

## **STATUS OF CORPORATE SOCIAL RESPONSIBILITY: IN INDIAN CONTEXT**

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### **Introduction**

In the last twenty years, there has been a sea change in the nature of the triangular relationship between companies, the state and the society. No longer can firms continue to act as independent entities regardless of the interest of the general public. The evolution of the relationship between companies and society has been one of slow transformation from a philanthropic coexistence to one where the mutual interest of all the stakeholders is gaining paramount importance. Companies are beginning to realise the fact that in order to gain strategic initiative and to ensure continued existence, business practises may have to be moulded from the normal practise of solely focussing on profits to factor in public goodwill and responsible business etiquettes (Reynard and Forstater, 2002). An examination of some of the factors which have led to the development of the concept of corporate social responsibility (CSR) would be ideal starting ground for the conceptual development of suitable corporate business practises for emerging markets.

The business environment has undergone vast changes in the recent years in terms of both the nature of competition and the wave of globalization that has been sweeping across markets. Companies are expanding their boundaries from the country of their origin to the evolving markets in the developing countries which have been sometimes referred to as emerging markets. The current trend of globalization has brought a realisation among the firms that in order to compete effectively in a competitive environment; they need clearly defined business practises with a sound focus on the public interest in the markets (Gray, 2001). The increase in competition among the multinational companies to gain first mover advantage in various developing countries by establishing goodwill relationships with both the state and the civil society is ample testimony to this transformation. Secondly, in most of the emerging markets, the state still holds the key to business success because of the existence of trade and business regulations restricting the freedom of multinational companies to incorporate their previously successful business doctrines which have been tried and tested in the developed nations. The state with its duty of protecting the interests of the general public would naturally be inclined to give preference to companies which take care of the interests of all the stakeholders. Thirdly, emerging markets have been identified as a source of immense talent with the rising levels of education. For example, the expertise of India in churning out software professionals and China in manufacturing has now become internationally renowned. In order to draw from this vast talent pool coming up in developing countries, companies need to gain a foothold in these markets by establishing sound business practices addressing social and cultural concerns of

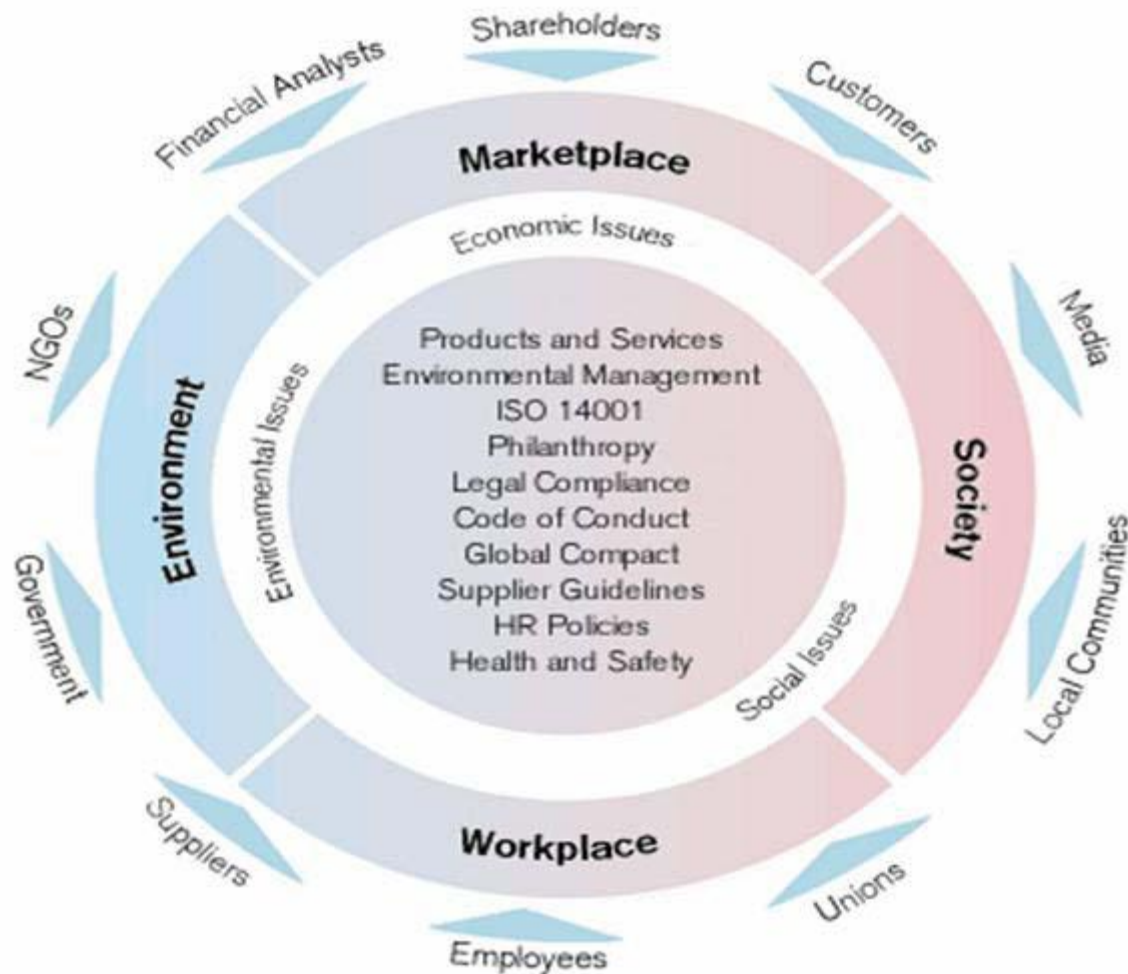
the people. It has been observed that consumers consider switching to another company's products and services, speak out against the company to family/friends, refuse to invest in that company's stock, refuse to work at the company and boycott the company's products and services in case of negative corporate citizenship behaviours (Edenkamp, 2002).

Last but not the least, firms all over the world are beginning to grasp the importance of intangible assets, be it brand name or employee morale. Only firms that have gained the goodwill of the general public and are ideal corporate citizens will be to develop these intangible assets into strategic advantages.

### **Meaning Of The Term Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains, and decision-making processes throughout the organization -- wherever the organization does business -- and includes responsibility for current and past actions as well as future impacts<sup>1</sup>. CSR involves addressing the legal, ethical, commercial and other expectations society has for business, and making decisions that fairly balance the claims of all key stakeholders. Effective CSR aims at “achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.” Simply put it means “what you do, how you do it, and when and what you say.”

Several terms have been used interchangeably with CSR. They include -- business ethics, corporate citizenship, corporate accountability, sustainability and corporate responsibility. The issues that represent an organization's CSR focus vary by size (small, medium and large), sector (for example, financial institutions, infrastructure providers, textile manufacturers, agri-producers, supermarket retailers, etc.) and even by geographic region. In its broadest categories, CSR typically includes issues related to business ethics, community investment, environment, governance, human rights, the marketplace and the workplace.



**Figure 1: Areas of Corporate Social Responsibility**

World Business Council for Sustainable Development defines Corporate Social Responsibility (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.”

### **Need For CSR**

While the interests of shareholders and the actions of managers of any business enterprise have to be governed by the laws of economics, requiring an adequate financial return on investments made, in reality the operations of an enterprise need to be driven by a much larger set of objectives that are today being defined under the term CSR. The broad rationale for a new set of ethics for corporate decision making, which clearly constructs and upholds a organization's social responsibility, arises from the fact that a business enterprise derives several benefits from society, which must, therefore, require the enterprise to provide returns to society as well. A

business cannot succeed in a society which fails. This, therefore, clearly establishes the stake of a business organization in the good health and well being of a society of which it is a part. More importantly, in this age of widespread communication and growing emphasis on transparency, customers of any product or service are unlikely to feel satisfied in buying from an organization that is seen to violate the expectations of what is deemed to be ethically and socially responsible behaviour. It is becoming increasingly evident that organizations that pay genuine attention to the principles of socially responsible behaviour are also finding favour with the public and are the preferred choice for their goods and services.

### **Why Do Organizations Pledge Their Commitment Towards CSR?**

In the recent years corporate business houses have substantially involved towards societal responsibilities. Companies have started to realise the importance of CSR and initiating the steps towards it. Today, the objectives of the companies are not limited to profit maximisation, economic gains or enhancing competencies but at the same time ensure environmental protection, promotion of social responsibility including consumer interest. It will lead to good public image which in turn have positive impact on the wealth of the organisation. The reasons that motivate organisations to involve in CSR activities are discussed as follows:

1. Young blood in the organisation wants more than the financial benefit. They feel sense of pride to be connected with the organisation which is socially responsible. Strong CSR practices can help in attracting, recruiting and retaining the best young talent.
2. Responsible companies give greater priority to their customers. With diminishing business boundaries across the world consumers have become aware and more demanding in terms of information regarding conditions in which the products and services are produced along with the sustainability impact thereof.
3. CSR is about values and accountability which includes the behaviour of the people. Many potential clients who themselves operate CSR activities expect their suppliers to do similar kind of programmes. Sometimes the selection is on the basis of social responsiveness of the supplier.
4. Globalisation and universal expansion of the economies enhances the consideration of image and reputation among organisations. An organisations image and reputation can be ruined in days through unregulated and unethical practices. So, imbibing CSR practices becomes the strong foundation in image building.
5. Environment protection becomes an area of concern these days. A CSR programme that aims to conserve earth's natural resources, avoiding pollution, water conservation and minimising global warming effects are the areas in which the companies take initiative.
6. Legislators are introducing regulations to force businesses to act more responsibly whether that is in regard to the environment, finance, health and safety, wellbeing or a variety of other areas. Corporations by taking substantive voluntary steps with respect to

these issues can avoid government intervention when seen as a pioneer in these areas rather than being forced by law to comply.

7. CSR practices can help the organisation to avoid the risk of corruption scandals, environment disasters, child labour violations and dangerous work environment. These incidents also draw unwanted attention from regulators, courts, governments and media. A genuine effort in playing straight and having good CSR record with the right check insulates the companies from such risks.

**KPMG-CSR survey has presented a range of motivating factors and drivers for CSR which are discussed in table 1 as below**

<b>Drivers</b>	<b>Priority in (%)</b>
Economic Considerations	74
Ethical Consideration	53
Innovations and Learning	53
Employee Motivation	47
Risk Management or risk reduction	47
Access to capital or increased shareholder value	39
Reputation or brand	27
Market share improvement	21
Strengthened supplier relations	13
Cost saving	9
Improved relationship with governmental authorities	9
Others	11

**Source: Data Taken From – KPMG International. KPMG Surveys Of Corporate Responsibility Reporting 2005.**

### **Historical Aspects Of CSR In India**

Unlike western capitalism, businesses in Asia are part of a social welfare philosophy embedded in corporate philanthropy (Mohan, 2001). Some families from traditional merchant communities pioneered indigenous industrialization in India in late 19th century and participated not only in freedom struggle but in the nation-building process thereafter (*ibid.*).

Preceding the independence of India, in 1944, a set of concerned industrialists came out with a development plan for India called the Bombay Plan (Srinivasan and Tendulkar, 2003). During 1950s/1960s, Narayan (cited in IIC, 1966) stated, influenced by Gandhian philosophy of 'trusteeship' – an ancient idea revived and reinterpreted by Mahatama Gandhi – most of the businessmen in India saw their business empires as a 'trust' held in the interest of community at large. Businesses made significant contributions to support schools, colleges and hospitals, and emphasis later shifted to supporting technical training, public health and rural development (Mohan, 2001). Also, post-independence, with a mixed economy framework, India experienced the elements of state-sponsored CSR activities through large public sector companies.

As the Indian economy moved from agrarian to industrial, concerns were raised about the consequences of economic growth with an innate tendency to be imbalanced (Mohan, 2001). The importance of businesses' social responsibility to multi-stakeholders was emphasized at a high-profile seminar in Delhi, and a declaration adopted stated that social responsibility of an enterprise is responsible to itself, its customers, workers, shareholders and the community (IIC, 1966).

The emergence of non-family-owned businesses in 1960s and 1970s also saw an increase in numbers of 'trusts' setup by businesses (Mohan, 2001). Changes in India's economic paradigm in 1990s significantly affected the corporate sector, bringing freedom from controls and increased roles. Shrivastava and Venkateswaran (2000) state that most corporations agree that this newfound freedom carries with it social responsibilities.

## **CSR in India**

Today, the world is coming round full circle in emphasizing this concept through an articulation of the principle of social responsibility of business and industry. And this trend is no different in India either. Mahatma Gandhi, the charismatic visionary leader who brought the cause of India's independence from British colonial rule, was a person who in several respects was ahead of his time. His view of the ownership of capital was one of trusteeship, motivated by the belief that essentially society was providing capitalists with an opportunity to manage resources that should really be seen as a form of trusteeship on behalf of society in general.

In June 2008, a survey was carried out by TNS India (a research organization) and the Times Foundation with the aim of providing an understanding of the role of corporations in CSR. The findings revealed that over 90 per cent of all major Indian organizations surveyed were involved in CSR initiatives. In fact, the private sector was more involved in CSR activities than the public and government sectors. The leading areas that corporations were involved in were livelihood promotion, education, health, environment, and women's empowerment. Most of CSR ventures were done as internal projects while a small proportion were as direct financial support to voluntary organizations or communities.

## **Some Surveys In India**

In the past few years, some surveys have been conducted in India by different organizations to understand the perception of CSR among companies and their different stakeholders, and to define the drivers and barriers of CSR in India. Some of the prominent surveys include

‘Corporate Involvement in Social Development in India’ in the year 1996-1997 by Partners in Change (PiC), ‘Altered Images: the 2001 State of Corporate Responsibility in India Poll’ by Tata Energy Research Institute (TERI), ‘Corporate Social Responsibility: Perceptions of Indian Business’ by Centre for Social Markets (CSM), and ‘Corporate Social Responsibility Survey, 2002 – India’ presented jointly by the British Council, UNDP, Confederation of Indian Industries and Price Waterhouse Coopers (PWC).

In another survey conducted by Partners in Change (2004) from a sample of 536 companies across India reveal that philanthropy is the most significant driver (64 per cent) of CSR, followed by image building (42 per cent), employee morale (30 per cent) and ethics (30 per cent) respectively. The 2004 survey findings present a marked increase in the number of companies developing and adopting CSR policy as against the earlier findings in 1999 and 2000. At the same time, the survey also shows that the *initiator* of a policy across types of companies is largely the CEO, except in the case of public sector undertakings where the government policies determine the need to develop a CSR policy (Ghosh, 2003).

### **Current Status Of CSR In India**

CSR is not a new concept in India. Corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community ever since their inception. Many other organizations have been doing their part for the society through donations and charity events. Today, CSR in India has gone beyond merely charity and donations, and is approached in a more organized fashion. It has become an integral part of the corporate strategy. Companies have CSR teams that devise specific policies, strategies and goals for their CSR programs and set aside budgets to support them.

These programs, in many cases, are based on a clearly defined social philosophy or are closely aligned with the companies’ business expertise. Employees become the backbone of these initiatives and volunteer their time and contribute their skills, to implement them. CSR Programs could range from overall development of a community to supporting specific causes like education, environment, healthcare etc.

Best practices followed by Indian Companies related to CSR are as follows:

- ONGC and Indian Oil Corporation has been spending 0.75-1 % of their net profits on CSR activities. In 2007-08 Rs. 246.70 crores was spent by oil PSUs on CSR activities. ONGC’s CSR projects focus on higher education, grant of scholarship and aid to deserving young pupils of less privileged sections of society, facilities for constructing schools etc.
- SAIL has taken successful actions in environment conservation, health and medical care, education, women upliftment providing drinking water.
- BHEL & Indian Airlines have been acclaimed for disaster management efforts. BHEL has also adopted 56 villages having nearly 80,000 inhabitants.

- Reliance Industries initiated a project named as “ Project- Drishti” to bring back the eyesight of visually challenged Indians from the economically weaker sections of the society. This project has brightened up the lives of over 5000 people so far.
- Mahindra & Mahindra launched a unique kind of ESOPs- Employee Social Option in order to enable Mahindra employees to involve themselves in socially responsible activities of their choice.
- GlaxoSmithKline Pharmaceuticals’ CSR programs primarily focus on health and healthy living. They work in tribal villages where they provide medical check-up and treatment, health camps and health awareness programs. They also provide money, medicines and equipment to non-profit organizations that work towards improving health and education in under-served communities.
- Bajaj Electricals Ltd corporate social responsibility activities include Education, Rural Development & Environment.

## **Challenges Of CSR**

There are number of challenges to the implementation of CSR. They are enumerated below:

### **• Lack Of Awareness Of General Public In CSR Activities**

There is a lack of interest of the general public in participating and contributing to CSR activities of companies. This is because of the fact that there exists little or no knowledge about CSR. The situation is further aggravated by a lack of communication between the companies involved in CSR and the general public at the grassroots.

### **• Need To Build Local Capacities**

There is a need for capacity building of the local non governmental organisations as there is serious dearth of trained and efficient organisations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.

### **• Issues Of Transparency**

Lack of transparency is one of the key challenge for the corporate as there exists lack of transparency on the part of the small companies as they do not make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilisation of funds. This negatively impacts the process of trust building among the companies which is key to the success of any CSR initiative.



**• Non-Availability Of Well Organised Non-Governmental Organizations**

There is non-availability of well organised non governmental organisations in remote and rural areas that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities.

**• Visibility Factor**

The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitises the population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many non-governmental organisations to involve themselves in event-based programmes; in the process, they often miss out on meaningful grassroots interventions.

**• Narrow Perception Towards CSR Initiatives**

Non-governmental organisations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. As a result, corporates find it hard to decide whether they should participate in such activities at all in medium and long run.

**• Non-Availability Of Clear CSR Guidelines**

There are no clear cut statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies. The scale of CSR initiatives of companies should depend upon their business size and profile. In other words, the bigger the company, the larger its CSR programme.

**• Lack Of Consensus On Implementing CSR Issues**

There is a lack of consensus amongst implementing agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between implementing agencies rather than building collaborative approaches on issues. This factor limits company's abilities to undertake impact assessment of their initiatives from time to time.

**Conclusion Of The Study**

Even though companies are taking serious efforts for the sustained development, some critics still are questioning the concept of CSR. There are people who claim that Corporate Social Responsibility underlies some ulterior motives while others consider it as a myth. The reality is that CSR is not a tactic for brand building; however, it creates an internal brand among its employees. Indulging into activities that help society in one way or the other only adds to the goodwill of a company. Corporate Social Responsibility is the duty of everyone i.e. business

corporations, governments, individuals because of the reasons: the income is earned only from the society and therefore it should be given back; thus wealth is meant for use by self and the public; the basic motive behind all types of business is to quench the hunger of the mankind as a whole; the fundamental objective of all business is only to help people.

CSR cannot be an additional extra - it must run into the core of every business' ethics, and its treatment of employees and customers. Thus, CSR is becoming a fast-developing and increasingly competitive field. The case for demonstrating corporate responsibility is getting stronger as expectations among key opinion formers, customers and the public are increasing. Being a good corporate citizen is increasingly crucial for commercial success and the key lies in matching public expectations and priorities, and in communicating involvement and achievements widely and effectively.

### **Suggested Readings**

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