

PGDM-IB, 2014-16

Responsible Business Module 1

Subject Code: IB 109

Trimester – I, End Term Examination: September 2014

Time allowed: 1 Hr 30 Min

Max Marks: 50

Roll No \_\_\_\_\_

**Instruction:** Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

**Section A (5 marks)**

Write a short note on any **ONE** of the following:

1. CSR: an integrated approach to business
2. Carroll's CSR Pyramid
3. Stakeholder Theory vs. Shareholder Value Theory

**Section B (15 marks)**

Attempt any **ONE** of the following questions:

Q1 Why is CSR increasingly relevant today, what is the business case and benefits?

Q2 Trace the evolution of CSR in India. Briefly examine the various drivers of CSR in the Indian context?

**Section C (30 marks)**

**Case Study (Compulsory)**

In April 2008, the world's largest steel producer ArcelorMittal announced that it would spend a whopping US\$500 million toward corporate social responsibility (CSR) in the two states in India where it was setting up multi-billion dollar projects. The two projects, which marked the entry of ArcelorMittal in India, were expected to displace thousands of families belonging to the small farmer and tribal communities from their lands. The company contended that integrating plant management with CSR would help it to earn the trust of the communities and also quell any potential resistance against the project.

**TURN OVER**

In 2006, ArcelorMittal planned to enter India by setting up two steel plants in the iron-rich eastern Indian states of Orissa and Jharkhand at a total investment of US\$20 billion. The company planned to acquire 12,000 acres of land in each state for the steel plant, power plant, and township, with sufficient scope for future expansion. Once the plants became operational, the company expected to produce 12 million tons of steel per annum in each plant. Accordingly, the company signed a memorandum of understanding (MoU) with the state government of Orissa on December 2006 to set up a plant in Keonjhar district. In early 2008, it also finalized Khunti district as the site for its plant at Jharkhand.

Shortly after the MoU with the government of Orissa was signed, protests broke out in the Keonjhar district as villagers, fearing that they would be displaced from their lands, demonstrated before the district authorities. Orissa, as well as other parts of the country had witnessed similar protests, some even uglier, against the projects of companies that included POSCO and the Tata Group. Land acquisition had become a contentious issue as local farmers resisted such moves, at times violently, fearing the loss of their livelihoods. With local politicians and social activists too putting their weight behind the protestors, the situation had turned somewhat irksome for the companies promoting the projects. In addition to the resistance offered by local farmers, critics also turned the spotlight on what they alleged was ArcelorMittal's poor environmental and social record. They cited instances of the company being hauled up for its business practices in other countries.

However, the company was quick to give the assurance that it would address local concerns and also create job opportunities (5,500 direct and 15,000 indirect jobs respectively). Malay Mukherjee, a member of ArcelorMittal's executive board, said, "We are aware of protests against mega-industries in Orissa but our approach is different and we will certainly satisfy the society and take all possible measures to involve the local population." In addition to pledging support to the community, the company commissioned a New Delhi-based consulting firm IL&FS EcoSmart Ltd. to do a socio-economic survey and prepare the Relief and Rehabilitation (R&R) package for people affected by the project. The company also said that it would take the Orissa government's R&R policy as a guideline for designing the compensation package.

In early 2008, as the company prepared to put the US\$ 20 billion project into action, it announced huge community investment plans. In February 2008, the company announced a US\$250 million budget for the R&R of displaced villagers in the two states. It also announced plans to establish industrial training institutes, one in each state, to train young people. In Jharkhand, the company announced that it would sponsor hockey tournaments and a sports academy. The company felt that its community-based approach would help it gain the trust of the communities and also lead to development.

In April, the company announced that it had earmarked US\$ 500 million for CSR programs in Orissa and Jharkhand. This would include rehabilitation of colonies for people who were displaced from their lands due to the project, compensation to affected families, and provision of basic infrastructure such as roads, electricity, water, sewage disposal system and sanitation. In a workshop titled 'Development Initiatives for a better Tomorrow' held at New Delhi, ArcelorMittal's vice-president (CSR), Remi Boyer, said, "We will spend about \$500 million in Orissa and Jharkhand to achieve an appropriate balance between the Corporate Responsibility (CR) and the growth in business operations...This is part of the responsible leadership we want to promote in all our operations. Boyer had come to India with a delegation to review the CSR work in the 2 states.

**TURN OVER**

ArcelorMittal expected the two plants to be operational by 2012. According to analysts, if the company successfully completed the project, it would emerge as the largest steel producer in India, replacing Tata Steel. However, the company had significant challenges to overcome before it achieved this. They point out that the company had become a giant in the global steel industry largely through merger & acquisition (M&A) deals and had little experience in building its own plants from scratch as it was doing in India. The company's success in India would hinge on whether it was able to match its CSR rhetoric with real action, they said.

**Answer the following questions:**

1. Discuss the challenges before ArcelorMittal in setting up its multi-billion dollar projects in India?

2. Discuss the probable reason for ArcelorMittal's decision to spend such a huge amount towards CSR in India?

3. Do you think that the company's decision to integrate plant management with CSR would help it gain the trust of the communities and quell any potential resistance against the project? Give reasons for your answer.

4 Do you think ArcelorMittal ultimately was able to match its CSR rhetoric with real action? Explain.

**End of the Question Paper**