penalty if they falter, even if you can blacklist them.

Then human rights like respecting human rights in relation to child labour, so discouraging using child labourers, workers and union's rights, these are some of the human rights issues, those are also factors you have to consider when you are growing a governance process for giving general directions for your CSR activities, so, this is that.

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Now, coming to there are five components of CSR strategies; as I told you during the definitions of CSR, so, this is CSR you can also define it as a strategy that refers to the duty of the organisations to operate in an honourable and ethical manner. This is very important in the ethical manner and the honourable man manner.

So, that generates goodwill that has a long-term reputation for sustainable organisations; these are the intangible assets, like take the case of Tata. When a company Tata Sons and all name comes up, people generally relate it that they have high ethical standards, the people they relate with that, that conversely, if you see many other companies, if I tell the name, people do not hold them in that high esteem I am refraining from naming companies.

So, you can make out. So, these are the very important CSR refers to the duty that a company ensures that it operates honourably and ethically and it enhances or provides the employee's satisfaction or well-being or the and gives the facilities for the workplace to improve their productivities or agreed to place of and make the company a great place to work.

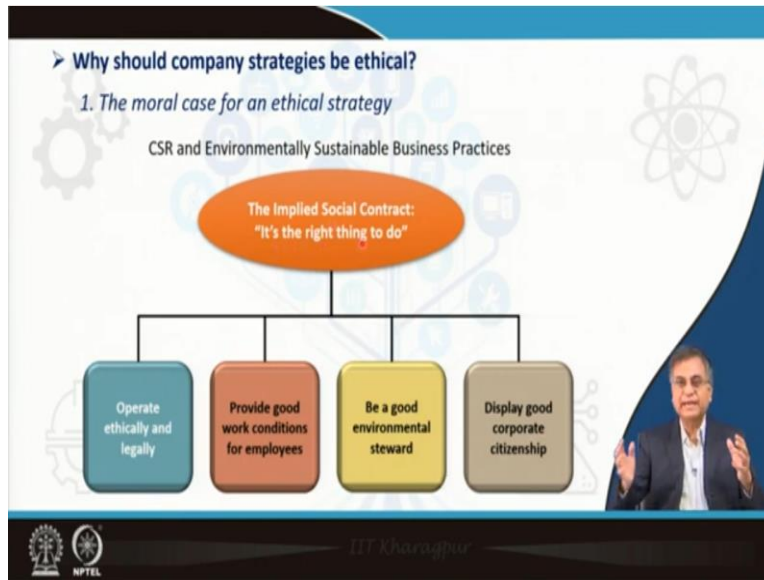
So, how do-do they? Suppose if you give the exercise facilities says up few treadmills and gym equipment, you put it in the office in some rooms and all that gives the employee motivate to exercise in the office and that fits them, that improves their health and also in effect company will be benefited in terms of less medical expenditure in terms of higher time spending in the office and increase in productivity, so, this.

Then again, it refers to CSR refers to an action to promote workforce diversity in the organisation; Workforce diversity in terms of gender, in terms of ethnicity, in terms of nationality, and many other factors. So, a great company you will find big companies, say Microsoft or Google or Apple, and there is great diversity in the workforce and all.

So, CSR is also concerned with this workforce diversity, and CSR also refers to the duty that the company should promote, to protect and sustain the environment in which it is operating, that is, the general environment that has to be protected, no pollution, no and there should be waste management and all those things.

And also it refers to the company should support charitable work, then participate in community development community service and trying to improve the life of the local community, so these are the basic essence of the CSRS duty. So, these are the five components of the CSR strategy that should be undertaken by an organisation; your CSR strategy should evolve based on these five components. Now that we have discussed this one that the company operates honourably and ethically, we will discuss ethical strategies and all we will discuss a bit more.

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Why should companies' strategies be ethical? You can answer this; it should be ethical because of two reasons. One is the moral case for an ethical strategy, and the other is the business case for ethical strategies. So, first, we will discuss the moral case, which is CSR and environmentally sustainable business practices.

This is moral, and morally you should do that no because you have to protect the environment and that way, you can attain sustainability in your business. So that means the social contract is implicit in it; it is the right thing people think, it is the right thing to do, what is the right thing to do, you should do.

So, you should not violate that; what are these as few dimensions like operate, if we ethically and legally that is the best way of doing any business and or any work as an individual also, you one should do ethically. What is legally permitted is the first part, then providing good work conditions to employees as an organisation.

You should it is your ethical duty to provide good work conditions. In that way, not only the employees who will be benefited but the organisation will also be benefited from long-term sustainability and improvement in productivity and quality. Then be a good environmental steward like you should respect and take proactive actions for environmental concerns. So, you have those green issues, that carbon footprint that has to be reduced those you take actions on that.

Then display good corporate citizens and become responsible corporate citizens that will give you the these are the moral case for ethical strategy. So, it would be best if you did not violate all these aspects.

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➤ Why should company strategies be ethical?

2. The business case for ethical strategies

Costs incurred when Ethical Wrongdoing is discovered

Visible Cost	Internal administrative costs	Intangible or less visible costs
<ul style="list-style-type: none">• Government fines and penalties• Civil penalties arising from class-action lawsuits and other litigation aimed at punishing the company for its offense and the harm done to others• The costs to shareholders in the form of a lower stock price (and possibly lower dividends)	<ul style="list-style-type: none">• Legal and investigative costs incurred by the company• The costs of providing remedial education and ethics training to company personnel• The costs of taking corrective actions• Administrative costs associated with ensuring future compliance	<ul style="list-style-type: none">• Customer defections• Loss of reputation• Lower employee morale and higher degrees of employee cynicism• Higher employee turnover• Higher recruiting costs and difficulty in attracting talented employees• Adverse effects on employee productivity• The costs of complying with harsher government regulations

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Another case is the business case for ethical strategies; what are those business cases? These are the business case for ethical strategies that you incur a cost when ethical wrongdoing is discovered; you can take a shortcut, suppose taking a bribe, giving a bribe or taking bribes to promote your businesses; these are not ethically correct.

But companies, some companies say shrewdly or cleverly try to defend that like they can cite an example, like you when you give it tips to the restaurant waiters and all that is you give it in for the services they have rendered and all that way they try to equate it that way. Still, it is not the right thing you know.

So, when these wrongdoing, ethical wrongdoings are discovered, then you face it, the cost incurred is huge. What is the cost of the business? Some costs are visible, some costs are internal administrative costs, and some costs are intangible or less visible. This visible cost comes when you do unethical, following unethical strategies which invite the wrath of the government of the public. This visible cost are government imposes fines and penalties, then civil penalties arising from class action lawsuits and other litigation aimed at punishing the company for its offence and the harm done to others.

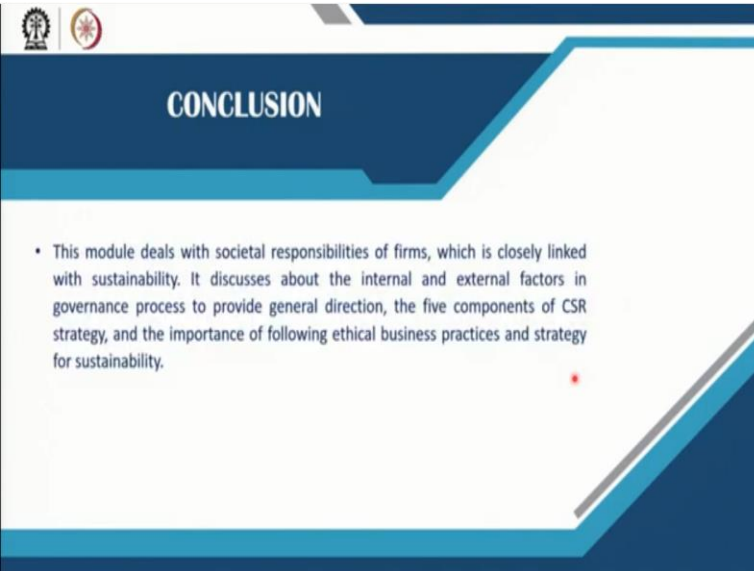
So, they impose even their people are imprisoned, the cases are there for the financial these business wrongdoings and all the bribings and all they have been imprisoned, the cost of shareholders in the form of lower stock price when these things come out, people come to know the stock price, comes down tumbles down and possibly lower dividends this.

The internal administrative costs are, say, legal and investigative costs, then incurrent by the company, then the costs of providing remedial education and ethics training to company personnel. Then the costs of taking corrective actions and also administrative costs associated with ensuring future compliance are the internal administrative cost.

Then there are intangible or fewer website costs and less visible cost. These are customers may defect when customers may not loyal customers may go when you are doing unethical work. Then the loss of reputation, lower employee morale and a higher degree of employee cynicism it comes in higher employee turnover, higher recruiting costs and difficulty in attracting talented employees.

Then adverse effects on employees' productivity because morale is down, so productivity is also expected to go down. The costs of complying with harsher government regulations are less visible, but these costs are huge. So, it is always better for the company to follow ethical business practices. So, this is very important.

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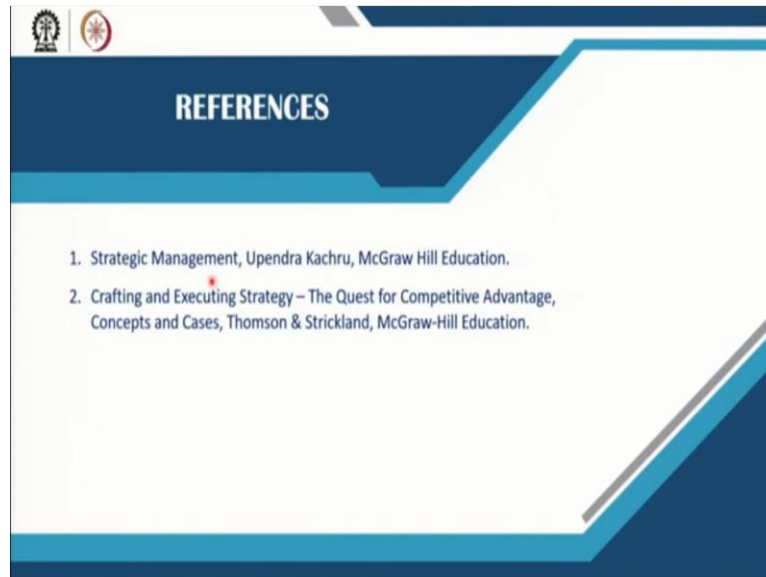


CONCLUSION

- This module deals with societal responsibilities of firms, which is closely linked with sustainability. It discusses about the internal and external factors in governance process to provide general direction, the five components of CSR strategy, and the importance of following ethical business practices and strategy for sustainability.

To summarise, what we have discussed today, we can tell that this module deals with the societal responsibilities of firms, which is closely linked with sustainability. It discusses the internal and external factors in the governance process to provide general directions, the five components of CSR strategy and the importance of following ethical business practices and strategy for sustainability. All these we have dealt with very details.

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So, these are some reference books; you can go through these to further enhance your knowledge of corporate social responsibility and ethical business practices. So, thank you very much for attending this lecture.