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THE EVOLUTION OF SOCIALLY RESPONSIBLE INVESTMENT AS AN OFFSHOOT OF CORPORATE SOCIAL RESPONSIBILITY

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Abstract: **Socially responsible investing follows standards to only invest in businesses that abide by good social values and work towards promoting positive outcomes for many social problems. Such goals can include promoting women and education, engaging in social justice and protection of environment. SRI will avoid allocating funds to companies that are seen as causing harm to the social wellbeing of humankind. As corporate social responsibility has been debated and practiced in one form or another for more than 4000 years. For example, the ancient Vedic and Sutra texts of Hinduism and the Jatakas of Buddhism include ethical admonitions on usury (the charging of excessive interest) and Islam has long advocated Zakat, or a wealth tax. The modern concept of CSR can be more clearly traced to the mid-to-late 1800s, with industrialists like John H. Patterson of National Cash Register seeding the industrial welfare movement and philanthropists like John D. Rockerfeller setting a charitable precedent that we see echoed more than a hundred years later with the likes of Bill Gates. Despite these early variations, CSR only entered the popular lexicon in the 1950s with R. Bowen's landmark book, Social Responsibilities of the Businessman. The concept was challenged and strengthened in the 1960s with the birth of the environmental movement, following Rachel Carson's critique of the chemicals industry in Silent Spring, and the consumer movement off the back of Ralph Nader's social activism, most famously over General Motors safety record. The 1970s saw the first widely accepted definition of CSR emerge – Archie Carroll's 4-part concept of economic, legal, ethical and philanthropic responsibilities, later depicted as a CSR pyramid- as well as the first CSR code, the Sullivan Principles. The 1980s brought the application of quality management to occupational health and safety and the introduction of CSR codes like Responsible Care. In the 1990s, CSR was institutionalised with standards like ISO 14001 and SA 8000, guidelines like GRI and corporate governance codes like Cadbury and King. The 21st century has been mostly more of the same, spawning a plethora of CSR guidelines, codes and standards (there are more than 100 listed in The A to Z of Corporate Social Responsibility), with industry sector and climate change variations on the theme. Therefore this research paper has perspicuously discussed the functioning of CSR and acclimates in different business environment.**

Keywords: **Corporate social responsibility, socially responsible investing.**

1. INTRODUCTION

VALUING SOCIAL RESPONSIBILITY PROGRAMS:

Companies face increasing pressure from governments, competitors, and employees to play a leading role in addressing a wide array of environmental, social, and governance issues—ranging from climate change to obesity to human rights—in a company's supply chain. Over the past 30 years, most of them have responded by developing corporate social responsibility or sustainability initiatives to fulfill their contract with society by addressing such issues. Many companies are creating real value through their environmental, social, and governance activities—through increased sales, decreased

costs, or reduced risks—and some have developed hard data to measure even the long-term and indirect value of environmental, social, and governance programs. It's not surprising that the best of them create financial value in ways the market already assesses—growth, return on capital, risk management, and quality of management (Exhibit 1). Programs that don't create value in one of these ways should be reexamined.

Exhibit 1

The best environmental, social, and governance programs create financial value for a company in ways that the market already assesses.

GROWTH	
New markets	**Access to new markets through exposure from ESG programs.**
New products	**Offerings to meet unmet social needs and increase differentiation.**
New customers	**Engagement with consumers, familiarity with their expectations and Behavior.**
Innovation	**Cutting edge technology and innovative products and services.**
Reputation/differentiation	**Higher brand loyalty, reputation, goodwill with stakeholders.**
RETURNS ON CAPITAL	
Operational efficiency	**Bottom line cost savings through environmental operations.**
Workforce efficiency	**Higher employee morale through ESG.**
Reputation/price premium	**Better workforce skills and increased productivity.**
RISK MANAGEMENT	
Regulatory risk	**Lower level of risk by compiling with regulatory requirements.**
Public support	**Ability to conduct operations, enter new markets.**
Supply chain	**Ability to secure consistent, long term and sustainable access to safe.**
Risk to reputation	**Avoidance of negative publicity and boycotts.**
MANAGEMENT QUALITY	
Leadership development	**Developing of employees quality and leadership skills.**
Adaptability	**Adapt to changing political and social situations.**
Long term strategic view	**Long term strategies encompassing ESG issues.**

HOW ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PROGRAMS CREATE VALUE

The most widely known way that environmental, social, and governance programs create value is by enhancing the reputations of companies—their stakeholders' attitudes about their tangible actions—and respondents. Moreover, it has long been clear that financially valuable objectives—such as better regulatory settlements, price premiums, increased sales, a reduced risk of boycotts, and higher retention of talent—may depend, at least in part, on a company's reputation for environmental, social, and governance programs that meet community needs and go beyond regulatory requirements or industry norms.

However, environmental, social, and governance programs can create value in many other ways that support growth, improve returns on capital, reduce risk, or improve management quality. Breaking out the value of these activities enables companies to communicate it to investors and financial professionals.

GROWTH

New markets. IBM has used environmental, social, and governance programs to establish its presence in new markets. For example, the company uses its Small and Medium Enterprise (SME) Toolkit to develop a track record with local stakeholders, including government officials and nongovernmental organizations (NGOs). In partnership with the World Bank's International Finance Corporation, India's ICICI Bank, Banco Real (Brazil), and Dun & Bradstreet Singapore,

IBM is using the service to provide free Web-based resources on business management to small and midsize enterprises in developing economies. Overall, there are 30 SME Toolkit sites, in 16 languages. Helping to build such businesses not only improves IBM's reputation and relationships in new markets but also helps it to develop relationships with companies that could become future customers.

New products. IBM has also developed green data-center products, which help the company grow by offering products that meet customers' environmental concerns. A new collaboration between IBM and the Nature Conservancy, for example, is developing 3D imaging technology to help advance efforts to improve water quality. This project applies IBM's existing capability in sensors that can communicate wirelessly with a central data-management system in order to provide decision makers with summaries that improve water management. At the same time, it also addresses an important environmental need—and creates a new business opportunity for IBM.

New customers. Telefonica has been developing new products and services geared to customers over the age of 60. To help overcome what the company calls a "knowledge barrier," it has collaborated with associations for older people in an effort to introduce retired men and women to the benefits of new technologies—for example, teaching them to communicate with grandchildren living abroad. The company meets a social need by helping this population use modern technologies and services while building a customer base in an underpenetrated market.

Market Share. Coca-Cola has shown how a company can use enlightened environmental practices to increase its sales. Its new ecofreshment coolers, vending machines, and soda fountains are far more environmentally friendly than the ones they replaced: they not only eliminate the use of hydrofluorocarbons (greenhouse gases) as a refrigerant but also have a sophisticated energy-management device that Coca-Cola developed to reduce the energy these machines consume. Together, these innovations increase the equipment's energy efficiency by up to 35 percent. The company highlights the benefits to retailers—especially the financial savings from energy efficiency—and requests prime space in their outlets in return for providing more efficient systems.

Innovation. Dow Chemical has committed itself to achieving, by 2015, at least three breakthroughs in four areas: an affordable and adequate food supply, decent housing, sustainable water supplies, or improved personal health and safety. All have a connection to an existing or planned Dow business. The company has already made progress in its Breakthroughs to World Challenges initiative, for example, by utilizing its understanding of plastics and water purification to supplement its venture capital investment and loan guarantee support to a social entrepreneur in India who has developed an inexpensive community-based water filtration system. The initiative's ultimate goal is a new business model to sell new products at reasonable prices, meeting social needs while contributing to Dow's bottom line.

RETURNS ON CAPITAL

We have seen companies generate returns on capital from their environmental, social, and governance programs in several ways—most often through operational efficiency and workforce efficiency.

Operational efficiency. These programs can help companies realize substantial savings by meeting environmental goals—for instance, reducing energy costs through energy efficiency, reducing input costs through packaging initiatives, and improving processes. Such efficiencies often require upfront capital investments to upgrade technologies, systems, and products, but returns can be substantial.

Workforce efficiency. Best Buy has undertaken a targeted effort to reduce employee turnover, particularly among women. In 2006, it launched the Women's Leadership Forum (WoLF), which shows groups of female employees how they can help the company to innovate by generating ideas, implementing them, and measuring the results. These innovations—which largely involve enhancing the customer experience for women by altering the look and feel of Best Buy stores and modifying their product assortment—have significantly boosted sales to women without decreasing sales to men. Besides fostering innovation, the program helps women to create their own corporate support networks and encourages them to build leadership skills by organizing events that benefit their communities. In the program's first two years, turnover among women decreased by more than 5 percent annually.

RISK MANAGEMENT

Companies often see environmental, social, and governance issues as potential risks, and many programs in these areas were originally designed to mitigate them—particularly risks to a company's reputation but also, for example, problems with regulation, gaining the public support needed to do business, and ensuring the sustainability of supply chains. Today,

companies manage many of these risks by taking stands on questions ranging from corruption and fraud to data security and labor practices. Creating and complying with such policies is an extremely important part of risk management, though one that isn't likely to be a source of significant differentiation. But leading companies *can* differentiate themselves by going beyond the basics and taking a proactive role in managing environmental, social, and governance risks. Such an approach can have an important and positive financial impact, since negative environmental, social, and governance events can have significant potential cost.

Regulation. In most geographies, regulatory policy shapes the structure and conducts of industries and can dramatically affect corporate profits, sometimes dwarfing gains from ordinary operational measures. It is therefore critically important for companies to manage their regulatory agenda proactively—ideally, by having a seat at the table when regulations for their industries are contemplated and crafted. To build the necessary trust with regulators and to secure a voice in the ongoing discussion, it helps to have solid relationships with stakeholders and a reputation for strong performance on environmental, social, and governance issues.

Verizon, for instance, very actively manages its relationships with stakeholders and strives to establish regular contacts and strong ties with policy makers. To help formulate sound—and favorable—energy and climate policies, the company has also sponsored research on the way information communications technology promotes energy efficiency. They sponsored the research behind the *Smart 2020* report, for example, which report explains in detail how this technology, together with broadband Internet connections, can help the United States to reduce carbon emissions by 22 percent and reliance on foreign oil by 36 percent by no later than 2020.

Public support. To operate in a country or business, companies need a modicum of public support, particularly on sensitive issues. Coca-Cola, for example, has been proactive in identifying the risks to its business posed by water access, availability, and quality. In 2003, Coca-Cola began developing a risk-assessment model to measure water risks at the plant level, such as supply reliability, watersheds, social issues, economics, compliance, and efficiency. The model helped Coca-Cola to quantify the potential risks and consequently enabled the company to put sufficient resources into developing and implementing plans to mitigate those risks. It now has a global water strategy in place that includes attention to plant performance, watershed protection, sustainable water for communities, and building global awareness. Their actions help avoid potential backlash over water usage as well as potential operational issues from water shortages.

Supply chains. Some companies have moved beyond focusing on the risks from the day-to-day practices of their suppliers and now consider the suppliers' long-term sustainability as well. Under Nestlé's Creating Shared Value strategy, for instance, a business has to make sense for all its stakeholders. As an example, Nestlé works directly with the farmers and agricultural communities that supply about 40 percent of its milk and 10 percent of its coffee. To ensure its direct and privileged access to these communities, Nestlé promotes their development by building infrastructure, training farmers, and paying fair market prices directly to producers rather than middlemen. In return, the company receives higher-quality agricultural ingredients for its products. These strong relationships also give Nestlé's factories a reliable source of supply, even when the overall market runs short. When the price of milk powder soared in 2007, for example, Nestlé's direct links to farmers mitigated its supply and price risks in certain parts of the world and protected the interests of all stakeholders—from farmers to consumers.

MANAGEMENT QUALITY

CFOs and professional investors often see high-performing environmental, social, and governance programs as a proxy for the effectiveness of a company's management. They may be onto something. In our observation, these programs can have a strong impact in all three areas that investors typically consider important: leadership strength and development, both at the top and through the ranks; the overall adaptability of a business; and the balance between short-term priorities and a long-term strategic view.

Leadership development. IBM's Corporate Service Corps sends top-ranked rising leaders to work pro bono with NGOs, entrepreneurs, and government agencies in strategic emerging markets. The program has already improved the leadership skills of its participants in a statistically significant way; raised their cultural intelligence, global awareness, and commitment to IBM; and given the company new knowledge and skills. In a recent evaluation, nearly all participants indicated that their involvement with the corps increased the likelihood that they would stay at IBM.

Adaptability. Companies flexible enough to meet unforeseen challenges—for instance, by remaining in countries or communities during times of crisis or conflict—often reap long-term benefits, such as strong relationships and credibility

with local communities. Environmental, social, and governance programs are one way to boost this kind of resiliency. Cargill, for example, is currently maintaining its presence and operations in Zimbabwe under difficult conditions; instead of paying its local employees in the country's very unstable currency, it compensates them with food parcels and fuel vouchers. The company makes similar long-term investments in local communities in the other 66 countries where it operates.

A long-term strategic view. Companies that take a long-term view use environmental, social, and governance activities to anticipate risks from emerging issues and to turn those risks into opportunities. Novo Nordisk, for instance, manages itself according to principles of a triple bottom line—an economically viable, environmentally sound, and socially responsible approach to business. The company, for example, has not only made investments to prevent, diagnose, and treat diabetes and to build up the related health care infrastructure but has also used these investments to strengthen its position in mature markets and to develop its business in new ones.

2. THE RISE AND FALL OF CSR

Corporate social responsibility (CSR) has been debated and practiced in one form or another for more than 4,000 years. For example, the ancient Vedic and Sutra texts of Hinduism and the Jatakas of Buddhism include ethical admonitions on usury (the charging of excessive interest) and Islam has long advocated Zakat, or a wealth tax. The modern concept of CSR can be more clearly traced to the mid-to-late 1800s, with industrialists like John H. Patterson of National Cash Register seeding the industrial welfare movement and philanthropists like John D. Rockerfeller setting a charitable precedent that we see echoed more than a hundred years later with the likes of Bill Gates. Despite these early variations, CSR only entered the popular lexicon in the 1950s with R. Bowen's landmark book, Social Responsibilities of the Businessman. The concept was challenged and strengthened in the 1960s with the birth of the environmental movement, following Rachel Carson's critique of the chemicals industry in Silent Spring, and the consumer movement off the back of Ralph Nader's social activism, most famously over General Motor's safety record. The 1970s saw the first widely accepted definition of CSR emerge – Archie Carroll's 4-part concept of economic, legal, ethical and philanthropic responsibilities, later depicted as a CSR pyramid - as well as the first CSR code, the Sullivan Principles. The 1980s brought the application of quality management to occupational health and safety and the introduction of CSR codes like Responsible Care. In the 1990s, CSR was institutionalised with standards like ISO 14001 and SA 8000, guidelines like GRI and corporate governance codes like Cadbury and King. The 21st century has been mostly more of the same, spawning a plethora of CSR guidelines, codes and standards (there are more than 100 listed in The A to Z of Corporate Social Responsibility), with industry sector and climate change variations on the theme.

Why is all this potted history of CSR important in a discussion about the future? Well, first, it is to realise that CSR is a dynamic movement that has been evolving over decades, if not centuries. But second, and perhaps more importantly, it is to acknowledge that, despite this seemingly impressive steady march of progress, CSR has failed. Furthermore, we are witnessing the decline of CSR, which will continue until its natural death, unless it is reborn and rejuvenated. That is a bold claim, so it deserves substantiation. CSR has undoubtedly had many positive impacts, for communities and the environment. Yet, its success or failure should be judged in the context of the total impacts of business on society and the planet. Viewed this way, on virtually every measure of social, ecological and ethical performance we have available, the negative impacts of business have been an unmitigated disaster, which CSR has completely failed to avert or even substantially moderate.

THE FAILURE OF CSR

Why has CSR failed so spectacularly to address the very issues it claims to be most concerned about? This comes down to three factors – the Triple Curse of Modern CSR, if you like:

Curse 1:

Incremental CSR One of the great revolutions of the 1970s was total quality management, conceived by American statistician W. Edwards Deming, perfected by the Japanese and exported around the world as ISO 9001. At the very core of Deming's TQM model and the ISO standard is continual improvement, a principle that has now become ubiquitous in all management system approaches to performance. No surprise, therefore, that the most popular environmental management standard, ISO 14001, is also build on the same principle. There is nothing wrong with continuous improvement per se. On the contrary, it has brought safety and reliability to the very products and services that we associate with modern quality of life. But when we use it as the primary approach to tackling our social, environmental

and ethical challenges, it fails on two critical counts: speed and scale. The incremental approach of CSR, while replete with evidence of micro-scale, gradual improvements, has completely and utterly failed to make any impact on the massive sustainability crises that we face, many of which are getting worse at a pace that far outstrips any futile CSR-led attempts at amelioration.

Curse 2:

Peripheral CSR Ask any CSR manager what their greatest frustration is and they will tell you: lack of top management commitment. This is 'code-speak' for saying that CSR is, at best, a peripheral function in most companies. There may be a CSR manager, a CSR department even, a CSR report and a public commitment to any number of CSR codes and standards. But these do little to mask the underlying truth that shareholder-driven capitalism is rampant and its obsession with short-term financial measures of progress is contradictory in almost every way to the long-term, stakeholder approach needed for high-impact CSR. The reason Enron collapsed, and indeed why our current financial crisis was allowed to spiral out of control, was not because of a few rogue executives or creative accounting practices, it was because of a culture of greed embedded in the DNA of the company and the financial markets. Joel Baken goes so far as to suggest that companies are legally bound to act like psychopaths. Whether you agree or not (and despite the emerging research on 'responsible competitiveness'), it is hard to find any substantive examples in which the financial markets reward responsible behaviour.

Curse 3:

Uneconomic CSR If there was ever a monotonously repetitive, stuck record in CSR debates, it is the one about the so-called 'business case' for CSR. That is because CSR managers and consultants, and even the occasional saintly CEO, are desperate to find compelling evidence that 'doing good is good for business, i.e. CSR pays! And indeed, the lack of sympathetic research seems to be no impediment for these desperados endlessly incanting the motto of the business case, as if it were an entirely self-evident fact. The rather more 'inconvenient truth' is that CSR sometimes pays, in specific circumstances, but more often does not. Of course there are low-hanging fruit – like ecoefficiencies around waste and energy – but these only go so far. Most of the hard-core CSR changes that are needed to reverse the misery of poverty and the sixth mass extinction of species currently underway require strategic change and massive investment. They may very well be lucrative in the long term, economically rational over a generation or two, but we have already established that the financial markets don't work like that; at least, not yet.

CSR 1.0:

Burying the Past What would be far more productive than all this wishing and pretending that CSR is good and fluffy and cuddly and will help to solve the world's problems is to simply see it for what it is: an outdated, outmoded artifact that was once useful, but whose time has past. We need to let the 'old CSR' die gracefully and give it a dignified burial. By all means, let us give it the respect it deserves – a fitting eulogy about brave new frontiers of responsibility that it conquered in its heyday. But then, let us look for the next generation of CSR – the newborn that will carry the torch forward. If we succeed in admitting the failure of CSR and burying the past, we may find ourselves on the cusp of a revolution, in much the same way as the internet transitioned from Web 1.0 to Web 2.0. The emergence of social media networks, user-generated content and open source approaches are a fitting metaphor for the changes CSR will have to undergo if it is to redefine its contribution and make a serious impact on the social, environmental and ethical challenges the world faces. For example, in the same way that Web 1.0 moved from a one-way, advertising-push approach to a more collaborative Google-Facebook mode, CSR 1.0 is starting to move beyond the outmoded approach of CSR as philanthropy or public relations (which has been widely criticised as 'greenwash') to a more interactive, stakeholder-driven model. Similarly, while Web 1.0 was dominated by standardised hardware and software, but now encourages co-creation and diversity, so too in CSR, we are beginning to realise the limitations of the generic CSR codes and standards that have proliferated in the past 10 years.

The similarity between Web 1.0 and CSR 1.0 are illustrated in the following table.

Web 1.0	CSR1.0
A flat world just beginning to connect itself and finding a new medium to push out information and plug advertising.	A vehicle for companies to establish relationships with communities, channel philanthropic contributions and manage their image.

CSR 2.0:

Embracing the Future Let us explore in more detail this revolution that will, if successful, change the way we talk about and practice CSR and, ultimately, the way we do business. There are five principles that make up the DNA of CSR 2.0: Connectedness (C), Scalability (S), Responsiveness (R), Duality (2) and Circularity (0).

Principle 1: Connectedness (C)

In order to succeed in the CSR revolution, business has to break the hegemony of shareholders. It is as if companies are mere serfs in the kingdom of shareholder-value capitalism. They may appear to wield extraordinary power, but in reality they are subservient to invisible shareholders, bowed before the throne of financial markets and at the beck and call of City analysts. Most CEOs don't last more than 3 years and are slaves to stock price fluctuations during that time. The only way to take the power back is to move from subservience to connectedness. Business has to start to institutionalize (and thereby legitimise) multi-stakeholder relationships. When the chemicals industry created their Responsible Care programme in 1985, in the wake of a spree of disasters like Seveso and Bhopal, it was a typical CSR 1.0 approach – unilateral, defensive and incremental. By contrast, the emergence of various multi-stakeholder initiatives in the 1990s, like the Forest Stewardship Council and Accountability 1000, begins to give a glimpse of how the connectedness principle of CSR 2.0 may increasingly manifest. In 1994, when McDonald's took two activists to court for criticising the company, their bullying tactics backfired and 'McLibel' (as the case came to be known in the popular media) turned into the longest trial in British legal history (313 days), creating a public relations disaster for the company. By contrast, when Rio Tinto actively sought out a cross-sector partnership with the World Conservation Union to progressively tackle its biodiversity impacts, it showed sensitivity to multi-stakeholder connectedness that was so patently lacking in McDonald's approach.

Principle 2: Scalability (S)

The CSR literature is liberally sprinkled with charming case studies of truly responsible and sustainable projects. The problem is that so few of them ever go to scale. It is almost as if, once the sound-bites and PR-plaudits have been achieved, no further action is required. They become shining pilot projects and best practice examples, tarnished only by the fact that they are endlessly repeated on the CSR conference circuits of the world, without any vision for how they might transform the core business of their progenitors. The sustainability problems we face, be they climate change or poverty, are at such a massive scale, and are so urgent, that any CSR solutions that cannot match that scale and urgency are red herrings at best and evil diversions at worst. How long have we been tinkering away with ethical consumerism (organic, fair-trade and the like), with hardly any impact on the world's major corporations or supply chains? And yet, when Wal-Mart's former CEO, Lee Scott, had his post-Katrina Damascus experience and decided that all cotton will be organic and all fish MSC-certified, then we are started seeing CSR 2.0-type scalability. There have always been charitable loans for the world's poor and destitute. But when Muhammad Yunus, in the aftermath of a devastating famine in Bangladesh, set up the Grameen Bank and it went from one $74 loan in 1974 to a $2.5 billion enterprise, spawning more than 3,000 similar microcredit institutions in 50 countries reaching over 133 million clients that is a lesson in scalability. Or contrast Toyota's laudable but premium-priced hybrid Prius for the rich and eco-conscious with Tata's $2,500 Nano, a cheap and eco-friendly car for the masses. The one is an incremental solution with long term potential; the other is scalable solution with immediate impact.

Principle 3: Duality

Much of the debate on CSR in the past has dwelt in a polarised world of 'either/or'. Either your company is responsible or it is not. Either you support GMOs or you don't. Either you make life-saving drugs available for free or you don't. This fails to recognise that most CSR issues manifest as dilemmas, rather than easy choices. In a complex, interconnected CSR 2.0 world, companies (and their critics) will have to become far more sophisticated in understanding local contexts and the appropriate local solutions they demand, without forsaking universal principles. For example, a few years ago, BHP Billiton was vexed by their relatively poor performance on the (then) Business in the Environment (BiE) Index, run by UK charity Business in the Community. Further analysis showed that the company had been marked down for their high energy use and relative energy inefficiency. Fair enough. Or was it? Most of BHP Billiton's operations were, at that time, based in southern Africa, home to some of the world's cheapest electricity. No wonder this was not a high priority. What was a priority, however, was controlling malaria in the community, where they had made a huge positive impact. But the BiE Index didn't have any rating questions on malaria, so this was ignored. Instead, it demonstrated a typical, Western-driven, one-size-fits-all CSR 1.0 approach. Carroll's CSR pyramid has already been mentioned. But in a sugar farming

co-operative in Guatemala, they have their own CSR pyramid – economic responsibility is still the platform, but rather than legal, ethical and philanthropic dimensions, their pyramid includes responsibility to the family (of employees), the community and policy engagement. Clearly, both Carroll's pyramid and the Guatemala pyramid are helpful in their own appropriate context. Hence, CSR 2.0 replaces 'either/or' with 'both/and' thinking. Both SA 8000 and the Chinese national labour standard have their role to play. Both premium branded and cheap generic drugs have a place in the solution to global health issues. CSR 2.0 is a search for the Chinese concept of a harmonious society, which implies a dynamic yet productive tension of opposites – a Tai Chi of CSR, balancing yin and yang.

Principle 4: Circularity

The reason CSR 1.0 has failed is not through lack of good intent, nor even through lack of effort. The old CSR has failed because our global economic system is based on a fundamentally flawed design. For all the miraculous energy unleashed by Adam Smith's 'invisible hand' of the free market, our modern capitalist system is faulty at its very core. Simply put, it is conceived as an abstract system without limits. As far back as the 1960s, pioneering economist, Kenneth Boulding, called this a 'cowboy economy', where endless frontiers imply no limits on resource consumption or waste disposal. By contrast, he argued, we need to design a 'spaceship economy', where there is no 'away'; everything is engineered to constantly recycle. In the 1990s, in The Ecology of Commerce, Paul Hawken translated these ideas into three basic rules for sustainability: waste equals food; nature runs off current solar income; and nature depends on diversity. He also proposed replacing our product-sales economy with a service-lease model, famously using the example of Interface 'Evergreen' carpets that are leased and constantly replaced and recycled. William McDonough and Michael Braungart have extended this thinking in their Cradle to Cradle industrial model. Cradle to cradle is not only about closing the loop on production, but about designing for 'good', rather than the CSR 1.0 modus operandi of 'less bad'. Hence, CSR 2.0 circularity would create buildings that, like trees, produce more energy than they consume and purify their own waste water; or factories that produce drinking water as effluent; or products that decompose and become food and nutrients; or materials that can feed into industrial cycles as high quality raw materials for new products. Circularity needn't only apply to the environment. Business should be constantly feeding and replenishing its social and human capital, not only through education and training, but also by nourishing community and employee wellbeing. CSR 2.0 raises the importance of meaning in work and life to equal status alongside ecological integrity and financial viability.

Shapeshifting: From CSR 1.0 to CSR 2.0

Table 1: Shifting CSR Principles

CSR 1.O	**CSR 2.O**
PATERNALISTIC	COLLABORATIVE
RISK-BASED	REWARD-BASED
IMAGE DRIVEN	PERFORMANCE DRIVEN
SPECIALISED	INTEGRATED
STANDARDISED	DIVERSIFIED
MARGINAL	SCALABLE

CSR will no longer manifest as luxury products and services (as with current green and fairtrade options), but as affordable solutions for those who most need quality of life improvements. Investment in self-sustaining social enterprises will be favoured over cheque-book charity. CSR indexes, which rank the same large companies over and over (often revealing contradictions between indexes) will make way for CSR rating systems, which turn social, environmental, ethical and economic performance into corporate scores (A+, B-, etc., not dissimilar to credit ratings), which analysts and others can usefully employ to compare and integrate into their decision making.

Reliance on CSR departments will disappear or disperse, as performance across responsibility and sustainability dimensions are increasingly built into corporate performance appraisal and market incentive systems. Self-selecting

ethical consumers will become irrelevant, as CSR 2.0 companies begin to choice-edit, i.e. cease offering implicitly 'less ethical' product ranges, thus allowing guilt-free shopping. Post-use liability for products will become obsolete, as the service-lease and take-back economy goes mainstream. Annual CSR reporting will be replaced by online, real-time CSR performance data flows. Feeding into these live communications will be Web 2.0 connected social networks, instead of periodic meetings of rather cumbersome stakeholder panels. And typical CSR 1.0 management systems standards like ISO 14001 will be less credible than new performance standards, such as those emerging in climate change, that set absolute limits and thresholds.

CSR 2.0: The New DNA of Business

All of these visions of the future imply such a radical shift from the current model of CSR that they beg the question: do we need a new model of CSR? Certainly, Carroll's enduring CSR Pyramid, with its Western cultural assumptions, static design and wholesale omission of environmental issues, must be regarded as no longer fit for purpose. Even the emphasis on 'social' in corporate social responsibility implies a rather limited view of the agenda. So what might a new model look like? The CSR 2.0 model proposes that we keep the acronym, but rebalance the scales, so to speak. Hence, CSR comes to stand for 'Corporate Sustainability and Responsibility'. This change acknowledges that 'sustainability' (with roots in the environmental movement) and 'responsibility' (with roots in the social activist movement) are really the two main games in town. A cursory look at companies' non-financial reports will rapidly confirm this – they are mostly either corporate sustainability or corporate responsibility reports.

However, CSR 2.0 also proposes a new interpretation on these terms. Like two intertwined strands of DNA, sustainability and responsibility can be thought of as different, yet complementary elements of CSR. Making a positive contribution to society is the essence of CSR 2.0 – not just as a marginal afterthought, but as a way of doing business. This is not about bailing out the Titanic with a teaspoon - which is the current effect of CSR 1.0 - but turning the whole ship around. CSR 2.0 is about designing and adopting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.

Making a positive contribution to society is the essence of CSR 2.0 – not just as a marginal afterthought, but as a way of doing business. This is not about bailing out the Titanic with a teaspoon - which is the current effect of CSR 1.0 - but turning the whole ship around.

CSR 2.0 is about designing and adopting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.

3. CORPORATE SOCIAL RESPONSIBILITY IN INDIA

CSR initiatives are conceptualized and implemented through Corporate Foundations, Non-Government Organisation (NGOs) and Agencies and not-for-profit organisations. Most of the organisations worked on 4P model (Public-Private-People-Partnership) for empowering communities and stakeholders. Businesses have positively impacted lives particularly of several hundreds of thousand underprivileged people through various CSR activities and approaches.

For the Business, value is being created for the society through business including employment generation, market growth and opportunity creation. By the Business- value is also being created through Corporate Social Responsibility (CSR) interventions across different operating facilities with appropriate linkages to local communities in which businesses operate and Beyond Business- value is being created through interventions for the societies in diverse geographies across India through creation of demand and services.

At public sector business organisations in India, CSR has been also looked upon as closely linked with the principle of sustainable economic development, which demand that organisations should make decisions and act based not only on financial factors but also on immediate and long term social and environmental consequences of their operations and activities.

Seven pillars of CSR strategy

1. Need of partnership in CSR

2. Cross learning

3. Supplementing and nurturing CSR

4. Per beneficiary cost reduction and maximizing the impact while reaching more people

5. Knowledge management and documentation

6. Use and reuse of resources for better CSR

7. Capacity building of the CSR workforce and re-skilling

Need of partnership in CSR

Business organisations now recognise Corporate Social Responsibility (CSR) as a great opportunity to significantly strengthen their businesses – while building, strengthening and renewing human, social and natural resources and wealth. Finding the right kind of partners is absolutely important to the success of a CSR strategy. We are in connected world.

All issues are connected to the other issues, perspective and environment. Working alone is good but working together is great. Working alone yields lesser benefits as compared to the working together always. CSR world should explore togetherness by partnering with other entities. Togetherness in addressing the social and environmental issues is good for all. CSR world should encourage partnership to execute the mega social projects.

To fulfil the corporate social responsibility (CSR) goals businesses have to realise and act in partnership. Formation of partnerships has played a very significant role in progress and prosperity across the world. Partnership brings companies, businesses, people and society together and then pool their resources together in order to achieve the set goals. A partnership is CSR is need of hour. Partnership opens doors for cross learning of knowledge and experiences.

Cross learning in CSR

Cross learning is key to CSR strategies. Learning improves performance and minimise risks. Effective partnership among likeminded organisations for CSR execution ensures cross learning in Corporate Social Responsibility. CSR leaders from different organisations must visit specific CSR locations of other organisation where CSR projects are being implemented and meanwhile they should meet the beneficiaries to gain new insights. CSR leaders must build a deep understanding of the socio-economic issues and they must be open enough to understand issues both from a business and a societal perspective. Learning from others in CSR can save time and resources. Concentrate on your CSR efforts but same time CSR leaders must learn from variety of successful CSR programmes. The greatest opportunities will come from areas where the business significantly interacts with society. Cross learning in CSR is immensely helpful in supplementing and nurturing CSR programme and projects.

Supplementing and nurturing CSR

Good CSR strategy and projects must be encouraged and supplemented. Opportunities for complementing and supplementing ongoing social projects and initiatives, programmes must be explored. Supplementing CSR emphasises on the sustainability of projects and programmes to ensure they remain relevant and viable even upon disengagement at the end of the project period. Every organisation explore possibilities for collaborating and co-operating with other corporations in order to synergise its efforts and increase both financial and social resources as well as outcomes and impact. Businesses may consider in supplementing even in smaller well defined CSR projects. Supplementing the CSR projects by the smaller or larger organisations matter in order to ensure optimal utilisation of the CSR budget and resources.

Per beneficiary cost reduction in CSR

Per beneficiary cost reduction and maximizing the impact while reaching more beneficiaries in CSR is key to success. Business organisations have a variety of motives for being attentive to CSR and run a CSR projects. Leaders can increase impact and reduce costs when they understand the role of Corporate Social Performance (CSP) in driving CSR Performance (CP). Business should think of reaching more people by using less money and resources. Reduction in per beneficiary cost can be achieved by the partnership, collaboration, cross learning and reuse of resources.

Knowledge management and documentation

CSR reporting practices strengthen organizations. The process of documenting and communicating CSR practices provides benefits to corporations, including the ability to formalize their position on CSR, identify organisational strengths and weaknesses, and manage stakeholder relationships and expectations. In India, any shortfall in spending in CSR shall be explained in the financial statements and the Board of Directors shall state the amount unspent and reasons

for not spending that amount. As per the CSR Law, the CSR Committee of organisation shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

Documentation, reporting and communication of the CSR performance in crucial to the CSR strategy. Documentation of the CSR must be organised and structured and should be accessible. Companies can explore the new way of documentation, reporting and communications.

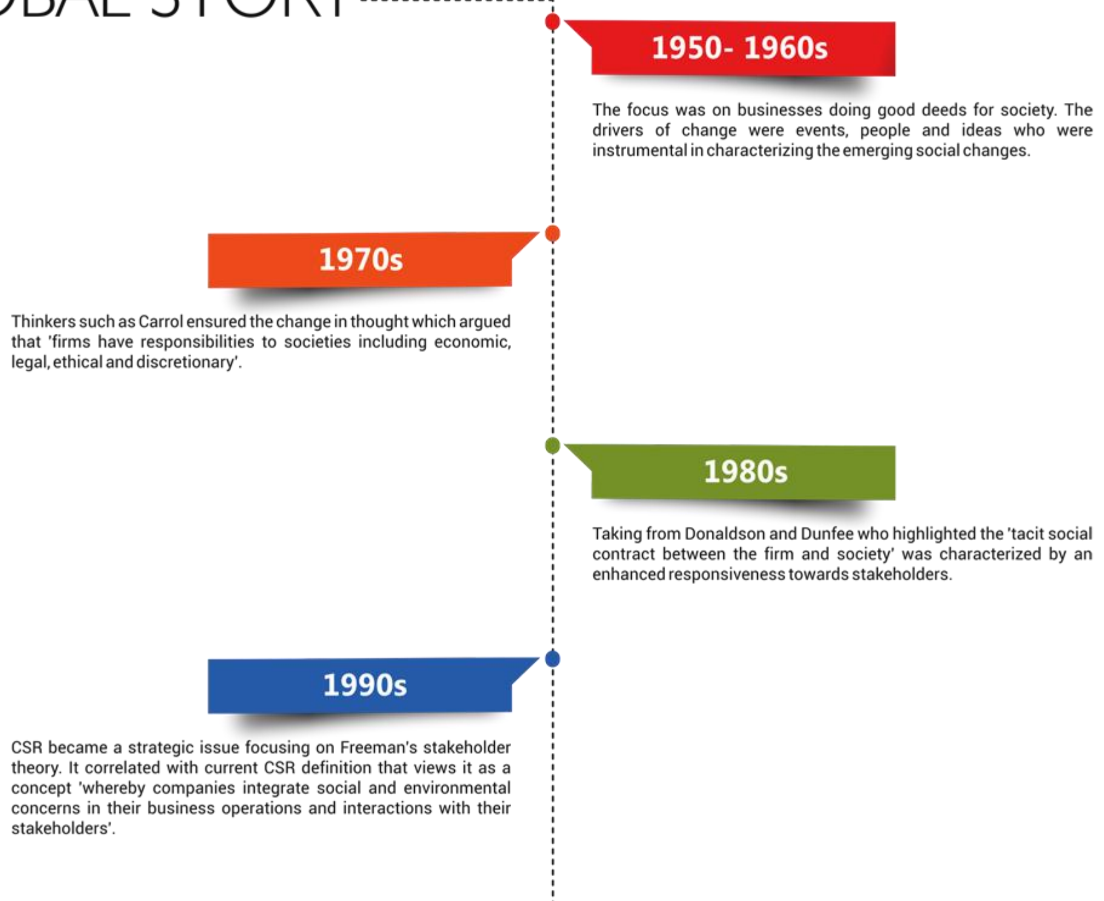
Use and reuse of resources for better CSR

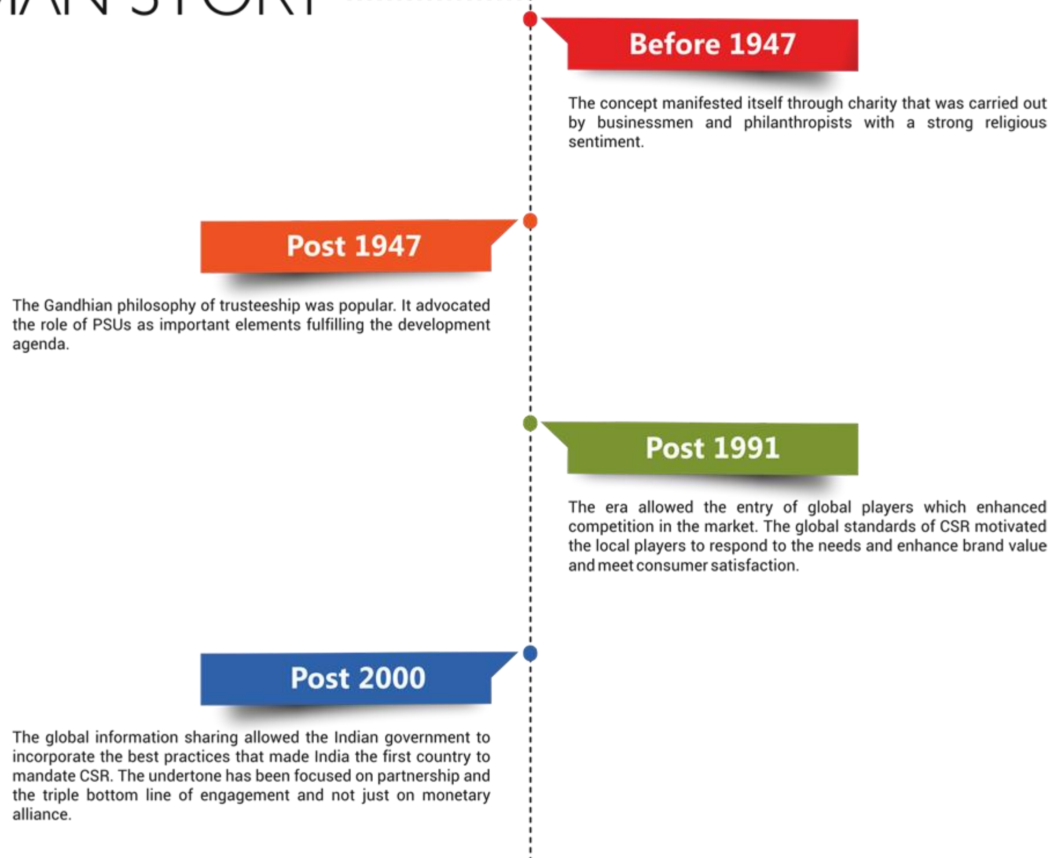
Effective use and reuse of resources can improve the CSR performance. Awareness on use and reuse of resources among across the stakeholders can help in achieving the desired goals of CSR sustainability. Sustainable CSR can be achieved through community and beneficiaries engagement. CSR is a process oriented task.

Recycling and reuse often are the easiest places to start. CSR leaders should take the essential steps to recycle the commonly recyclable materials, and look for easy opportunities to replace disposable or recyclable items with reusable ones. CSR leaders also should look for partners to help with more challenging to recycle or exotic materials, as well as for opportunities to introduce reusable packaging. And of course, look upstream to design new idea, services and programmes.

Capacity building of the CSR workforce and re-skilling

In the fast changing world, capacity building of CSR workforce and re-skilling them are always relevant and are key to CSR performance. Human resource are fundamental requirement. CSR leaders must empower their subordinates by providing them right attitude, knowledge, information and trainings. Same time, CSR managers also be open to learn new things. Developing soft skill, professional skill, project management skill and leadership skill among CSR workforce is continuous process. Rigorous training, development and re-skilling of the CSR manners can save time, efforts and resources.





THE COMPANIES ACT, 2013

As per as Corporate Social Responsibility is concerned, the Companies Act, 2013 is a landmark legislation that made India the first country to mandate and quantify CSR expenditure. The inclusion of CSR is an attempt by the government to engage the businesses with the national development agenda. The details of on corporate social responsibility is mentioned in the Section 135 of the Companies Act, 2013. The Act came into force from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on Corporate social responsibility activities. The CSR activities in India should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the act.

The corporations are required to setup a CSR committee which designs a CSR policy which is approved by the board and encompasses the CSR activities the corporations is willing to undertake. The act also has penal provisions for corporations and individuals for failure to abide by the norms. The details of the same are highlighted in the act.

SECTION 135

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore 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 one director shall be an independent director.

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the 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 clause (a); and

(c) monitor the Corporate Social Responsibility(CSR) Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility(CSR) Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for csr activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

SCHEDULE VII

In exercise of the powers conferred by sub-section (l) of section 467 of the Companies Act, 20l3 (18 of 2013), the Central Government hereby makes the following amendments to Schedule Vll of the said Act, namely :-

(l) **In Schedule VIl, for items (i) to (x) and the entries relating thereto, the following items and entries shall be substituted, namely :-**

"(i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;

(ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

(iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

(iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for the promotion of sanitation;

(v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art;

(vi) measures for the benefit of armed forces veterans, war widows and their dependents;

(vii) training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;

(viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

(ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

(x) rural development projects;

(xi) slum area development.

CURRENT TRENDS

The Indian companies in the last two years have invested majorly in education & skill development, healthcare & sanitation, rural development projects and environment after being mandated to allocate a portion of their profits towards community development.

In a written reply to Rajya Sabha, Corporate Affairs Minister Arun Jaitley on 1st March 2016 said a total of 460 listed firms have so far disclosed spending Rs 6,337.36 crore in 2014-15. This included 51 PSUs that spent Rs 2,386.60 crore. Of the 460 companies, 266 firms spent less than 2 per cent of the average profit.

4. INSTANCES OF VIOLATION OF CSR PRINCIPLES

I. Bhopal Gas Tragedy, the Bhopal disaster also known as Bhopal Gas Tragedy was one of the world's worst industrial catastrophes. It occurred on the night of December 2–3, 1984 at the Union Carbide India Limited (UCIL) pesticide plant in Bhopal, Madhya Pradesh, India. A leak of methyl isocyanate gas and other chemicals from the plant resulted in the exposure of hundreds of thousands of people. Estimates vary on the death toll. The official immediate death toll was 2,259 and the government of Madhya Pradesh has confirmed a total of 3,787 deaths related to the gas release. Others estimate 3,000 died within weeks and another 8,000 have since died from gas-related diseases. A government affidavit in 2006 stated the leak caused 558,125 injuries including 38,478 temporary partial and approximately 3,900 severely and permanently disabling injuries.

UCIL was the Indian subsidiary of Union Carbide Corporation (UCC). In 2001 the US-based gigantic Dow Chemical purchased Union Carbide, thereby acquiring its assets and liabilities. However it has been steadfastly refusing to clean up the site, provide safe drinking water or compensate the victims, or even disclose the composition of the gas leak, Dow Chemical, like UCIL earlier, claims that it has no liability of the past. The Dow Chemical Company, with annual sales of $28 billion, says in its web site: it is “committed to the principles of Sustainable Development and its approximately 50,000 employees seek to balance economic, environmental and social responsibilities.”

II. Cadbury, In October 2003, a Cadbury stockiest in Mumbai detected worms in Cadbury’s Dairy Milk chocolate. Then the Commissioner of Food and Drug Administration of Maharashtra examined the sealed Dairy Milk packs and found worms in them. He immediately ordered the seizure of all Cadbury’s Dairy Milk chocolates from the company’s factory in Talegaon near Pune. This attracted lots of criticism from consumer activists on lack of appropriate laws on storage. They also demanded immediate government action against Cadbury. Another factor brought to light was that the chocolates were delivered by three wheelers, which did not have refrigeration facility for appropriate transit maintenance of the product.

III. Unilever Global Company, in the year 2001 the Unilever Company has dumped 300 metric tons of mercury at Kodaikanal located at South India. As a contrast to the above activity the Unilever website states, “We are committed to conducting our operations with integrity and with respect for the interests of our stakeholders. We are also committed to making continuous improvements in the management of our environmental impacts and to working towards our longer term goal of developing a sustainable business.”

In order to tackle above situations a new initiative has taken by Government of India, that is CREP, or “The Corporate Responsibility for Environmental Protection” initiated by the Indian government recently this year in 2003, is a case in point. A guideline for a set of non-mandatory norms for 17 polluting industrial sectors has been set but there is no real pressure for implementation or internalization. An ethical being which claims to respect the earth cannot have discontinuities in its practices. Ethical practices have to place in an integrity framework, and that implies at the very least a lack of multiple ways of ‘being.’ This can be no different for individuals as for companies. Contrast to the above news the Unilever website states “All Unilever companies must comply with local laws and adopt the same standards for occupational health and safety, consumer safety and environmental care.”

5. CONCLUSION

Today, socially responsible investing is a bit more complicated, but the underlying principles remain the same. And that’s to balance the traditional four levels of corporate responsibility while seeking those firms with superior business models and forward-thinking attributes that are focused on the long term. This means making a profit, but doing so without violating any laws, ethics or ideals as well as making an effort to benefit society. Essentially, finding good companies that are doing good. Today’s socially responsible investors use various environmental, social and governance (ESG) metrics

when evaluating a stock or fixed-income investment. When looking at environmental factors, a screen will examine various parameters such as a corporation's carbon and greenhouse output, how much waste it produces, and what raw materials it uses and how those materials are sourced. The focus isn't just on output, but also on the reduction of carbon through green energy initiatives and recyclable products/waste programs. Socially responsible investing continues to grow and expand as investors have taken a shine to building profits with a purpose. There's no longer a trade-off between profits and the planet. That's good news for investors. And while it may seem complex, the real crux of SRI comes down to how the various ESG factors play into your fund or chosen investment vehicle.

CSR is not new to India; companies like TATA and BIRLA have been imbibing the case for social good in their operations for decades long before CSR become a popular cause. Inspite of having such life size successful examples, CSR in India is in a very nascent stage. It is still one of the least understood initiatives in the Indian development sector. It is followed by a handful of public companies as dictated by the very basis of their existence, and by a few private companies with international shareholding as this is the practice followed by them in their respective foreign country. Thus the situation is far from perfect as the emphasis is not on social good but rather on a policy that needs to be implemented.

With this I think that today, more so than ever, corporate responsibility is the best strategic as well as financial path that most businesses can follow. For most businesses there are both compelling reasons to be responsible and compelling statistics that validate that responsible businesses do better according to traditional financial metrics.

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