Social Impact of CSR on contemporary Indian Society with reference to Industries in Pune

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ABSTRACT

The past two decades have witnessed a remarkable change in the way businesses run and operate, with the quest for excellence and all-round growth the primary objective of corporations. Pursuit of financial growth does not always lead to social advancement, and is often detrimental to the environment, resulting in unhealthy workplaces, exposure to toxic substances, urban decay and other similar issues.

Managers and practitioners have often been criticized for being single minded about value maximization. The turn of events has pressurized firms to put serious efforts into a wide range of Corporate Social Responsibility (CSR) activities. CSR has become a critical aspect in strategic decision making of a firm primarily due to financial scandals and a drop in investors’ confidence.

CSR has emerged as a view that can add to the financial performance of a company and suggests that corporate decision-makers must take care of a range of social and environmental affairs in order to maximize long-term financial returns. Every firm differs in the way it implement CSR in strategic business practices, with its size, operating industry, stakeholder demands, historical CSR engagement, level of diversification, research and development and labour market conditions a few of the factors that determine this decision making. One side of the coin confirms the benefits colligated with good reputation, while the other indicates that a firm’s costs of adhering to ethical standards will translate into higher product prices, a competitive disadvantage and lower profitability. Even after deep exploration of the Corporate Social Performance (CSP) relationship, empirical evidence to date is somewhat conflicting.

Globalization and liberalization in the Indian economy has shifted corporate goals from a socio-economic focus towards increasing shareholders value to the benefit of various stakeholders. Although extensive research on CSR-CFP has been carried out in developed countries, there is a paucity of such studies in India. The main thrust of the current study is to get intimate with this issue or devise a problem along with attaining new insights into it. This study intends to get to grips with and derive the perceptivity of corporate social behaviour towards its stakeholders along with justifying its triple bottom line benefits while filling the literary gap through replicating and extending previous findings on social performance of firms. In doing so, this study also attempts to analyze in detail the aforesaid relationship and discuss the effectiveness of social performance along with competitive performance of sample Indian companies. The results identify critical Indian CSR factors and determine their importance in shaping the CSP relationship, on the basis of which further research in sectors identified as weak may be carried out.

INTRODUCTION

The role of corporates by and large has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. As corporates have been regarded as institutions that cater to the market demand by providing products and services, and have the onus for creating wealth and jobs, their market position has traditionally been a function of financial performance and profitability.
However, over the past few years, as a consequence of rising globalisation and pressing ecological issues, the perception of the role of corporates in the broader societal context within which it operates, has been altered. Stakeholders (employees, community, suppliers and shareholders) today are redefining the role of corporates taking into account the corporates’ broader responsibility towards society and environment, beyond economic performance, and are evaluating whether they are conducting their role in an ethical and socially responsible manner. As a result of this shift (from purely economic to 'economic with an added social dimension’), many forums, institutions and corporates are endorsing the term Corporate Social Responsibility (CSR). They use the term to define organisation’s commitment to the society and the environment within which it operates.

Further, there is a global effort towards reinforcing CSR programmes and initiatives through local and international schemes that try to identify best-in-class performers. The concept of CSR in India is not new, the term may be. The process though acclaimed recently, has been followed since ancient times albeit informally. Philosophers like Kautilya from India and pre-Christian era philosophers in the West preached and promoted ethical principles while doing business. The concept of helping the poor and disadvantaged was cited in much of the ancient literature. The idea was also supported by several religions where it has been intertwined with religious laws. “Zakaat”, followed by Muslims, is donation from one’s earnings which is specifically given to the poor and disadvantaged. Similarly Hindus follow the principle of “Dhramada” and Sikhs the “Daashaant”. In India, in the pre-independence era, the businesses which pioneered industrialization along with fighting for independence also followed the idea. They put the idea into action by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. The donations either monetary or otherwise were sporadic activities of charity or philanthropy that were taken out of personal savings which neither belonged to the shareholders nor did it constitute an integral part of business.

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THE TOTALITY OF CSR CAN BE BEST UNDERSTOOD BY THREE WORDS:

‘Corporate,’ ‘social,’ and 'responsibility.' In broad terms, CSR relates to responsibilities corporations have towards society within which they are based and operate, not denying the fact that the purview of CSR goes much beyond this. CSR is comprehended differently by different people. Some perceive it to be a commitment of a company to manage its various roles in society, as producer, employer, customer and citizen in a responsible manner while for others it is synonymous to Corporate Responsibility. Of late, the term has also been started to link up with Triple Bottom Line Reporting (TBL) which essentially measures an enterprise’s performance against economic, social and environmental indicators. Discourses on CSR suggest that many definitions of CSR exist within the business community, and CSR continues to be an evolving concept, with no single definition that is universally accepted.

Given below are three key definitions that have garnered wide acceptance and favour amongst business circles:

1: Philip Kotler and Nancy Lee (2005) define CSR as “a commitment to improve community well-being through discretionary business practices and contributions of corporate resources” whereas Mallen Baker refers to CSR as “a way companies manage the business processes to produce an overall positive impact on society.”

2: World Business Council for Sustainable Development “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”.

3: Archie Carroll CSR as a multi layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities. Carroll presents these different responsibilities as consecutive layers within a pyramid, such that “true” social responsibility requires the meeting of all four levels consecutively. The model probably is the most accepted and
established. While the definitions of CSR may differ, there is an emerging consensus on some common principles that underline CSR:

**CSR is a business imperative:** Whether pursued as a voluntary corporate initiative or for legal compliance reasons, CSR will achieve its intended objectives only if businesses truly believe that CSR is beneficial to them.

**CSR is a link to sustainable development:** businesses feel that there is a need to integrate social, economic, and environmental impact in their operation.

**CSR is a way to manage business:** CSR is not an optional add on to business, but it is about the way in which businesses are managed.

**CSR: A commonly misunderstood concept:** In absence of a universally accepted definition for CSR, there are some myths that surround the concept:

**Myth 1:** Business invest the money, therefore they decide the modus operandi of CSR initiative.
There is a notion that since business invest money in society, they are the ones who will be deciding upon the modus operandi of the CSR initiative. However this is not true. CSR driven by the mandate of an enterprise alone may not generate the desired results. Stakeholders must be involved from the onset in defining an initiative to make it successful. Corporates must not assume that they understand the needs of the community by taking them at face value. Stakeholders needs must be considered within the local context and culture.

**Myth 2:** Financial needs alone can meet CSR needs of an enterprise.
In fact financial resources are only part of the equation. Financial resources it is equally or even more important for the CSR programmes to be well accompanied by adequate human resources if they are to meet the intended objectives.

**Myth 3:** CSR is interchangeable with corporate sponsorship, donation or other philanthropic activities. The focus of responsible business practices in the profit sector is hitherto largely confined to community charity based projects. This may have been relevant for the historical context in the mid-90s when Coroll’s definition was coined, the current thinking of CSR has moved beyond philanthropy to in fact encompass all the internal and external segments of business operations: employees, market environment and community.

**CSR: Rationale**
The rationale for CSR has been articulated in a number of ways. In essence, it is about building sustainable businesses, which need healthy economies, markets and communities. The major reasons for CSR can be outlined as:

**Globalisation**
As a consequence of cross-border trade, multinational enterprises and global supply chains, there is an increased awareness on CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things. Reporting on the CSR activities by corporates is therefore increasingly becoming mandatory. Financial investors are increasingly incorporating social and environmental criteria when making decisions about where to place their money, and are looking to maximize the social impact of the investment at local or regional levels.

**Corporate Brand**
In an economy where corporates strive for a unique selling proposition to differentiate themselves from their competitors, CSR initiatives enable corporates to build a stronger brand that resonates with key external stakeholders – customers, general public and the government

Businesses are recognising that adopting an effective approach to CSR can open up new opportunities, and increasingly contribute to the corporates’ ability to attract passionate and committed workforces. Therefore, in terms of business, CSR is essentially a strategic approach for firms to anticipate and address issues associated with their interactions with others and, through those interactions, to succeed in their business endeavors. The idea that CSR is important to profitability and can prevent the loss of customers, shareholders, and even employees is gaining increasing acceptance.

Further, CSR can help to boost the employee morale in the organisation and create a positive brand-centric corporate culture in the organisation. By developing and implementing CSR initiatives, corporates feel contented and proud, and this pride trickles down to their employees. The sense of fulfilling the social responsibility leaves them with a feeling of elation. Moreover it serves as a soothing diversion from the mundane workplace routine and gives one a feeling of satisfaction and a meaning to their lives. Nowadays corporates are treating CSR as a separate entity and devote
attention to it. Most of the corporates have a vision and mission statements often at the corporate level or sometimes at the CSR level that drive their CSR initiative. Deliberations are made to choose specific issues and initiatives. It has been observed that the areas they choose somewhere relate to their core values.

Today, CSR has been understood in terms of accountability where corporates are feeling that they are responsible for the impact their actions have on several stakeholders. They feel that the basic motive of CSR today is to increase the company’s overall impact on the society and stakeholders.

Several innovative programmes in thematic areas of public health, education, environment, microfinance and related areas are being developed. These programmes are developed bearing in mind the local cultural context and the needs of people. Apart from devoting funds, expertise in terms of knowledge and human resource is also allocated for successful implementation of these programmes. In a growing number of companies these processes are encouraged and rewarded by top management. The implementation of programmes through a trained resource makes a real difference. The following are key focus areas being incorporated into business practices:

**Partnership with NGOs and Government:**
There has been an increase in the number of corporates partnering with NGOs and the Government to ensure successful execution of initiatives.

**Community development:**
Most large companies either have their own foundations or contribute to other initiatives that directly support the community upliftment, notably in health, education, and agriculture.

**Environmental management:**
Environmental policies and programmes are now standard, and many companies have implemented the ISO 14 001 system throughout their businesses.

Workplace Growing out of a long-standing commitment to training and safety is a more recent emphasis on knowledge and employee well-being.

**Evaluation**
Along with innovation at conceptualisation and implementation, corporates are now undertaking greater evaluation and stricter accountability and transparency norms. Evaluating the programme essentially answers the question “what good did we do?” Evaluating programmes, based on internationally accepted formats provide feedback for correction and based on that public disclosure is done.

**Reporting**
A very important aspect of CSR is the reporting practices that corporates adhere to inform their key internal and external stakeholders of social responsibility practices. In the recent past, several indicators such as the Global Reporting Initiatives guidelines and sustainability reporting have been developed.

Sustainability Reporting (SR) frameworks help the companies conform to the global standards of disclosures for maintaining transparency with regard to its operations and value chain and ensuring accountability towards its internal and external stakeholders.

**Thematic Areas**
Action in CSR in India largely spans a diverse set of thematic areas – health, education, livelihood, poverty alleviation, environment, water, housing, energy and microfinance. However some other areas like women empowerment, child development and infrastructure also appeared in the case studies. Based on the comparative study of the 24 companies, it was found that while some companies chose to narrow their focus on a few thematic areas, others took a broader view and undertook a larger scope of areas to focus on. Out of 24 case studies that were analysed, it was found that there were as many as 16 corporates focusing on 3-5 thematic areas. In terms of the area focus, environment garnered the maximum attention from corporates while women empowerment and poverty alleviation were neglected areas with minimal corporates focusing on the same.

**CSR Management**
It has been observed that for 37 percent corporates, the CSR initiative is being implemented through a well-structured separated foundation. Among 58 percent corporates there is a separate CSR department that takes care of the activities to be implemented.
Partnerships
The importance of partnership of building strong public – private partnerships as well as working closely with NGOs as implementation partners is being increasingly realized by corporates. It has been observed that 53% of corporates partnered with Government Departments. The number is higher for engagement with NGOs where approximately 67% have formed linkages corporates. 21% corporates were working in partnership with multinational or bilateral organisations.

Stakeholders
Stakeholder engagement has become one of the important aspects of CSR practices. Though there are different sets of stakeholders that can be taken into account while implementing CSR, we decided to obtain information on the following – employees, neighboring community and general public. Neighboring community refers to the people in catchment area of corporate who have a direct effect of business on them.

Corporate Social Responsibility is not charity
The originally defined concept of CSR needs to be interpreted and dimensionalised in the broader conceptual framework of how the corporate embed their corporate values as a new strategic asset, to build a basis for trust and cooperation within the wider stakeholder community. Though there have been evidences that record a paradigm shift from charity to a long-term strategy, yet the concept still is believed to be strongly linked to philanthropy. There is a need to bring about an attitudinal change in people about the concept. By having more coherent and ethically driven discourses on CSR, it has to be understood that CSR is about how corporates place their business ethics and behaviors to balance business growth and commercial success with a positive change in the stakeholder community. Several corporates today have specific departments to operationalize CSR. There are either foundations or trusts or a separate department within an organisation that looks into implementation of practices. Being treated as a separate entity, there is always a flexibility and independence to carry out the tasks.

Most often these entities work in isolation without creating a synergy with the other departments of the corporate. There is a need to understand that CSR is not only a pure management directive but it is something that is central to the company and has to be embedded in the core values and principles of the corporate. Whatever corporates do within the purview of CSR has to be related to core business. It has to utilise things at which corporates are good; it has to be something that takes advantage of the core skills and competencies of the companies. It has to be a mandate of the entire organisation and its scope does not simply begin and end with one department in the organisation. While conceptualisation and implementation seem firmly underway, evaluation is still taking a back seat. There is a need to incorporate an evaluation plan, which along with presenting a scope of improvement in terms of fund utilisation and methodology adopted for the project, measures the short and long term impact of the practices. While there have been success stories of short term interventions, their impact has been limited and have faded over a period of time. It is essential for corporates to adopt a long term approach rather than sticking to short term interventions, involving the companies and employees in the long-term process of positive social transition.

A clearly defined mission and a vision statement combined with a sound implementation strategy and a plan of action firmly rooted in ground realities and developed in close collaboration with implementation partners, is what it takes for a successful execution of CSR. An area that can be looked upon is the sharing of best practices by corporates. A plausible framework for this could be benchmarking. While benchmarking will help corporates evaluate their initiatives and rank them, it will also provide an impetus to others to develop similar kind of practices.

CONCLUSION
Corporate Social Responsibility is not a fad or a passing trend, it is a business imperative that many Indian companies are either beginning to think about or are engaging with in one way or another. While some of these initiatives may be labeled as corporate citizenship by some organisations, there basic message and purpose is the same. A successfully implemented CSR strategy calls for aligning these initiatives with business objectives and corporate values thereby integrating corporate responsibility across the business functions and enhancing business reputation. The challenge for us is to apply fundamental business principles to make CSR sharper, smarter, and focused on what really matters. This can be done by:
• Focusing on priorities
• Allocating finance for treating CSR as an investment from which returns are expected • Optimising available resources by ensuring that efforts are not duplicated and existing services are strengthened and supplemented
• Monitoring activities and liaising closely with implementation partners such as NGOs to ensure that initiatives really deliver the desired outcomes
• Reporting performance in an open and transparent way so that all can celebrate progress and identify areas for further action.

A long term perspective by organisations, which encompasses their commitment to both internal and external stakeholders will be critical to the success of CSR and the ability of companies to deliver on the goals of their CSR strategy.

Corporate Social Responsibility: The journey has begun!

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