

GOOD CORPORATE CITIZENSHIP

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ABSTRACT:

Corporations are social creations and it has been argued that their existence depends on the willingness of society to continue to allow them to operate. The idea of a social contract between business and individual members of society suggests that, while the main aim of a business is to make profits, it also has a moral obligation to act in a socially responsible manner. This obligation is the basis of an intangible social agreement or contract between business and society.³Corporate citizenship involves the social responsibility of businesses and the extent to which they meet legal, ethical and economic responsibilities, as established by shareholders. The goal is to produce higher standards of living and quality of life for the communities that surround them and still maintain profitability for stakeholders. The demand for socially responsible corporations continues to grow, encouraging investors, consumers and employees to use their individual power to negatively affect companies that do not share their values. All businesses have basic ethical and legal responsibilities; however, successful businesses establish a strong belief in corporate citizenship, showing a commitment to ethical behaviour by creating a balance between the needs of shareholders and the needs of the community and environment in the surrounding area.

KEY WORDS: Corporate citizenship, Social responsibility, Shareholders, Society

INTRODUCTION:

Corporate citizenship involves the social responsibility of businesses and the extent to which they meet legal, ethical and economic responsibilities, as established by shareholders. The goal is to produce higher standards of living and quality of life for the communities that

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³ Environmental the annual Extending the predictive power disclosures report applicability of legitimacy in Gary O'Donovan Deegan, Craig. Social And Environmental Reporting And Its Role In Maintaining Or Creating Organizational Legitimacy, Emerald Group Publishing Limited, 2002. ProQuest Ebook Central, <http://ebookcentral.proquest.com/lib/inflibnet-ebooks/detail.action?docID=232149>. Created from inflibnet-ebooks on 2017-12-10 15:35:28

surround them and still maintain profitability for stakeholders. The demand for socially responsible corporations continues to grow, encouraging investors, consumers and employees to use their individual power to negatively affect companies that do not share their values.⁴ All businesses have basic ethical and legal responsibilities; however, successful businesses establish a strong belief in corporate citizenship, showing a commitment to ethical behaviour by creating a balance between the needs of shareholders and the needs of the community and environment in the surrounding area. Business organizations have to work under different environments and had to adopt themselves to it. It is a matter of survival in adverse conditions and flexibility is needed. Even before globalization, there are many multinational corporations doing business in many countries other than where they are incorporated. Until the 1990s the government decided to open the economy, it was applauded as the best thing that has happened to an Indian economy. Now that the concept of corporate governance is coming up, it is being thrust as the remedy not only for all corporate troubles but to all troubles of human society and the corporation is being asked to take responsibility for everything under the sun.⁵ Arguably, being able to outline the ethical frameworks drawn on by individual managers as criteria for their ethical decision making could be an important step toward achieving transparency and accountability within organizations. It could bring more predictability into an organization's ethical performance, without detracting from diversity.⁶ While, in theory, the goals and objectives of the corporate responsibility report should define the release estimation techniques that are used, in practice, the decisions on the scope of reporting and the quality of the data provided in such reports involve trade-offs between the company's objectives for reporting, the interests and needs of different stakeholders and the practical constraints of available time and resources. In practice, in particular in the earlier years of reporting, companies tend to simply take and use the data they have available and then fill in the gaps with whatever emission factors can be found, with relatively little attention paid to the quality of this data or the quality of the emissions estimates produced from the process.⁷

⁴<https://www.investopedia.com/terms/c/corporatecitizenship.asp#ixzz4xpe8uG4E>, visited on 5th, November, 2017, 10:00 pm

⁵ Jawaharlal Jasthi, "The Concept of Corporate Governance," 1st Edition, Asia Law House, Hyderabad, page number 192

⁶ Gian Luca Casali Social Responsibility Journal Volume 3 Number 3 2007

⁷ Rory Sullivan, Valuing Corporate Responsibility: How Do Investors Really Use Corporate Responsibility Information?, Taylor and Francis, 2011, pg. no. 99

DEVELOPMENT OF CORPORATE CITIZENSHIP:

There are stages that companies go through during the process of developing corporate citizenship. Companies rise to the higher stages of corporate citizenship based on their capacity and credibility when supporting community activities, a strong understanding of community needs, and their dedication to incorporate citizenship within the culture and structure of their company.

The five stages of corporate citizenship are elementary, engaged, innovative, integrated and transforming.

1. Elementary

In the elementary stage, known also as the compliant stage, a company's citizenship activities are basic and undefined because there is scant corporate awareness and little to no senior management involvement. Small businesses tend to linger in this stage; they are able to comply with the standard health, safety and environmental laws, but they do not have neither the time nor the resources to fully develop a greater involvement in community activities.

2. Engaged

In this stage, companies will often develop policies that promote the involvement of employees and managers in activities that exceed rudimentary compliance to basic laws. Senior management is more active in developing policies for the entire corporation and assigning to all levels of management more sophisticated standards for corporate citizenship.

3. Innovative

Citizenship policies become more comprehensive in this stage. This occurs through increased meetings and consultations with shareholders and through participation in forums and other outlets that promote innovative corporate citizenship policies. Typically, this is the stage where corporate citizenship policies are funded and activated and become functional with assistance and support from upper-level management. Transparency comes into play in this stage as companies typically monitor how successfully they have become involved in the community, with results of this monitoring being made available through public reports.

4. Integrated

Citizenship activities are formalized and blend in fluidly with the company's regular operations. Performance in community activities is monitored. Citizenship activities are driven into the lines of a business. Consultations with shareholders continue, and some companies may even set up formal training in the area of community involvement for employees and management.

5. Transforming

Companies that have reached this stage understand that corporate citizenship plays a strategic part in fuelling sales growth and expansion to new markets. Economic and social involvement, support and integration is a regular part of a company's daily operations in this stage.

CORPORATE SOCIAL RESPONSIBILITY IN INDIA:

India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to The Company Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger.

Section 135 of the Companies Act provides the threshold limit for applicability of the CSR to a Company i.e. (a) net worth of the company to be Rs 500 crore or more; (b) turnover of the company to be Rs 1000 crore or more; (c) net profit of the company to be Rs 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India⁸

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- Further, the qualifying company will be required to constitute a CSR Committee consisting of 3 or more directors.

⁸<http://www.mondaq.com/india/x/366528/Corporate+Governance/Corporate+Social+Responsibility+Indian+Companies+Act+2013>

- The CSR Committee shall formulate and recommend to the Board, a policy which indicates the activities to be undertaken, allocate resources and monitor the CSR Policy of the company.
- If the company did not spend CSR, it has to disclose the reason for not spending. Non-disclosure or absence of the details will be penalised from Rs 50,000 to Rs 25 lakh or even imprisonment of up to 3 years
- India is the first country in the world to enshrine corporate giving into law.

WHAT ACTIVITIES CAN BE CARRIED ON?

CSR is a commitment to support initiatives that measurably improve the lives of under-privileged by one or more of the following focus areas as

- Eradicating hunger, poverty & malnutrition
- Promoting education
- Improving maternal & child health
- Ensuring environmental sustainability
- Protection of national heritage
- Measures for the benefit of armed forces
- Promoting sports
- Contribution to the Prime Minister 's National Relief
- Slum area development etc.

HOW IS IT BENEFICIAL TO COMPANIES?

- **Consumers are socially conscious** - Many consumers actively seek out companies that support charitable causes. Therefore, CSR attracts customers.
- **Competitive advantage** - Businesses that show how they are more socially responsible than their competitors tend to stand out.

- **Boosts employee morale** - CSR practices have a significant impact on employee morale, as it reinforces his confidence on Company's empathy.

WHAT IS THE EFFECT OF LEGISLATION?

- **More spending** - The private sector's combined charitable spend increased from 33.67bn rupees in 2013 to around 250bn rupees after the law's enactment.
- **Mainstreaming Charity** - It has brought CSR from the fringes to the boardroom. Companies now have to think seriously about the resources, timelines and strategies needed to meet their legal obligations.
- But it also has its shortcomings.
- **Non-compliance** - A survey found that 52 of the country's largest 100 companies failed to spend the required 2% last year.
- A smaller proportion has gone further to allegedly cheating by giving donations to charitable foundations that then return the fund minus a commission.
- **Roll back** - Charitable spending was used as a big reputation builder for family-led conglomerates with a long tradition of philanthropy. Now it's just about legal compliance. Many companies that were giving more than 2% have scaled back their spending.
- **Inequality** - One of the challenges for the corporate sector is finding credible charity partners to support. So the bigger charities that are more well-known are being flooded with money leaving out smaller charities.
- Compounding the problem is that smaller charities often lack the capacity to cope with companies' bureaucratic and operational demands.
- **Geography** - There is also a geographic bias under the 2% law, with companies funding projects closer to where they are based. Therefore more industrialised states are winning over poorer, more remote regions where development aid is acutely needed.
- **Politics** - Some companies looking to gain goodwill by backing government-led projects rather than independent initiatives.

WHAT SHOULD BE DONE?

- What India needs is large-scale social innovation and systems change and mandatory spending achieves a little in this direction.
- It also deflects pressure on companies to change their business practices.
- CSR should be more inclusive by which an organization should think about and evolve its relationships with stakeholders for the common good, and demonstrate its commitment by adopting appropriate business processes and strategies.
- A set of national voluntary guidelines to spell out what responsible business should look like and set out that CSR is more than just charitable giving should be formalised.

The judicial role in the eighties played an important role in reaching new horizons of jurisprudence in India, more so in the area of environmental protection. The verdict in *Municipal Council, Ratlam v Vardhichand*⁹ is a land mark. The residents of Municipality were suffering for a long time from the pungent smell emanating from open drains. The apex court identified the responsibilities of the local bodies towards the protection of the environment and developed the law of public nuisance in the Cr. P.C.¹⁰ as a potent instrument for the enforcement of their duties. Justice Krishna Iyer had made a thorough examination of two issues:

- a. The municipal Legislation which casts the duty on the municipalities to clean the roads and clean drains.
- b. The provision in the Indian Penal Code, which prescribes the punishment to a person contravening with the direction of the magistrate.

In *Vijay Singh Punia v State of Rajasthan*¹¹ imposing 15 percent of the turnover of the dyeing and printing industries as damages for causing water pollution Rajasthan High Court observed: “The emission of untreated waste water by the industrial units is depriving the citizens the access to unpolluted ground water which is essential for the existence. Not only the ground water has been affected by the way industrial units have been operating, but their working has also affected the quality of vegetables and crops which are grown in that area. For enforcing he rights under Article 21 of the Constitution and compelling the persons to

⁹ 1980 AIR 1622, 1981 SCR (1) 97

¹⁰ 1973

¹¹ AIR 2003 Raj 286, RLW 2003 (2) Raj 1012, 2003 (2) WLC 465

discharge their fundamental duties under Article 51 A (g)¹² of the Constitution, the courts exercising extraordinary jurisdiction can impose damages on the polluter for the restoration of the ecological balance and also for the victims who have suffered the intrusion upon the environment and ecology of the former.”

Irrespective of whether a company is polluting or non-polluting, protection of environment should be the concern of every socially responsible organisation. Each company must take steps to make sustainable use of resources, establish a healthy and safe working environment, maintain ecological balance, take proactive steps to minimise waste generation and preserve environment.

CSR has been defined under the CSR rules, which includes but is not limited to:

- Projects related to activities specified in the Schedule; or
- Projects related to activities taken by the company board as recommended by the CSR Committee, provided those activities cover items listed in the Schedule.

CORPORATE SOCIAL RESPONSIBILITY EXAMPLES IN INDIA:

- **Tata Group**

The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programs. Through self-help groups, it is engaged in women empowerment activities, income generation, rural community development, and other social welfare programs. In the field of education, the Tata Group provides scholarships and endowments for numerous institutions.

The group also engages in healthcare projects such as facilitation of child education, immunization and creation of awareness of AIDS. Other areas include economic empowerment through agriculture programs, environment protection, providing sport scholarships, and infrastructure development such as hospitals, research centres, educational institutions, sports academy, and cultural centres.

- **Ultratech Cement**

¹² Fundamental duties

Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance. Its CSR activities focus on healthcare and family welfare programs, education, infrastructure, environment, social welfare, and sustainable livelihood.

The company has organized medical camps, immunization programs, sanitization programs, school enrolment, plantation drives, water conservation programs, industrial training, and organic farming programs.

- **Mahindra & Mahindra**

Indian automobile manufacturer Mahindra & Mahindra (M&M) established the K. C. Mahindra Education Trust in 1954, followed by Mahindra Foundation in 1969 with the purpose of promoting education. The company primarily focuses on education programs to assist economically and socially disadvantaged communities. CSR programs invest in scholarships and grants, livelihood training, healthcare for remote areas, water conservation, and disaster relief programs. M&M runs programs such as Nanhi Kali focusing on girl education, Mahindra Pride Schools for industrial training, and Lifeline Express for healthcare services in remote areas.

- **ITC Group**

ITC Group, a conglomerate with business interests across hotels, FMCG, agriculture, IT, and packaging sectors has been focusing on creating sustainable livelihood and environment protection programs. The company has been able to generate sustainable livelihood opportunities for six million people through its CSR activities. Their e-Choupal program, which aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. Its social and farm forestry program assists farmers in converting wasteland to pulpwood plantations. Social empowerment programs through micro-enterprises or loans have created sustainable livelihoods for over 40,000 rural women.

METHODOLOGY OF CORPORATE SOCIAL RESPONSIBILITY:

CSR is the procedure of assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the following aspects of each business:

- Customers
- Suppliers
- Environment
- Communities
- Employees

The most effective CSR plans ensure that while organizations comply with legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be sustainable – involving activities that an organization can uphold without negatively affecting their business goals.

Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes. It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs and set separate budgets to support them. Most of the time, these programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain.¹³

NEWMONT MINING GROUP SCENARIO:

The Newmont Mining Corporation of US was operating gold mines in the Sulawesi Island of Indonesia through a subsidiary. Forming subsidiaries is one way of avoiding direct responsibility. The company dumps soil containing heavy metals like mercury into the Breyat Bay because of which the local people developed skin diseases and tumours. Even after the contamination was pointed out, the company argued that it was not the cause of the diseases. They claimed to follow high standards of mining as in the US. The company continued to deny responsibility until the government prosecuted its executives and threatened imprisonment for 15 years. The villagers claimed damages to an extent of \$543 million and environmentalists made another claim. Because there is a law the company should be made

¹³www.india-briefing.com/news/corporate-social-responsibility-india-5511.html, visited on 5th November 2017, 11pm

liable. If not, it would have been doing pollution with impunity. It indicates the responsibility of the government in making the companies responsible.¹⁴

GOOD CORPORATE CITIZENSHIP OF AT&T:

AT&T is the best corporate citizen in the U.S. right now, according to a new ranking by CRMagazine. That means it beat out everyone else in the Russell 1000 index of large-capitalization companies in terms of virtues like good corporate governance and environmental impact. “A good corporate citizen is one that demonstrates its good faith and genuine value to all stakeholders by acting transparently,” says Dirk Olin, Editor-in-Chief of CR Magazine. “There is always, and must be, a place for confidentiality and proprietary trade information. But a presumption of openness shows all those affected by corporate behaviour, whether internally or externally, that the company in question has, in aggregate at least, nothing to hide.” Beth Shiroishi, vice president of sustainability and philanthropy at AT&T, says: “We’re honoured to be recognized for our progress and comprehensive approach to sustainability. We’re continuously learning but know that the full impact of sustainability comes when it is integrated across the company operations and benefits both the community and our shareholders. We’ve been serving communities for over 130 years, and we understand the interconnectedness of the success of our company and a strong society.” The Dallas-based communications giant ranked thirty-third last year, when Bristol-Myers Squibb took the top spot. “All credit for our efforts to date goes to our employees and leadership,” Shiroishi adds. “We know there’s more work to be done and look forward to finding new and innovative ways to drive shared value for our company, our shareholders and our communities.” AT&T has devoted tens of millions of dollars to continue its It Can Wait campaign, which aims to raise awareness and put an end to texting while driving by encouraging people to take the pledge to never text and drive. To date, more than 1.3 million pledges have been taken. In addition, AT&T recently joined forces with the Environmental Défense Fund (EDF) to launch cooling tower efficiency pilots to identify best practices for saving millions of gallons of water a year; it launched a new program in California called Skip the Bag, which allowed customers to generate a donation to the Nature Conservancy by opting to skip a bag at retail stores; and AT&T teamed up with America’s Promise Alliance (APA) during their Building a Grad Nation Summit to help share the encouraging news that the nation’s high school graduation rate is—for the first time—on pace to reach 90% by 2020.

¹⁴ Jawaharlal Jasthi,” The Concept of Corporate Governance,” 1st Edition, Asia Law House, Hyderabad, Page number 209

The company also announced in November that the Guinness Book of World Record certified that AT&T's customers broke the world record for number of cell phones recycled in a week. "They have clearly succeeded in demonstrating transparency's value proposition to the C-suite at AT&T," Olin says. "I'm not in the business of icing corporate cakes, but this kind of performance just does not happen without the proverbial buy-in from leadership."¹⁵

CONCLUSION:

The measurement and return on investment (ROI) of corporate responsibility and corporate citizenship is defined by how well companies responsibly manage not only their financial performance but also their environmental and social impact. Today's leading responsible corporations draw on the collective impact of a variety of initiatives that address an array of trends and emerging issues. Companies must not only be engaged with stakeholders but be stakeholders themselves alongside governments and civil society. Since companies depend on global development, which in turn relies on stability and increased prosperity, it is in their direct interest to help improve the state of the world. Globally competitive businesses cannot thrive in unstable and poorly governed countries. To ensure the integrity of their global supply chains while operating ethically and responsibly, these firms need to move beyond a view of corporate social responsibility as charity toward a comprehensive vision of corporate citizenship that encompasses all of the institutions that affect economic growth in the places where they work.

Operating in a safe environment without causing injuries to stakeholders is a fundamental element of a company's social responsibility. Different stakeholders require different methods of protection from corporate activities. Thus, while health and safety regulations which are the basis of the compliance and punishment debate may be appropriate for the protection of workers, a different type of CSR instrument may be required for the protection of different stakeholders such as the local community. A third approach will be proposed to ensure that companies in the extractive industries operate in a socially responsible manner. It is proposed to begin with an overview of the compliance and punishment models.¹⁶

A journey from voluntarism to mandated provision attracts several queries on corporate social responsibility. Increased competition in the market and the wave of globalization has changed the view of corporate sector towards society. Today, CSR has become a vital part of

¹⁵ <https://www.forbes.com/sites/jacquelynsmith/2013/04/11/americas-100-best-corporate-citizens/#2b560c727e79>, visited on 5th November, 2017, 10:20pm

¹⁶ Implementing Corporate Social Responsibility: Punishment or Compliance? Edwin Mujih

the business strategy for most of the organizations, be it a public or private sector firm. This paper tries to explore the nature and effectiveness of CSR in implementing the mandatory provisions of the Companies Act 2013. The study has used secondary evidences to substantiate emerging points and support the outcomes.¹⁷ Good corporate citizens recognize that one of the most useful contributions they can make is to help improve these institutions through leading by example when it comes to corporate governance and internal anti-corruption mechanisms, and through collective action to voluntarily commit to the highest ethical business standards. Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. In today's economic and social environment, issues related to social responsibility and sustainability are gaining more and more importance, especially in the business sector. Business goals are inseparable from the societies and environments within which they operate.¹⁸ The study of Brammer *et al.* (2012) entitled as 'Corporate Social Responsibility and institutional theory: new perspective on private governance' in social economic review depicted that CSR is not only a voluntary action but beyond that.¹⁹

¹⁷ Asian Journal of Research in Business Economics and Management Vol. 7, No. 8, August 2017, pp. 42-51

¹⁸ ZENITH International Journal of Business Economics & Management Research, Vol.7 (8), AUGUST (2017)

¹⁹ Sanjita Lenka, Corporate Social Responsibility Initiatives: A Study of Tata Steel, Siddhant, Volume 17, Issue 3, July-September, 2017, pp- 217-222