

Ethics and corporate social responsibility, industry 4.0:

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Abstract

HISTORICAL MOORINGS:

The paper deals with the meaning, nature and scope of the terms Ethics and Social Responsibility of Business and traces their origin and evolution over the period of time. It traces its historical roots by dividing it into three phases; Pre-1990, from 1991-2013 and Post-2014 when the law kicked in.

It tries to juxtapose the Ethics and CSR and Industry 4.0 and how the two can be amalgamated to bring a discernible change in the behavior and actions of the two for the benefits of the society.

It also delineates arguments for and against the CSR, its various kinds as well as the different interest groups it serves and it can be more effective to bring about the social change. It also work out the various facts associated with it.

DIAGNOSIS:

Then it deals with the current status, in other words where do we stand, the path traversed so far; its highpoints and low points, hits and misses. It also talks about the scope and areas of development and improvements.

It puts forth various data and figures concerning the topic and how things have turned up or are shaping up. They give us a clear idea about the areas where we need to work more so that the desired results are obtained without any hitch.

PROGNOSIS:

We have made substantial strides in the area and are richer with experience. In this background, the paper deals with the various possibilities the topic is enthused with. It brings out how the business and the society can work in tandem for their mutual benefits delineating the various areas of synchronization. It also gives a number of suggestions and recommendations to put the focus on where it is needed so that things work out as per the plan.

Keywords: *Ethics, Corporate Social Responsibility, Historical Roots, Juxtapose, Amalgamated, Discernible, Delineates.*

INTRODUCTION: CONCEPT OF CSR

Mahatma Gandhi's gem of the words on the "customers" and his idea of "trusteeship" remain the guiding principles of present time business management as well as business practices and the two together form the core of the whole idea of what is now famously described as Corporate Social Responsibility.

Bapu had said about the customers: "A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him." Now we can see that how consumer is taken as a king, in other words, the customer is the sun around which all business activities and practices revolve turning the whole process as consumer centric.

Then his Trusteeship idea was a socio-economic philosophy which delineated that wealth created or generated beyond a certain reasonable point doesn't belong to the person but rather it belongs to the society and the businessman is merely a trustee of his/ her wealth which must come in handy for looking after the people in general or for public welfare. The portion of wealth given for charity and philanthropy by the richest person of the world Bill Gates in the USA and by Azim Premji in India are a pointer to this reality and so is the "Giving Pledge" Club formed by Bill Gates and Warren Buffets, not to mention the TATA Group which has been neck deep in such outreach and extension almost since their advent on the business firmament as are so many foundations operating worldwide since long like Ford Foundation, Rockefeller Foundation et al.

The fact remains that all the factors of production: land, labour, capital and entrepreneurship come from the society and further the final mix of commodities produced by the business is also consumed by the society, making it as a reason de atre for its existence and continuance; it becomes imperative that business has to work for the development of society and sustainability of the eco-system or ecology by being not merely cost driven but also being a value driven entity if it wants to remain in contention.

Given this backdrop, the contours of the Industry 4.0 provides an appropriate launch pad for the companies to justify their existence and utility for the society. The Industry 4.0 is the true corollary of automation and computerization of 3.0 phase of the Industrial Revolution through interconnectivity of computers, Internet of Things as well as Internet of Systems to bring a synergy for the optimization of Industry 3.0 riding on

machine learning and digitization through big time data analytics and algorithms which are the gateway to more efficiency and productivity with minimum or even zero wastage much akin to what is known as micro surgery in medical science giving rise to minimum invasion and maximum result.

Two more phenomena would help us relate with the topic under consideration. Firstly, the modern day's marketing management philosophy of "Societal Marketing Concept" which is a way ahead or a natural corollary of the Marketing concept which was like the concept of "from cradle to grave" under the communist dispensation wherein it begins from merchandising to after sales service. These are much akin to what is being promoted through CSR concept. Secondly, the USP of the venerated Steve Jobs who made a mark by coming out with something which we don't need right now but would be needing in the short and medium term, that is marching way ahead of the time. That's why the business has to look beyond the horizon to break fresh ground and remain etched in the memory chip of the customers and the public.

THE ORIGIN OF CSR & INDUSTRY 4.0:

Now we need to go into the origin of the term CSR and Industry 4.0 and then juxtapose the two and then see how these gel together and get amalgamated. In 1953, Howard Bowen who is widely recognized as "the Father of CSR" published a book named "Social Responsibility of the Businessman" which conceptualized the notion as social obligation, i.e., to follow those lines of action which are desirable in terms of objectives and values of the society. It's a concept whereby companies integrate social, economic and environmental concerns in their business operations and in their interactions with the various stakeholders on a voluntary basis.

CSR aims to ensure that the companies conduct their business in a way that is ethical and which accounts for their social, economic and environmental impact as well as considerations of human rights. It's a self-regulating business model which holds companies accountable to itself, to the society as well as various stakeholders.

Now let's move on to the term Industry 4.0. This term was coined by a group of representatives from diverse fields such as business, politics, academia etc. under an initiative to enhance the German competitiveness in

the manufacturing industry in the year 2011. Its avowed objective is to design smart and autonomous systems fuelled by data and machine learning and thus optimizing the computerization of Industry 3.0 which was disruptive in the first place, but now they are connected with one another to make decisions without human involvement or what is better known as the Artificial Intelligence.

Its foundation is a combination of cyber-physical system, the Internet of Things and Internet of Systems which make Industry 4.0 possible and the smart factory a reality. The Industry 4.0 affect businesses in customer life cycle, operations cycle, and R & D cycle. The customer centric thinking is placed at the core of their organization and the digital transformation enables them to deliver beyond customer needs.

The components of the Industry 4.0 are mobile devices, Internet of Things platforms, location detection technology, advanced human machine interfaces, authentication and fraud detection, 3D printing, smart sensors and big time data analytics and advance algorithms. It focusses on interconnectivity, automation, machine learning and real time data. It helps manufacturers cope with current challenges by becoming more flexible and capable in responding to changes in the market place. Additionally, it spurs innovation and is highly consumer centric leading to faster design changes.

In a nut shell, it integrates automation, software and cutting edge technology to enable manufacturers to be “A Cut above the Rest.”

A BRIEF HISTORY OF INDIAN CSR:

A brief history of Indian CSR can be painted as below:

During the phase 1950-1990 which was an era of heavy regulations, it was restricted to the few corporate trusts, most prominently TATA's. Then during 1991-2013, the era of liberalization, family trusts, public private partnership and NGO sponsorship came into the picture. And thereafter, from 2013 to present, the era of globalization, the introduction of mandatory 2% contribution rule.

Some of the drivers pushing the business towards the CSR can be listed as:

- a. The shrinking role of the government.
- b. Demands for greater disclosure by the regulators and the public.

- c. Increased customer interests.
- d. Growing investor pressure.
- e. Competitive labour market.
- f. Supplier relations
- g. Company benefits.
- h. Benefits to the general public.

The cornerstones of CSR remains honesty, compassion/ respect, fairness, accountability and courage.

ARGUMENTS FOR CSR:

There are arguments for the CSR which are based on following premises:

- a. Justification for existence and growth.

Business exists for producing goods and services that satisfy human needs. Therefore, the prosperity and growth of business is possible only through continuous service to the society.

- b. In the long term interest of the business.

When increasing number of the members of the society feel that their interests are not served by the business, they will tend to withdraw their cooperation and support. Therefore, it is in its own interest for the business firm to fulfill its social obligations.

- c. Avoidance of government regulations.

Government regulations restrict freedom of the business. The business can avoid the problems of the government regulations by voluntarily assuming social responsibilities which also help to reduce the needs for new laws.

- d. Maintenance of society.

People when they feel that they are not getting their due from the business, may resort to anti-social activities which in turn will harm the interest of the business itself. Therefore, they need to assume social responsibility which builds up their goodwill among the public.

- e. Availability of resources with the business.

Business has a pool of financial resources and managerial talents and capabilities backed by a rich experience, these can help societies to tackle its problems in a much better and coordinated fashion..

- f. Converting problems into opportunities.

Business with its glorious history of turning risky situations into profitable deals can not only solve social problems but it can also make them effectively useful by accepting the challenge.

- g. Better environment for doing business.

A society is full of diverse and complicated problems. Therefore, before business systems respond to do something to address those concerns it is confronted with a problem when its own survival is endangered due to social illnesses. A society with fewer problems provide better opportunities for a firm to conduct its business.

- h. Holding business responsible for social problems.

Some of the social problems are rightly or wrongly attributed to the business. Environmental problems, unsafe work places, corruption in public institutions, and discriminatory practices in employment are some of these problems. Therefore, it is contingent on the business to get involved in solving these problems.

ARGUMENTS AGAINST CSR:

Whereas the arguments against CSR are:

- a. Violation of profit maximization theory.

As per this line of thinking the business exists only for profit maximization and social responsibility hurts this objective. It assumes that the business can fulfill its social responsibility if it maximizes profits through increased efficiency and reduced cost.

- b. Burden on consumers.

Environmental protection and pollution control are costly ones which often require huge financial investments and as such they shift their burden of social responsibility by charging higher prices from the customers instead of bearing it themselves. Therefore, it is unfair to tax the consumers in the name of social responsibility.

- c. Lack of social skills.

Social problems have different connotations than that of business problems. The businessman does not have the necessary understanding, training and wherewithal to solve the social problems and thus, these problems are best solved by other specialized agencies.

d. Lack of broad public support.

The public, in general, does not like business involvement or interference in social programs. Therefore, the business can never operate successfully because of lack of public confidence and cooperation in solving social problems.

CSR: ITS KINDS & INTEREST GROUPS INVOLVED:

Then there are many different kinds of social responsibility such as:

a. Economic responsibility.

It is to provide goods and services that a society needs and wants and to sell them at a profit.

b. Legal responsibility.

It is to operate within the laws of the land and thus being socially responsible.

c. Ethical responsibility.

This includes the behaviour of the firm that is expected by the society but not codified in laws like respecting the religious sentiments and dignity of the people while advertising for the product or even selling it. It is purely voluntary.

d. Discretionary responsibility.

It includes voluntary contributions to educational institutions including their establishment or helping affected people during natural calamities like floods and earthquakes. It also involves undertaking healthy business ventures.

And the business has social responsibility towards different interest groups such as:

a. Responsibility towards the shareholders and owners.

It is concerned with providing fair returns to the owners/ shareholders on their capital investment and ensure the safety of such investments as well as to provide the shareholders with regular, accurate and full information about its working and schemes for future growth.

b. Responsibility towards the workers.

It is concerned with providing opportunities to the workers for meaningful work. It is imperative to create and foster the right kind of working conditions to win the cooperation of the workers. It must respect the democratic rights of the workers to form unions and express themselves freely. The workers must get fair and just wages for a proper working and living conditions.

c. Responsibility towards the consumers.

It assumes that right quantities and quality of the goods and services are provided to the consumers at a fair price and shunning of the unfair trade practices such as adulterated foods, misleading advertisement, poor quality, lack of courtesy towards the consumers etc. And they need to respect the right of the consumers like right to information about the product, the firm and other matters having a bearing on their purchasing decision.

d. Responsibility towards the government and community.

The business must respect the law of the land and pay taxes regularly and honestly and must behave and act as a good citizen and respect the values of the society. It must protect the environment and work for its conservation. It needs to develop a proper image in society through continuous interaction and engagement with various groups of the society.

REALITY OF CSR:

In the backdrop of the arguments for and against the social responsibility, what is the reality and where do we stand right now? Do they remain fixated with profits or do they support social goals? Now the realization of taking both these aspects into consideration has indeed sunk in. But the part of this realization is not genuine and borders on the lip service only. Working in a democratic environs, they realize the indispensability of following the sentiments of the public and the human rights and is prepared to play a legitimate and meaningful role as an organ of society.

Some of the reasons and factors which have forced or persuaded them to go for the social responsibility are as follows:

a. Threat of public regulation.

Democracy makes it imperative that it works for the public welfare taking care of all sections of the society which is now termed as “Inclusive Growth”. All these require public regulations, the threat of which makes it compulsory for the business to be socially responsible.

b. Pressure of labour movement.

The labour is now far more educated and organized and their movement now have acquired enough heft. This has forced the business to pay due regard to the welfare of workers instead of dealing with them as per their whims and fancies.

c. Impact of consumer consciousness.

Nowadays the consumer is king. The development of education and mass media and tough competition have made the consumers aware of their rights and responsibilities which have enhanced their bargaining power. As a result the business has to be consumer centric.

d. Development of social standards of business.

No business can be done in isolation from the society. It is the society that permits business to exist and grow and it is on the basis of social standards that business functioning is to be ultimately judged.

e. Development of business education.

The development of business education with rich content of social responsibility has made the people conscious. Educated persons as consumers, investors, employees or owners have become more sensitive towards social issues.

f. Relationship between social interests and business interests.

The business now realizes that social interests and business interests are not contradictory but rather complementary as the business is recognized as an essential element of a modern civilized society.

g. Development of professional, managerial class

Professional management education have created a separate class of professional managers who think differently as compared to earlier class of owner managers. They are more interested in satisfying a multiplicity of interest groups in society for running their business successfully than merely following profit goals, for example, go for market standing.

In India we have to enact Minimum Wages Act so that the labour gets fair and just remuneration at the market wage rate for the services rendered as that was not forthcoming otherwise. In the similar vein, to rope in more and more capable companies to gravitate towards the CSR we had to enact a law by amending the Companies Act, 2013 through Section 135 which was passed by both the houses of the Parliament and received the Presidential assent on 29th August, 2014. And thus India became the first country to have a mandatory CSR contribution / investment and reporting legislation. It mandates that any company with an average net profits of INR 5 crores in last three years or a net worth of INR 500 crores or a turnover of INR 1,000 crores has to spend 2% of their profits on CSR spending.

Since its inception the total expenditures incurred by companies falling under the ambit of the Act has exceeded INR 50,000 Crores till the financial year 2017-18 while the projections for the fiscal 2018-19 is more than INR 17,000 Crores. The table given below will put the whole issue in proper perspective:

CSR EXPENDITURES ACROSS AREAS:

As per the classification undertaken by the Report of High Level Committee on Corporate Social Responsibility 2018, Government of India, the different areas are clubbed together for this purpose and they are as follows:

- a. Education, differently abled and livelihood.
- b. Encouraging sports.
- c. Environment, animal welfare, conservation of resources including Clean Ganga Fund.
- d. Gender equity, women empowerment, Old Age Homes, reducing inequalities.
- e. Health, eradicating hunger, poverty and malnutrition, save drinking water, sanitation including Swach Bharat Kosh.
- f. Heritage, art and culture.
- g. Prime Minister's Relief Fund.
- h. Rural development
- i. Slum area development
- j. Others.

While education and health corner nearly 37% and 29% of the fund allocation and rural development gets 10%; heritage, art and culture gets a mere 2% whereas the same on slum area development is negligible.

MODES OF SPENDING ON CSR:

There are different routes the companies take to spend their CSR obligation as mandated by the law and these are:

- a. Trusts/ societies/ Section 8 Companies set by the company itself.
- b. Directly by the company.
- c. By Trusts/ Societies/ Section 8 Companies formed by the central and state governments or entities established under special Acts of the legislatures.
- d. Other implementing agencies.

The implementation part of the expenditures incurred by the firms on which it is applicable has not been up to the mark and is not satisfactory at all.

The Government of India had formed a High Level Committee to deliberate on this topic and they have done a very comprehensive work on it and came out with a plethora of very useful statistics giving a window side or ring side view of the entire phenomena associated with the topic.

Now some of them are reproduced here with the added commentary and viewpoints to put things in their proper perspective.

Table 2.1 Profile of companies liable³ for CSR based on their reporting⁴ status
(figures as per the filings received as on 31st March, 2019)

Company profile based on reporting status	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Liabe and reporting on CSR	9,418	11,671	12,407	10,868
Liabe Companies on whom Schedule III ⁵ of CA, 2013 is not applicable but reporting on CSR	1,000	1,284	775	716
Liabe but not reporting on CSR	6,130	5,335	6,350	9,753
Total Number of Companies liable for CSR	16,548	18,290	19,532	21,337

Note: Figures in the Table indicate number of companies in each profile and year.

Source: Report of HCL on CSR, 2018.

We can deduce from the above table that the number of companies liable for reporting the CSR issues have undergone a major jump from 16,548 to 21,337 between 2014-15 and 2017-18 but the number of non-compliance has increased and those not reporting have increased in percentage and absolute terms, in the year 2017-18, 10,868 reported things but nearly as much 9,753 failed to report.

This partly explains the government's intervention which sought to make this a criminal offence in this year's budget presentation but was later rescinded.

Table 2.2: CSR expenditure by Companies reporting on CSR (figures as per the filings received as on 31st March, 2019)

Year of filing	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18	
	No of companies	Total CSR amount spent (in Rs. cr.)	No of companies	Total CSR amount spent (in Rs. cr.)	No of companies	Total CSR amount spent (in Rs. cr.)	No of companies	Total CSR amount spent (in Rs. cr.)
NON PSU	10,083	7,249.11	12,551	10,302.39	12,810	11,026.63	11,314	10,787.50
Average spend by NON PSU	0.72		0.82		0.86		0.95	
PSU	335	2,816.82	404	4,201.26	372	3,285.40	270	2,539.19
Average spend by PSU	8.40		10.40		8.83		9.40	
Grand Total	10,418	10,065.93	12,955	14,503.65	13,182	14,312.03	11,584	13,326.69

Note: Number of companies in the above Table include companies which are liable and reporting on CSR

Source: Report of HCL on CSR, 2018.

The above table indicates that the share of spend by non-PSUs has seen a major jump from 0.72% to 0.95% between the year 2014-15 and 2017-18, the same by the PSUs have almost remained stagnant, from 8.40% to 9.40%. It is also to be noted that while the number of non-PSUs firms have seen an insignificant increase from 10,083 to 10,787, the same of the PSUs have declined from 335 to 270 during the same period. While

this can be explained by the shrinking role of the PSUs in business, yet their participation leave much scope for improvement.

Table 2.4: CSR expenditure vis-à-vis CSR Prescribed amount (figures as per the filings received as on 31st March, 2019)

Year of filing	Total number of companies liable for CSR (reporting + non reporting)	Total CSR Expenditure (in Rs. crore)	Total CSR Prescribed Amount (in Rs. crore)	Compliance in terms of CSR expenditure (%)
FY 2014-15	16,548	10,065.93	17,140.42	59%
FY 2015-16	18,290	14,503.65	17,044.45	85%
FY 2016-17	19,532	14,312.03	19,789.90	72%
FY 2017-18	21,337	13,326.69	23,247.90	57%

Source: Report on HCL on CSR, 2018.

The above table gives an overview of the compliance in terms of CSR expenditure vis-à-vis the prescribed amount. The compliance has varied wildly from 2014-15 to 2017-18 from 59% to 85% to 72% and finally 57% only. It is a sure shot indicator of the law either not being followed or being scuttled. It is an alarming situation which needs proactive intervention by the government and its regulatory mechanism. This also explains the alacrity shown by the government in making the amendments for criminal liabilities for non-fulfillment of the obligation or non-compliance.

Table 2.5: CSR expenditure vis-a-vis CSR Prescribed amount (Figures as per the filings received as on 31st March, 2019)

CSR Expenditure	Number of liable companies reporting on CSR			
	2014-15	2015-16	2016-17	2017-18
A. Zero	5,734	5,472	4,377	3,359
(i) Zero expenditure having Zero prescribed amount of CSR	2,784	1,601	1,286	776
(ii) Zero expenditure having positive prescribed amount of CSR	2,950	3,871	3,091	2,583
B. Positive but less than prescribed amount of CSR	1,983	3,074	3,318	3,130
C. Positive and equal to prescribed amount of CSR	1,090	1,336	1,845	992
D. Positive and more than prescribed amount of CSR	1,611	3,073	3,642	4,103
Total number of liable companies reporting on CSR (A+B+C+D)	10,418	12,955	13,182	11,584

* Figure as per the filings received as on 31st March, 2019.

Source: Report on HCL on CSR, 2018.

The above table makes it clear that the number of companies spending equal to or more than prescribed amount is less than one-third of the total while nearly 20% have spent less than the prescribed amount. At the same time nearly one-third of them have zero spend even while they have positive prescribed amount and the rest have zero prescribed amount. It makes the picture quite hazy and it requires kind of surgical strike so that things are done as prescribed in the law.

THE WAY AHEAD:

The facts and the figures of the case make it crystal clear that though there is greater understanding of the CSR and its positive and negative consequences, as yet we are far from the objectives we set out for ourselves.

In the light of above treatment of the facts and figures, one can safely venture out to suggest some remedial actions and recommendations which might go a long way in setting things right.

1. The sensitization of the firms, the consumers, the public in general as well as the government agencies will bring the accountability in the system much like the awareness campaign associated with the Consumer Protection Act, 1986.
2. There has to be a mechanism which keeps an eagle eye on the compliance system as the one working has failed to rein in the offenders.
3. The firms must be forming CSR Committee to deliberate on the course of action well in advance and for this they must be helped by the government as well as the various institutions working in Development Studies.
4. The manpower required to undertake this gigantic and specialized job is well below the requirement as we run short of the human capital in this area and as such requisite steps need to be taken to augment such workforce.
5. The punishment for non-compliance should be made financially prohibitive like a penalty which is substantially higher than CSR amount, may be in a multiple of three as the criminal liability has been dispensed with. It must work as quite prohibitive one.
6. The area to be covered for such CSR spend need clear orientation in favour of poverty alleviation, slum area development, Old Age Homes, heritage and art and culture and such like. As right now major portion of the allocation is grabbed by the health and education where it has been unable to make a desired change.
7. The facts and figures as has been brought out by the Report of HCL on CSR, 2018 must be brought in the public domain and publicized widely so that the general public forms its own opinion about various industrial houses impinging on their goodwill and market standing.

8. Specialized agencies to carry out such work need special promotion and a network of such agencies and educational institutions need to be established in right earnest.
9. The public participation for such activities especially by the experienced professionals also need due attention and has to be promoted.
10. Regular and continuous monitoring by committees such as the Report of HCL on CSR is the need of the hour. Companies need to rely on outside or third party agencies to practice CSR and for this the infrastructure needs augmentation.

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