

CORPORATE SOCIAL RESPONSIBILITY AND ETHICAL PRACTICES IN THE SUPPLY CHAIN

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ABSTRACT

The supply chain has been evolving for many years, the need for the ethical and sustainable supply chain is more emphasized in this study. Every company publishes its annual report and sustainability reports to engage and communicate with their stakeholders, but every report is quite designed similar so how to find that the supply chain is working efficiently and ethically with being socially responsible to make assured changes in their supply chain. In this study, we are also focusing on the CSR (corporate social responsibility) initiatives which are taken as part of sustainability factor by business and how the CSR funds have contributed to building cost-effective supply chains. Building a sustainable supply chain has helped the business to reap profits at its bottom line. For this study, we have taken two FMCG companies and collected secondary data from their annual reports, sustainability reports. Analyzing the FMCG supply chain and determining the supply chain cost and comparing with CSR parameters (profit, Total spends on CSR) is the main scope of this study.

Keywords: Supply Chain, CSR (Corporate Social Responsibility), Ethics.

INTRODUCTION:

For the past 170 years, CSR has been introduced in business but the phases of evolution have changed from 1850 to 1980. The case against the concept of CSR typically begins with the classical economic argument articulated most forcefully by the late Milton Friedman (1962). Friedman held that management has one responsibility and that is to

maximize the profits of its owners or shareholders. Friedman argued that social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system. There were many objections related to adopting CSR in business as many argued that this would make their business look less competitive globally and also business should focus on its

operations and business goals rather than being responsible for a social problem. As earlier business would consider CSR actions as non-strategic but as the rising decades, organization outlook the concept of CSR as a highly competitive strategy.

The first phase of CSR (1850-1914) was known for its charity and philanthropic nature. CSR was influenced by family values, tradition, culture and religion. The second phase of CSR (1910-1960) was during the Independence movement where the great prestigious Mahatma Gandhi urged industrialist to help the poor and marginalized citizens in society by setting up colleges, research & training institutes. The next phases evolved till 1980 and business realized that CSR is not charity but acceptance of responsibility to enhance growth and quality to society. The wealth of business was used for setting up religious temples and institutes. The concept of CSR started under the legislative system and was introduced in the year 2013 under section 135 of the Companies Act 2013 and Companies Rules 2014. India is one of the first country in the world to introduce Corporate Social Responsibility through the new Companies Act 2013.

Earlier the world businesses were only focusing for profit maximization purpose but nowadays large corporations look CSR as a strategic tool for long term sustainable business. According to Niall Fitzgerald, former CEO and Chairman Unilever said that "We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world's major challenges - including poverty, climate change, resource depletion, globalization, and demographic shifts." CSR is the process in which companies think to evolve their relationships with stakeholders and the adoption of better business processes and strategies that would be beneficial for business and the community as a whole. CSR is not a charity or mere donations but it is the part of strategic philanthropic practices that companies practice to understand the social problem and solve it with an innovative business solution. CSR is nothing but a new business strategy to reduce investment risk and maximizing profit by taking all stakeholders into confidence.

CSR becomes a part of addressing social issues as its main focus is to embrace the social concerns and improve the quality of the marginalized people in society. In

contrary, it is beyond that because the social innovation (i.e. CSR) plays a crucial role in maintaining shared benefits with supply chain partners and encouraging them and helping partners to carry ethical business practices within their supply chain to build long term sustainable relationship. The most important term which defines the company's presence in corporate citizenship is TBL (Triple Bottom Line). What is TBL and how does it help to interpret that organization's commitment towards CSR and its environmental impact on the society.

TBL is the outcome of various sustainability activities carried out by organizations that spans four facets of the firm: the economic, legal, organizational culture, transparency. The TBL becomes a focal lens for supply chain managers by which to make affects both the natural environment and society but which also results in long term economic benefits and competitive edge of the firm.

However we earlier discussed the evolution of CSR and TBL, there is an important term named "ethics" which also helps in building sustainable supply chains. Ethics is a set of standards or rules or moral values that ever supply

chain partners has to obey within the obligations set by the organizations. An ethical supply chain focuses on the need for corporate social responsibility, working to produce products and services in a way that treats its workers and the environment ethically. More than ever, consumers want to know that the products they buy are not only economically sound but also manufactured through practices that are ethically and environmentally conscious," says ASCM CEO Abe Eshkenazi about the new standards. Ethical supply chain helps in building a competitive edge in the cut-throat competitive environment and everyone wants to build a relationship with that business which is ethically and morally sound. The business should have the visibility of suppliers actions related to fair labour practices, environmental extraction practices and optimizing carbon footprint over their supply chains to make sure the code of ethics has been followed by our supply chain partners.

OBJECTIVES:

The objective of this study is to analyze the CSR initiatives practised by various companies in India and give an overview

of how CSR initiatives led to benefits in the supply chain.

The objective of this study is to analyze the following parameters. These are stated as below.

1. To understand whether corporate social responsibility activities lead to a reduction in supply chain cost.
2. To understand how ethics plays an important role in building a sustainable supply chain.

RESEARCH METHODOLOGY:

The research is basically to find how CSR activities have led to a reduction in supply chain cost and how ethics plays an important role in building a sustainable supply chain. Research is done collecting secondary data from various resources (i.e. CSR reports, Annual Reports, etc). The method used for this study is descriptive and data gathered is quantitative. We have selected two FMCG companies for this study.

The two companies selected are well-established business organization and are on their way for more excellence in business operations.

Hindustan Unilever Limited (HUL)

Hindustan Unilever is India's largest fast-moving consumer goods (FMCG) company with having historic presence over 80 years in India. Hindustan Unilever is a British manufacturing company founded in 1885, as they started with small grocery business. The company was founded by William Lever and his brother James which entered soap business and named the company as "Lever Brothers" and invented the soap with a business partner named William Watson. UL (Unilever Limited) was the first modern multinational company which was founded in the year 1929. It has its product categories in the division of Home Care, Beauty & Personal Care, and Foods & Refreshment.

ITC Limited

ITC Limited is the Indian multinational conglomerate company which is headquartered in Kolkata, West Bengal. It is established in 1910, Imperial Tobacco Company was renamed in the year 1970 to "Indian Tobacco Company Limited. It has diversified business presence in the sectors such as FMCG, Cigarettes, Hotels, Packaging, Paperboards & Specialty Papers and Agribusiness. First, six decades of the company's business was primarily

devoted to the growth and consolidation of the cigarette and leaf-tobacco company. It further strengthens its business in the sector of packaging and printing business in the year 1925. Ajit Haskar becomes the company's first chairman in the year 1969 and in 1986 Sanjiv Puri was appointed for the position of Chairman and MD in ITC Limited.

DATA ANALYSIS:

The data analysis is based upon the criteria that how supply chain cost has effectively improved with an increase in social economic and environmental practices (Corporate social responsibility). The data is collected from annual reports, CSR reports published by companies, etc. The data shows us the five main drivers of the supply chain which includes investment cost, procurement cost, production cost, inventory cost and transportation cost. These five supply chain cost determines the money spend by companies to effectively build sustainable supply chains. The data of these costs will reveal to what extent the supply chain gets benefited by CSR activities. The data is shown below.

ITC Limited

Sr no	Particulars	2018-19	2017-18	2016-17
1	Investment cost	₹ 14,071.45	₹ 13,493.77	₹ 8,485.5
2	Procurment cost	-	-	-
3	Production cost	-	-	-
4	Inventory cost	₹ 21,636.53	₹ 22,969.81	₹ 34,655.6
5	Transportation cost	₹ 1,153.71	₹ 886.72	₹ 836.9
	Total	₹ 36,861.69	₹ 37,350.30	₹ 43,978.1

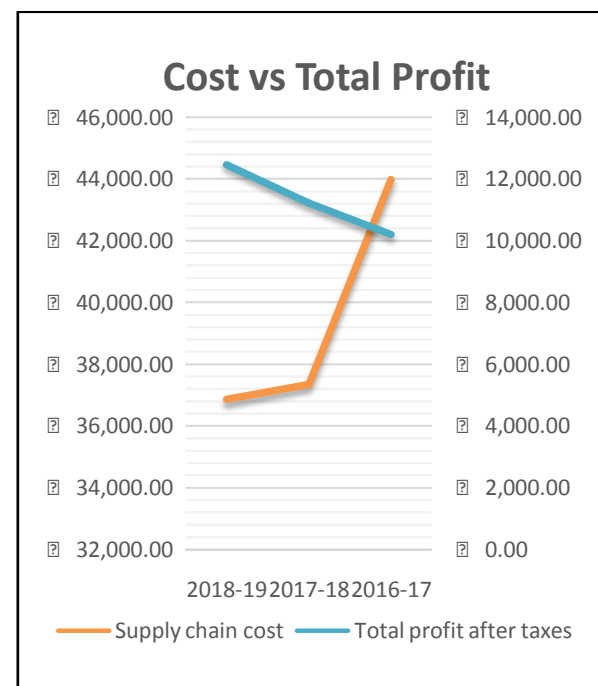
Table 1. Supply chain cost measures of ITC India Limited.

Sr No	Particulars	2018-19	2017-18	2016-17
1	Total profit after taxes:	₹ 12,464.32	₹ 11,223.25	₹ 10,200.9
2	Total Spending on CSR	₹ 306.95	₹ 290.98	₹ 275.9
3	As percentage of Profit after taxes	2.46%	2.59%	2.71%

Table 2. Financial Statements of CSR funds of ITC India Limited

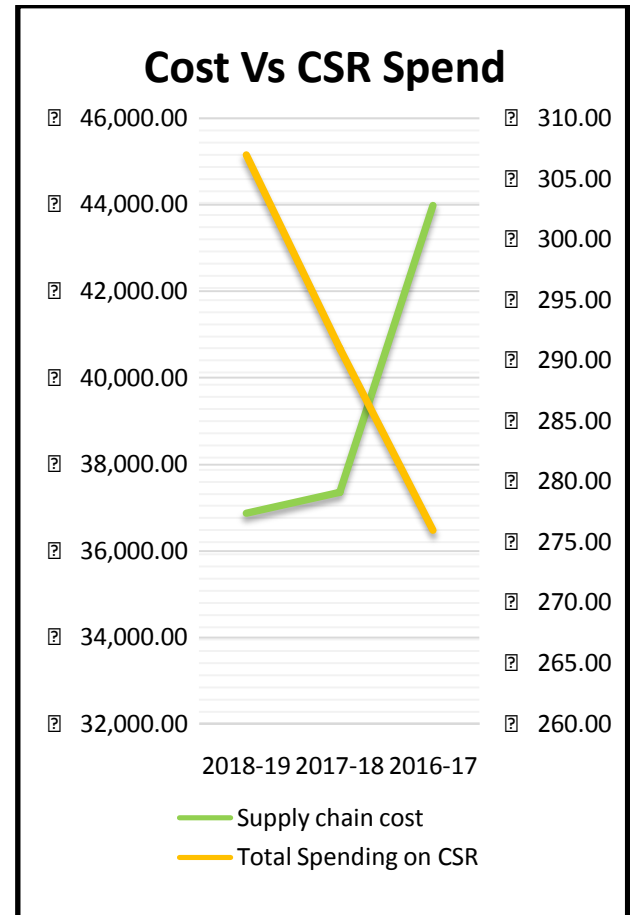
*Values in crore

Source: Compiled from the Annual Reports of ITC India



Graph 1. Comparative analysis between SCC and Total Profit

The above supply chain cost is sourced from annual reports and the amount for transportation cost is considered as outward freight charges and handling charges. Also, the procurement and production cost was not available in the annual reports so should be neglected. After observing the figure 1, there is an indication that the supply chain cost is decreasing with comparison to total profit after tax. But in the case of the year 2016-17, there is a detrimental effect on supply chain cost as this has reduced the total profits. To maintain the supply chain cost less than profits there is need to scrutinize every aspect of the cost linked to supply chain and cutting cost associated to inventory, transportation and making a quantifiable and strategic decision in prior before investment. As investment in the wrong resources can deploy negative outcomes and reduce the supply chain profitability. Integration of supply chains can effectively reduce the cost involved in the supply chain. It is advantageous to work in sync with each other in a more data centralized way to improve decision making.



Graph 2. Comparative analysis between SCC and Total Spend on CSR

The above supply chain cost is sourced from annual reports and the amount for transportation cost is considered as outward freight charges and handling charges. Also, the procurement and production cost was not available in the annual reports so should be neglected. After observing the figure 2, we can see a substantial reduction in supply chain cost. The reason for the reduction in supply chain cost is since there is an increase in CSR spend year by year. Every company who has to meet the obligations of as required under Sections

134 and 135 of the Companies Act, 2013 should contribute 2% of its net profit to CSR funds and make sure it publish CSR reports to public and stakeholders of the company. Increase in CSR funds has led to establishing a network with all stakeholder including the customers as well. Network formation and enhancing social capital provides opportunities and benefits at the procurement and distribution end. So it is clear as per the objective of the study that the CSR spends has led to a reduction in supply chain cost of ITC.

Hindustan Unilever

Sr no	Particulars	2018-19	2017-18	2016-17
1	Investment cost	₹ 2.00	₹ 2.00	₹ 6.00
2	Procurement cost	-	-	-
3	Production cost	-	-	-
4	Inventory cost	₹ 2,422.00	₹ 2,359.00	₹ 2,362.00
5	Transportation cost	₹ 1,547.00	₹ 1,492.00	₹ 1,457.00
	Total	₹ 3,971.00	₹ 3,853.00	₹ 3,825.00

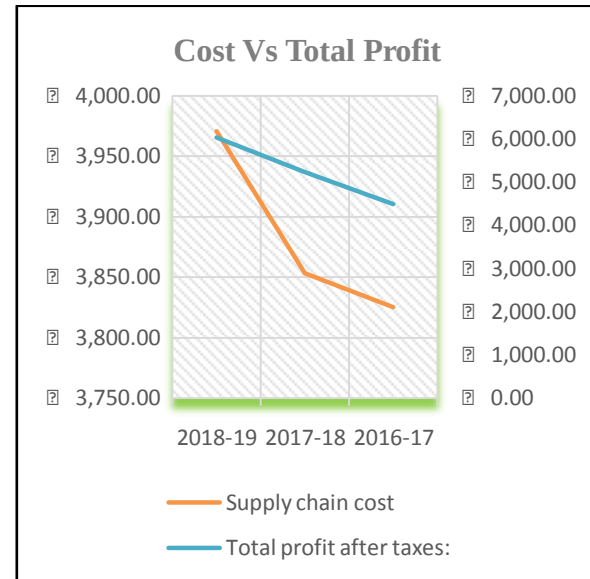
Table 3. Supply chain cost measures of Hindustan Unilever India Limited.

Sr No	Particulars	2018-19	2017-18	2016-17
1	Total profit after taxes:	₹ 6,036.15	₹ 5,236.79	₹ 4,490.00
2	Total Spending on CSR	₹ 126.45	₹ 116.09	₹ 103.80
3	As percentage of Profit after taxes	2.04%	2.07%	2.04%

Table 4. Financial Statements of CSR funds of Hindustan Unilever India Limited.

*Values in crore

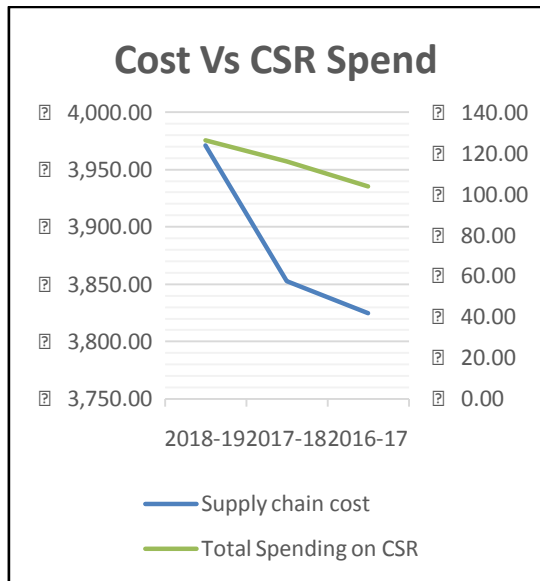
Source: Compiled from the Annual Reports of HUL India



Graph 3. Comparative analysis between SCC and Total Profit

The above supply chain cost is sourced from annual reports and the amount for transportation cost is considered as outward freight charges and handling charges. Also, the procurement and production cost was not available in the annual reports so should be neglected. After observing the figure 3, we can say that there is increased cost of the supply chain as year by year as compared to total profits and this indicates that there is need to scrutinize the supply chain cost and make sure that no capital is merely going to wasteful resource and hence looking into restructuring your supply chain capabilities. So it is clear that the supply chain cost is significantly rising year by year and hence

considering the year 2018-19 we can see that it has surpassed the total profits so hence it raises the concern of scrutinizing it and improving in next fiscal year.



Graph 4. Comparative analysis between SCC and Total Spend on CSR

The above supply chain cost is sourced from annual reports and the amount for transportation cost is considered as outward freight charges and handling charges. Also, the procurement and production cost was not available in the annual reports so should be neglected. After observing the figure 4, there is a clear indication that supply chain cost is significantly rising year by year and CSR spends have not helped to maintain the

cost at optimal levels. CSR spends have increased year by year but not substantially and the company is not spending much of their profit to CSR funds and it has just met the obligations as of required under Sections 134 and 135 of the Companies Act, 2013 and hence compiling to 2% funds to CSR. Building a strong network with society by social responsibility has led many firms to benefit in their supply chains. CSR initiatives are considered responsible for effective resource utilization in supply chains. Encourage entrepreneurs in rural India providing them with the right education and enhancing social capital can lead to a reduction in supply chain cost and improve the operational efficiency in the entire business operations. So it is clear that the company need to incur more fund in CSR and encourage its supply chain partners and induce more stress on the conversation of resources so it can lead to supply chain profitability. As per the objective of the study, the CSR spends have not effectively reduced the supply chain cost of HUL.

Micro Analysis of ITC Supply Chain

We shall look into more through the details of the CSR activities of ITC and will analyze which initiative taken by

ITC has helped them to reduce supply chain cost. The main supplier of ITC are the farmers and hence they play a pivotal role in ITC's supply chain so enhancing their sustainability in their agri-business is the prime focus of ITC. As we know that half of the population depends on agriculture for livelihood generations and irregular patterns in rainfall resulting in climate changes will affect the livelihoods of farmers. ITC is thriving to make sure that every stakeholder gets benefited and make sure that every process is governed at community development and hence this helps in building social capital. As per ITC's sustainability report, we come to know that there is a various initiative taken but they have more focused on ensuring that the key input material is sourced from right ethical sources and empowering the farmer to use cost-effective farming practices so that can indirectly reduce the cost of procuring significantly. ITC's flagship initiative programme "Choupal Pradarshan Khet" is helping farmers to use effective farming techniques and practices to boost farmer's productivity. The company also makes sure that the suppliers are continuously trying to enhance their capabilities and hence providing them with knowledge and infrastructure support, this also helps

them to lower the risk related to inventory by choosing to enhance the productivity of their prominent suppliers. ITC has mainly focused on environmental, water conservation and waste recycling. Taking water conservation and other key environmental indicators into a concern to check if the initiative has proven to reduce supply chain cost. We will take a look at the data of the key environmental indicator taken by ITC to lower their environmental impacts on the society and how are they conserving year by year.

Sr No	Particulars	2018-19	2017-18	2016-17
1	Water Intake (Millions kilolitre)	33.46	33.21	31.29
2	SO ₂ (Tonnes)	985	989	1087
3	NO _x (Tonnes)	786	808	834
4	Scope 3- Other Indirect GHG Emission (Kilo tonne of CO ₂)	281	264	253

Table 3. Key environmental indicator of ITC Limited.

After observing the data from table 3, we can see that there is a rise in water intake during the year 2018-19 and 2017-18 but as specified in the sustainability report the total water intake has been increased due to inclusion of new units, hotels and augmented capacity. The company has started nine new units of Bleached Chemical Thermo Mechanical Pulp in the year 2018-19 and 2017-18 at Bhadrachalam Telangana for increasing

the output, capacity and reducing the import dependence. Hence, for this reason, there is an extra amount of water consumed at the new plant. Emission of SO_2 and NO_x are significantly dropping year by year hence ITC's supply chain is making sure that there is more usage of non-fossil fuels and renewable energy sources. Water intake has been well managed for the year 2016-17 and this showcases that company is conserving its water resource by using it optimally and inadequacy. Water conservation is helping ITC supply chain as well as the environment in two different ways. Firstly, society is one of the key stakeholders so protecting them and lowering the risk of inadequate water would help the society to live a sustainable life and conserving them for the further population is the need of the hour. Secondly, farmers are the major stakeholders of ITC so reviewing the water use efficiency and reducing the cost involved in water procurement can majorly reduce the procuring cost.

Addition of new units has also led to an increase in energy consumption across the supply chain and we will observe the values GHG (Greenhouse gases) emission Scope 3. GHG (Greenhouse gases) emission Scope 3 gives us the

view of how much amount of CO_2 is being emitted per kilo tonne in the process of distribution and logistics services. There is various aspect considered in ITC's logistics and distribution such as inbound transportation of raw materials, outbound transportation of products and waste, Employee commuting, employee business travel by air, Pick up and drop off guest in ITC hotel, and Exclusive TPM (Third Party Manufacturers) catering to notebooks segment of Education and stationery products business. After observing the data from table 3, there is a clear indication that there is an increase in GHG emission year by year and it is since there is the installation of nine units of BCTMP across the value chain to reduce the logistics cost in international supply chain and get rid of forex price fluctuation. Hence there is an increase in GHG emission from logistics due to the increase in production. Hence there is need to look at the various challenges in logistics and to reduce the dependence on fossil fuels and increase the percentage of renewable energy sources in logistics and distribution system in maintaining low and cost-efficient supply chain.

Analysis of Ethics in Supply Chain

Ethics is a broad term which is debated at different levels of national and global levels by debaters so we are going to majorly focus on the code of conduct set by business and how they reassure that the obligations set are monitored and delivered with appropriate methods.

ITC, one of the leading business in FMCG, Hotel, Agribusiness, Paperboards and packaging has set major code of conduct so that they meet sustainable practices in their supply chains and build moral rights to keep equitable relationship with its stakeholder and supply chain partners. The code of conduct covers ITC's commitment to CSR to sustainable development, concern for occupational health, safety and environment, a gender-friendly workplace, transparency and audibility. The code of conduct is being communicated to the employees at the time of induction program and any violation of code would lead to disciplinary actions. ITC makes sure their supply chain partners such as suppliers, distribution channel partner should meet to fair practices standards like human rights, child labour, fair working condition, environmental conversation and ecofriendly disposable.

The ITC's code of conduct for Vendors and Service providers say that every vendor and service provider should comply with ITC's Policy of human rights by adhering to fair labour practices & decent environmental condition and makes sure that no employee under the age of eighteen should be employed and also follow prohibition of child labour and forced labour. ITC's PSPD (Paperboards and Specialty Division) has obtained the FSC (Forest Stewardship Council) certification which showcases that the company is ethically and legally sourcing the wood from producers. Companies have been quite ethical and have contributed more CSR activities and funds in their supply chains and have received major benefits at every stage of the supply chain.

HUL on the other hand has its way of looking at ethics in the supply chain. HUL's code of business principles is diversified in the areas of shareholders, business partners, public activities, employees, innovation, environment, etc. It ensures that every business partners involved in fulfilling consumer request should comply with ethical and sustainable practice with making sure the fair trade practices are followed at every stage of the supply chain. To illustrate

their ethical practices with an example of their procuring practices, in 2010 Unilever announced its sustainable living plan which see at purchasing 100% of its palm oil from certified sustainable sources and it has set a new goal to purchase all of its palm oil from certified traceable source by 2020. Ethically sustainable buying of palm oil from Green Palm certified sources is the main goal for HUL's supply chain. Green Palm certification is a trading program endorsed by the roundtable on sustainability palm oil. So from the example that HUL believes in ethical practices and is building more strong sustainable supply chains.

CONCLUSION:

After analyzing the CSR initiatives and its supply chain benefits, we can see that ITC has outperformed well in this journey of CSR activities, funds and its

supply chain. The journey of social innovation has proven the potential of surviving sustainability. Hence the longevity of CSR practices continues and this will surely make the supply chain more profitable in coming years and the concept of CSR will evolve much better in the coming upfront years. Making sure the supply chain is moving efficiently and reliably with bear minimum cost and therefore protecting the environment and human capital for future purpose. Ethics practices also make a huge difference in gaining customer trust and create customer loyalty. Ethical practices should be monitored keenly at upstream and downstream part of the supply chain and as this would build trust and confidence within the supplier hence ensure well-performed transparent trade practices. Hence to conclude CSR initiatives for the organization will evolve and more become a strategic tool for building sustainable supply chains.

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