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BBA | Semester II | UK2DSCMGT103

Business Ethics and Corporate Governance

Course Code: UK2DSCMGT103 • Module 5 Notes

Module 5: Corporate Social Responsibility and Sustainable Governance

Course: Business Ethics and Corporate Governance (UK2DSCMGT103) • Semester II • BBA FYUGP Kerala University

1. Conceptual Foundations and Evolution of Corporate Social Responsibility (CSR)

In contemporary business strategy and macroeconomic sociology, **Corporate Social Responsibility (CSR)** represents the continuing commitment by business enterprises to behave ethically and contribute to sustainable economic development while improving the quality of life of the workforce, their families, the local community, and society at large. Far from being an act of sporadic charity or discretionary corporate philanthropy, modern CSR is conceptualized as an integrated, institutionalized business management framework through which corporations systematically internalize the social, environmental, and human rights externalities generated by their commercial operations.

The World Business Council for Sustainable Development (WBCSD) defines CSR as: *"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."*

Historical Evolution of the CSR Paradigm

The concept of corporate social obligation has evolved across four distinct historical eras:

- **1. The Philanthropic and Religious Era (Pre-1950s):** Driven primarily by religious values, merchant charity, and patriarchal community support. Wealthy industrialists constructed community temples, water wells, feeding centers, and schools as personal moral acts rather than corporate policy.
- **2. The Awareness and Trusteeship Era (1950s–1970s):** Pioneered by Howard Bowen's 1953 seminal book *Social Responsibilities of the Businessman* (widely regarded as the father of modern CSR). Bowen posited that the largest corporations wield immense social power and therefore have an obligation to pursue policies desirable in terms of the objectives and values of society. In India, Mahatma Gandhi's doctrine of **Trusteeship** inspired business houses to establish educational and healthcare trusts.
- **3. The Stakeholder and Strategic Era (1980s–2000s):** Transition from passive charity to strategic alignment. CSR became linked directly to risk management, stakeholder engagement (Freeman), and protecting brand equity. Michael Porter and Mark Kramer introduced the concept of **Creating Shared Value (CSV)**—generating economic value in a way that simultaneously produces value for society by addressing its challenges.
- **4. The Statutory and ESG Era (2010s–Present):** Transition from voluntary self-regulation to binding statutory mandates (such as India's landmark Section 135 of the Companies Act 2013) and

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integrated **Environmental, Social, and Governance (ESG)** frameworks mandated by global capital markets.

John Elkington's Triple Bottom Line (TBL) Framework

In 1994, British management consultant **John Elkington** introduced the revolutionary **Triple Bottom Line (TBL)** accounting framework, positing that corporate performance must not be evaluated exclusively by the traditional single bottom line of financial net profit, but across three synergistic dimensions popularly known as the **3 Ps**:

- **1. Profit (The Economic Bottom Line):** The traditional measure of corporate financial viability, return on capital invested, economic value added, and wealth creation for investors. A corporation must remain financially profitable to generate sustainable tax revenues and employment.
- **2. People (The Social Bottom Line):** The fair, beneficial, and humane treatment of all human capital connected to the enterprise, including employees, contract laborers, suppliers, customers, and local communities. Encompasses fair living wages, workplace safety, healthcare, gender equity, education, and community development.
- **3. Planet (The Environmental Bottom Line):** The sustainable stewardship of the Earth's natural ecological capital. Encompasses minimizing carbon footprints, reducing greenhouse gas emissions, adopting circular waste management, conserving fresh water, preserving biological biodiversity, and eliminating hazardous toxic pollution.

2. Theoretical Models of Corporate Social Responsibility

To analyze the nature, hierarchy, and organizational progression of social responsibility, management scholars formulated several influential structural models:

Archie Carroll's Pyramid of Corporate Social Responsibility

In 1991, University of Georgia professor **Archie B. Carroll** formulated the **Pyramid of CSR**, portraying corporate social obligations as a four-layered hierarchical construct:

Pyramid Tier	Nature of Responsibility	Societal Expectation	Corporate Operational Imperative
1. Economic Responsibility	Foundational Base of the Pyramid	**Required** by Society	Be profitable. The foundational bedrock upon which all other obligations rest. The enterprise must create value, produce goods demanded by society, sustain jobs, and reward investors. Without economic viability, the firm cannot survive to fulfill other duties.
2. Legal Responsibility	Second Tier	**Required** by Society	Obey the law. Society codifies its basic moral standards into statutory legislation. The enterprise must comply with labor codes, environmental regulations, tax statutes, product

Pyramid Tier	Nature of Responsibility	Societal Expectation	Corporate Operational Imperative
			safety rules, and contractual jurisprudence. Operating within legal boundaries is the social contract.
3. Ethical Responsibility	Third Tier	**Expected** by Society	Be ethical. The obligation to do what is right, just, and fair, avoiding harm even where specific behaviors are not codified into formal statutory law. Encompasses respecting consumer privacy, paying living wages, and eliminating greenwashing.
4. Philanthropic Responsibility	Apex of the Pyramid	**Desired / Desirable** by Society	Be a good corporate citizen. Discretionary contributions of corporate wealth, executive time, and institutional resources toward community betterment, arts, education, disaster relief, and societal welfare. Unlike the lower tiers, failure to be philanthropic is not considered unethical by society.

Robert Ackerman's Model of Corporate Social Responsiveness

In contrast to Carroll's static hierarchical taxonomy, **Robert Ackerman** formulated a dynamic, process-oriented model analyzing how corporations psychologically and operationally react to emerging social demands over time. Ackerman identified three sequential developmental phases:

- **Phase 1: Awareness / Policy Formulation:** Senior executive leadership becomes conscious of an emerging societal issue or public outcry (e.g., carbon emissions or workplace gender disparity) and issues a high-level public corporate policy statement or vision document. At this stage, however, operational implementation is negligible.
- **Phase 2: Planning and Specialized Staffing:** The corporation hires specialized experts, technical consultants, and environmental scientists to study the issue, calculate corporate ecological footprints, and establish dedicated operational units (e.g., creating a Chief Sustainability Officer role).
- **Phase 3: Institutionalization / Operational Implementation:** The social policy is fully hardwired into the frontline operating systems, capital expenditure budgets, performance appraisals, and supply chain procurement rubrics across the entire global enterprise, transforming social responsiveness into standard operating procedure.

3. The Statutory CSR Framework in India: Section 135 of the Companies Act, 2013

India made global corporate history in 2013 by becoming the **first sovereign nation in the world to legally mandate Corporate Social Responsibility spending by statute** through Section 135

of the **Companies Act, 2013**, read alongside the Companies (Corporate Social Responsibility Policy) Rules, 2014.

Applicability Thresholds (Section 135(1))

The statutory CSR mandate applies to every company (including its holding, subsidiary, or foreign company branch in India) that fulfills any one of the following financial criteria during the immediately preceding financial year:

- **Net Worth:** ₹500 crore or more; OR
- **Turnover:** ₹1,000 crore or more; OR
- **Net Profit:** ₹5 crore or more.

Composition and Governance of the CSR Committee

Every qualifying enterprise must constitute a specialized **CSR Committee of the Board of Directors** consisting of **three or more directors, with at least one Independent Director**. The fiduciary responsibilities of the CSR Committee encompass:

- Formulating and recommending to the Board an annual CSR Policy indicating the specific social activities to be undertaken in alignment with Schedule VII.
- Recommending the exact amount of expenditure to be incurred on the selected CSR projects.
- Establishing a transparent, verifiable monitoring mechanism for tracking project implementation timelines and measurable social impact.

The Mandatory 2% Spending Formula (Section 135(5))

The Board of every qualifying company must ensure that the company spends, in every financial year, at least **two percent (2%) of the average net profits of the company made during the three immediately preceding financial years**.

Net profit for CSR calculation is calculated in accordance with Section 198 of the Companies Act, strictly excluding overseas branch profits and dividend income received from other Indian companies.

Permissible Social Activities under Schedule VII

Statutory CSR capital cannot be expended on ordinary business marketing, employee sports events, political donations, or routine commercial sponsorships. It must strictly align with the approved thematic categories codified in **Schedule VII** of the Companies Act:

- Eradicating hunger, poverty, and malnutrition; promoting preventive healthcare and sanitation (including contributions to the Swachh Bharat Kosh).
- Promoting education, vocational skills training, and livelihood enhancement projects for youth, women, and the elderly.
- Promoting gender equality, empowering women, setting up homes and hostels for women and orphans, and reducing inequalities faced by socially and economically backward groups.

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- Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, and conservation of natural resources (including Clean Ganga Fund contributions).
- Protection of national heritage, art, and culture; restoration of historical buildings and works of art; promotion of traditional arts and handicrafts.
- Measures for the benefit of armed forces veterans, war widows, and their dependents.
- Training to promote rural sports, nationally recognized sports, paralympic sports, and Olympic sports.
- Contributions to the Prime Minister's National Relief Fund (PMNRF), PM CARES Fund, or any other fund set up by the Central Government for socio-economic development and relief.
- Rural development projects and slum area development.
- Disaster management, including relief, rehabilitation, and reconstruction activities.

Treatment of Unspent CSR Funds and Penalties (2020 Amendments)

Initially, India operated under a voluntary "comply or explain" regime. However, through sweeping statutory amendments in 2020, India criminalized/penalized CSR default:

- **Ongoing Multi-Year Projects:** Any unspent CSR amount relating to an ongoing project must be transferred within 30 days of fiscal year-end to a special designated **Unspent CSR Account** in a scheduled bank, and spent within three financial years. If still unspent, it must be transferred to a Schedule VII sovereign fund.
- **Non-Ongoing Projects:** Any unspent CSR amount not tied to an ongoing project must be transferred directly to a Schedule VII government fund within **six months** of the close of the financial year.
- **Monetary Penalties for Default:** If a company defaults, the company is liable to a penalty of **twice the amount required to be transferred or ₹1 crore (whichever is less)**, and every defaulting officer is liable to a penalty of **one-tenth of the unspent amount or ₹2 lakh (whichever is less)**.
- **Mandatory Impact Assessment:** Companies having an average CSR obligation of ₹10 crore or more must undertake independent third-party **Impact Assessment** studies for all CSR projects with outlays of ₹1 crore or more.

4. Corporate Sustainability and Environmental, Social, and Governance (ESG) Frameworks

In global capital markets, the corporate sustainability conversation has evolved from descriptive CSR reports toward quantitative, audited **Environmental, Social, and Governance (ESG)** ratings that directly dictate corporate access to international institutional capital.

The Three Pillars of ESG

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- **Environmental (E):** Measures how a corporation manages its thermodynamic impact on the physical Earth: direct and indirect greenhouse gas emissions (Scope 1, Scope 2, and Scope 3 emissions), fresh water consumption, renewable energy adoption, biodiversity protection, and circular waste recycling.
- **Social (S):** Evaluates how an enterprise manages relationships with its workforce, suppliers, customers, and communities: workplace occupational health and safety, employee gender wage parity, human rights auditing in supply chains, customer data privacy, and community engagement.
- **Governance (G):** Assesses internal corporate governance architectures: board independence, executive remuneration alignment, audit integrity, shareholder voting rights, anti-corruption controls, and whistleblower protections.

Business Responsibility and Sustainability Reporting (BRSR) in India

Recognizing the vital necessity of transparent ESG disclosures, the Securities and Exchange Board of India (SEBI) mandated the **Business Responsibility and Sustainability Reporting (BRSR)** framework, replacing the legacy Business Responsibility Report (BRR):

- **Mandatory Scope:** Mandatory for the **top 1,000 listed entities** in India by market capitalization.
- **Alignment with National Guidelines:** Mapped directly against the nine principles of the *National Guidelines on Responsible Business Conduct (NGRBC)*.
- **Structure:** Comprises three operational tiers: General Disclosures (corporate profile, operations, employees), Management and Process Disclosures (governance policies, commitments), and Principle-wise Performance Indicators (Essential Indicators which are mandatory, and Leadership Indicators which are aspirational).
- **BRSR Core and Reasonable Assurance:** SEBI introduced **BRSR Core**, mandating that the top 250 listed firms obtain mandatory external independent assurance on key ESG metrics (such as water intensity, carbon intensity, and job creation in small towns).

5. Hallmarks of Good Corporate Governance and Pathologies of Failure

Synthesizing international governance jurisprudence and modern administrative research, an effective corporate governance ecosystem exhibits six foundational hallmarks:

The Six Hallmarks of Exemplary Governance

- **1. Absolute Transparency:** Publishing timely, comprehensive, and forensically accurate financial and operational disclosures that enable investors and regulators to assess the true economic reality of the enterprise.
- **2. Robust Internal Accountability:** Establishing clear lines of managerial authority and fiduciary oversight, ensuring that executive management answers directly to an active, independent Board of Directors.

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- **3. Equitable Treatment of All Shareholders:** Protecting the fundamental rights of public minority and retail shareholders against unfair promoter expropriation, tunneling, and abusive related-party transactions.
- **4. Ethical Tone at the Top:** Board members and C-suite executives who lead by personal example, demonstrating uncompromising moral integrity and refusing to tolerate ethical corner-cutting.
- **5. Proactive Risk Governance:** A dynamic risk management architecture that continuously monitors and stress-tests enterprise resilience against technological, macroeconomic, geopolitical, and ESG risks.
- **6. Collaborative Stakeholder Engagement:** Actively creating shared institutional value with employees, suppliers, customers, and society rather than pursuing predatory extraction.

Structural Factors Impeding Good Corporate Governance

Despite extensive statutory legislation, corporate governance continues to fail when organizational systems fall victim to predictable institutional pathologies:

- **Promoter Hegemony and Rubber-Stamp Boards:** In family-dominated enterprises, independent directors are frequently selected based on personal friendship or social deference to the patriarch, acting as passive rubber stamps who never challenge executive maneuvers.
- **Executive Hubris and Imperial CEOs:** Charismatic, dictatorial chief executives who systematically eliminate internal dissent, marginalize risk officers, and foster a cultural atmosphere where raising concerns is treated as treason.
- **Short-Termism and Quarterly Earnings Obsession:** The pathological pressure from Wall Street or Dalal Street to meet quarterly EPS targets, driving corporate managers to postpone vital R&D, slash employee maintenance, and engage in aggressive creative accounting.
- **Collusion Among Regulatory Intermediaries:** External auditors, credit rating agencies, and investment bankers who compromise their professional skepticism to protect lucrative fee revenues generated from the corporate client.

6. Global ESG Standards and International Reporting Frameworks

To eliminate greenwashing and ensure comparability of corporate sustainability disclosures across international borders, global institutional investors rely on standardized sustainability reporting frameworks:

1. Global Reporting Initiative (GRI Standards)

Headquartered in Amsterdam, the **Global Reporting Initiative (GRI)** is the most widely adopted global sustainability reporting standard. GRI operates upon the principle of **Double Materiality**—mandating that corporations report not only how environmental and social issues impact corporate enterprise value (financial materiality), but also how corporate activities impact external people, human rights, and the natural planet (impact materiality). GRI standards are structured across

Universal Standards (GRI 1, 2, 3) and Topic-Specific Standards covering economic, environmental, and social disclosures.

2. Task Force on Climate-related Financial Disclosures (TCFD)

Established by the Financial Stability Board (FSB) under Mark Carney, the **TCFD** framework assists corporations in assessing and disclosing the concrete financial implications of global climate change upon their balance sheets across four core thematic pillars:

- **Governance:** The board's oversight of climate-related risks and management's role in assessing climate impacts.
- **Strategy:** The actual and potential impacts of climate-related risks (physical risks from extreme weather events, and transition risks from carbon taxes and technology obsolescence) on corporate strategy and financial planning.
- **Risk Management:** The organizational processes utilized to identify, assess, and manage climate risks.
- **Metrics and Targets:** Disclosing Scope 1 (direct operational emissions), Scope 2 (indirect emissions from purchased electricity), and Scope 3 (value-chain emissions) greenhouse gas footprints alongside science-based net-zero targets.

3. The International Sustainability Standards Board (ISSB / IFRS S1 & S2)

Established under the International Financial Reporting Standards (IFRS) Foundation, the **ISSB** developed global benchmark sustainability disclosure standards (IFRS S1 on General Sustainability Disclosures and IFRS S2 on Climate Disclosures). The ISSB consolidates legacy frameworks (SASB, CDSB, Integrated Reporting) into a unified, investor-focused standard tracking financial enterprise value creation.

7. Green Finance, Sustainable Capital Markets, and the Social Stock Exchange

Corporate sustainability has transformed financial capital markets, giving rise to novel **Green Finance** debt instruments designed to mobilize private capital for environmental and social transition:

Instruments of Sustainable Finance

- **Green Bonds:** Fixed-income debt securities issued by corporations, multilateral banks, or sovereign governments whose proceeds are exclusively ring-fenced and allocated to finance eligible green environmental projects (such as utility-scale solar parks, wind farms, electric passenger rail, and green building construction), certified under Climate Bonds Initiative standards.
- **Sustainability-Linked Loans and Bonds (SLLs / SLBs):** Financing instruments where the loan interest rate (coupon) is explicitly tied to the borrowing corporation's achievement of predetermined quantitative **Sustainability Performance Targets (SPTs)**. If the borrower hits

its verified carbon reduction target, the interest rate drops; if it fails, a coupon penalty step-up is triggered.

- **Social Impact Bonds (SIBs):** Innovative "pay-for-success" financing contracts where private commercial investors provide upfront working capital to non-profit social organizations to achieve measurable public social outcomes (e.g., reducing recidivism, improving female school completion). If independent evaluators verify the outcome is met, the sovereign government repays the private investors with a return.

The Social Stock Exchange (SSE) in India

Pioneered under the regulatory framework of SEBI, India established the **Social Stock Exchange (SSE)** as a dedicated separate trading segment on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The SSE provides a transparent, regulated platform enabling **Social Enterprises**—both Non-Profit Organizations (NPOs) and For-Profit Social Enterprises (FPSEs)—to raise capital from institutional and retail impact investors through specialized instruments such as **Zero Coupon Zero Principal (ZCZP)** bonds, eliminating traditional opaque intermediary funding channels.

8. CSR Project Implementation Architecture and Impact Assessment

Executing statutory CSR programs in India requires rigorous project management, governance oversight, and forensic impact verification:

Implementation Modes under Indian Law

Under the Companies (CSR Policy) Rules, a corporation can execute CSR projects through three authorized institutional conduits:

- **Direct Execution:** Undertaking community development projects directly through internal corporate CSR departments and employee volunteering.
- **Through Captive Corporate Foundations:** Deploying funds through a dedicated corporate non-profit Section 8 company or registered trust established by the company itself (e.g., Infosys Foundation, Tata Trusts, Reliance Foundation).
- **Through External Implementing Agencies:** Partnering with eligible external non-governmental organizations (NGOs), Section 8 companies, or registered public trusts that possess a verifiable three-year track record in undertaking similar public social activities, and who are officially registered with the Ministry of Corporate Affairs with a unique **CSR Registration Number (Form CSR-1)**.

Social Audit Methodologies and Theory of Change

To ensure CSR capital delivers genuine, measurable socio-economic transformation rather than symbolic expenditure, enterprises deploy advanced evaluation methodologies:

- **The Theory of Change (ToC) and Logic Model:** A structured conceptual framework that maps the rigorous causal sequence connecting corporate CSR resource investments to final societal

impacts:

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Inputs (Financial Capital) → Activities (Workshops/Constructions) → Outputs (Schools built) → Outcomes (Literacy rate rise) → Impact (Long-term poverty alleviation)
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- **Social Return on Investment (SROI):** A principles-based method for measuring extra-financial value (environmental and social value) relative to resources invested, calculating a ratio such as: ₹1 of CSR investment generated ₹4.50 of verified societal and economic value to the community.
- **Participatory Rural Appraisal (PRA):** Direct, respectful engagement with local rural village panchayats and community self-help groups (SHGs) to identify actual community priorities before designing infrastructure projects, ensuring community ownership and preventing the construction of useless, abandoned "white elephant" community centers.

9. The Corporate Citizenship Continuum and Critical Perspectives on Mandatory CSR

The institutionalization of corporate social responsibility represents a fundamental reimagining of the corporation's role in civil society, progressing along a developmental continuum from defensive compliance toward transformative corporate citizenship.

The Four Stages of the Corporate Citizenship Continuum

- **1. Defensive / Compliance Stage:** The enterprise views CSR as an unavoidable legal overhead or regulatory burden. Actions are designed strictly to avoid statutory fines, litigation, or regulatory cancellation of operating licenses. Focus is on minimum compliance checklists.
- **2. Cost-Benefit / Instrumental Stage:** Management recognizes that certain social or environmental initiatives yield direct operational cost savings (e.g., energy efficiency reduces factory electricity bills) or generate positive public relations.
- **3. Strategic / Integrated Stage:** Social and environmental imperatives are embedded directly into corporate core business strategy, brand identity, and R&D innovation pipelines. Products are redesigned for sustainability, and shared value is created across supply chains.
- **4. Transformative / Civil Stage:** Pioneering corporations actively lead industry consortia, advocate for progressive social policies, shape global environmental standards, and collaborate with civil society to solve systemic planetary challenges (such as global climate change, extreme poverty, and antibiotic resistance).

Critical Perspectives and the Debate on Mandatory Statutory CSR

While India's pioneering mandatory 2% CSR legislation has unlocked billions of rupees for socio-economic development, economists and policy scholars highlight critical systemic debates:

- **Substitution of Sovereign State Functions:** Critics argue that mandatory CSR effectively functions as a supplementary corporate tax, risking the privatization of fundamental state welfare

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responsibilities (such as public healthcare and primary education) that are the sovereign duty of democratic governments.

- **Geographic and Thematic Concentration:** Empirical research reveals that corporate CSR funds gravitate heavily toward industrially developed states (Maharashtra, Gujarat, Tamil Nadu) and popular urban causes (education and healthcare), leaving backward, tribal, and remote aspirational districts with severe development deficits.
- **Tick-Box Compliance Mentality:** The risk that corporations treat CSR as a mechanical administrative box-ticking exercise, outsourcing spending to check-the-box non-profit middlemen rather than fundamentally transforming internal business practices toward ethical sustainability.

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