

Understanding the Corporate Social Responsibility Enigma: What Businessmen Owe to Inclusive growth

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Abstract

Corporate Social Responsibility (CSR) has wide implications for the development of a country. It reduces dependency on the government for social expenditure and helps speedy inclusive growth. The scale of CSR emerged significantly in the last decade in India. Since business houses do business in society, it is their obligation to share small portion of the profit for betterment of society. To relate fundamental business philosophy to make CSR sharper, smarter, and focused is what really matters. However, critics are emerging on the recent Government bill on CSR which makes it mandatory on the part of the companies to spend small portion of their profit for social causes. Some of the Indian corporate giants like Infosys, WIPRO and TATA, have become a kind of role model in CSR activities in India. Some of them have really done wonders in the selected social sectors which help speedy inclusive growth. Also some reputed companies are spending more than 15-20% of their profit for social service! Though various Indian organisations are involved in CSR activities; it is not enough when compared to their actual financial capacity. In addition, companies have institutional and other problems in having CSR policies. Further, some companies are doing CSR activities to escape from the different taxes to be remitted to the Government. Against this backdrop, this paper is to discuss the role of CSR for rapid inclusive growth of the country.

Keywords: Corporate Social Responsibility, Inclusive growth, Social Expenditure, Business

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INTRODUCTION

Corporate Social Responsibility (CSR) is referred to as a business responsibility and an organisation's actions on environmental, social, ethical and economic issues of its surroundings. It is usually described in terms of a company considering, managing and balancing the economic, social and environmental impact of its activities. A business organisation cannot work in isolation and the extent to which it should consider the environmental, ethical and social issues, foregoing a part of its profit for the betterment of society as a whole seems logical. A company which fails to do so is jeopardizing its commercial future. In India, the ethical and moral model initiated by Mahatma Gandhi during 1930s is well known which affirmed the responsibility of family-run-businesses conducting social and economic activities. Corporate social responsibility has no standard definition. However, we can generally define that it is a type of contribution from the corporate houses out of their huge profit to various aspects of social development of society. They have to address the needs of the share holder's demands as well.

Corporate houses or business companies are not charitable institutes. However, sometime they may need to fulfill corporate accountability, responsibility and stewardship. Through their social interventions, they also get branding. Good CSR increases reputation and branding of any business house. CSR has been defined variedly. The World Business Council for Sustainable Development defines CSR as "Making Good Business Sense". Further World Business Council for Sustainable Development (WCSD) defines "...CSR 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". "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" (Holme & Watts, 2010).

There is another concept called Corporate Philanthropy. “Corporate Philanthropy (CP) refers to the practice of companies of all sizes and sectors making charitable contributions to address a variety of social, economic and other issues as part of their overall corporate citizenship strategy. Companies make philanthropic donations through either company sponsored foundations or direct giving programs. These differ in relationship to the company and it is important to understand the difference” (Voluntary foundation).

The Business for Social Responsibility defines CSR as, “Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is...more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management”.

Even under global economic recession India’s economy is fast growing at the rate of 8.3%. Indian market is an attractive center for many global companies for huge investment. India’s recent economic reforms have resulted in increasing foreign direct investments to the country. It has given an opportunity for more companies to enter India and we can expect more CSR activities in the days to come. With globalisation, CSR is getting a new concept. CSR has given a new brand image to the companies for their market. Association with social relevant causes should not be just for tax exemption exercise of the companies. Some study reports have revealed that in a severely poverty stricken country, illiteracy and other serious problems, government alone cannot solve them. Whatever rules the Government brings, the obligation must be beyond statutory. Companies must voluntarily be involved with strong social commitment. It is also found that majority of Indian customers would welcome the involvement of companies in social issues and are ready to pay more for their products (Gupta & Sharma, 2009). CSR activities may be classified into two categories:

1. CSR activities by the corporate giants
2. CSR activities by the small and medium scale enterprises

This classification will be based on commitment and transparency maintained inside the companies. India has made CSR mandatory to promote social development. On April 1, 2014, the Government of India has notified in the Companies Act relating to CSR that the companies with at least Rs.5 crore net profit or Rs.1000 crore turnover will have to spend 2 percent of their three-year average annual net profit on CSR activities in each financial year. This bill has evoked mixed reactions from many corporate giants across the country. Some of them have welcomed the decision while others have criticized the move. Even though the intention of the Government is good, before finalizing the bill, business houses should have been consulted and their opinion sought and this reform could have been done more democratically.

The Modern CSR - the Strategist - the Five Stages of Organizational Learning

Stage	What Organizations Do	Why They Do It
DEFENSIVE	Deny practices of outcome and responsibility	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity, and the brand
COMPLIANT	Adopt a policy-based Compliance approach as a cost of doing business	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
MANAGERIAL	Embed the societal issue in their core management processes	To mitigate the erosion of economic value in the medium term and to achieve long term gains by integrating responsible business practices into their daily operations
STRATEGIC	Integrate the societal issue into their core business strategies	To enhance economic value in the long term and to gain first-mover advantage by aligning strategy and process innovations with the societal issue
CIVIL	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming any first mover disadvantages and to realize gains through collective action

Source: The Path to Corporate Responsibility, 2014 Harvard Business School Publishing Corporation

Nanjunda

Strand (1983) argues that the ‘ three dimensions of responsibility; responsiveness and response are fundamentally linked to form a system of corporate social involvement for the social development. Social responsibilities are determined by society, and the tasks are:

- a) to identify and analyze society’s changing expectations relating to corporate responsibilities
- b) to determine overall approach for being responsive to society’s changing demands
- c) to implement appropriate response to relevant social issues’.

Perspectives and Key Business Practices for CSR (Spiller, 2000)

Community	<ol style="list-style-type: none"> 1. Generous financial donations 2. Innovative giving 3. Support for education and job training programmes 4. Direct involvement in community projects and affairs 5. Community volunteer programmes 6. Support for the local community 7. Campaigning for environmental and social change 8. An employee led approach to philanthropy 9. Efficient and effective community activity
Environment	<ol style="list-style-type: none"> 1. Environment Policy 2. Materials policy of reduction, reuse and recycling 3. Monitoring, minimizing and taking responsibility for releases to the environment 4. Waste management 5. Energy conservation 6. Effective emergency response 7. Public dialogue and disclosure
Employees	<ol style="list-style-type: none"> 1. Fair remuneration 2. Effective communication 3. Learning and development opportunities 4. Fulfilling work 5. A healthy and safe work environment 6. Equal employment opportunities

	<ol style="list-style-type: none"> 7. Job security 8. Competent leadership 9. Community spirit 10. Social mission integration
Customers	<ol style="list-style-type: none"> 1. Industry-leading quality programmes 2. Value for money 3. Truthful promotion 4. Full product disclosure 5. Leadership in research and development 6. Minimal packaging 7. Rapid and respectful responses to customer comments/concerns 8. Customer dialogue 9. Safe products
Suppliers	<ol style="list-style-type: none"> 1. Develop and maintain long-term purchasing relationships 2. Clear expectations 3. Pay fair prices and bills according to terms agreed upon 4. Fair and competent handling of conflicts and disputes 5. Reliable anticipated purchasing requirements 6. Encouragement to provide innovative suggestions
Share holders	<ol style="list-style-type: none"> 1. Good rate of long-term return to shareholders 2. Disseminate comprehensive and clear information 3. Encourage staff ownership of shares 4. Develop and build relationships with shareholders 5. Clear dividend policy and payment of appropriate dividends 6. Corporate governance issues are well managed 7. Access to company's directors and senior managers 8. Annual reports provide a picture of the company's performance 9. Clear long-term business strategy 10. Open communication with financial community

Source: Spiller, R.: 2000, 'Ethical Business and Investment: A Model for Business and Society', *Journal of Business Ethics* 27, 149–160.

CSR and Inclusive Growth

The 11th Five Year Plan defines inclusive growth to be “a growth process which yields broad based benefits and ensures equality of opportunity for all”. The ministry of corporate affairs and industry chamber, Confederation of Indian Industry (CII) had recently come out with a study on the Corporate Social Responsibility (CSR) in which the role of private sector in fostering inclusive growth and globalisation has been recognized. Almost all major companies in India have a CSR programme in areas like education, health, livelihood creation, skill development, empowerment of the disabled and women (Siloyam and Othes, 2008).

Inclusive growth basically means, “Broad based growth, shared growth, and pro-poor growth”. It decreases the rapid growth rate of poverty in a country and increases the involvement of people into the growth process of the country. Inclusive growth by its very definition implies an equitable allocation of resources with benefits incurred to every section of the society. Even under global economic recession India’s economy is fast growing at the rate of 8.3%. Indian market is an attractive center for many global companies for huge investment (Shetty, 2010). India’s recent economic reforms has attracted in increasing the foreign direct investments to the country. It has given an opportunity for more companies to enter into India thereby we can expect more CSR work in the days to come.

Business houses are also playing an important role in the overall social development process of the country. This is due to the policy adopted by the companies themselves. Many Indian Companies have grown in size and capabilities conducting development policy and innovative programmes in the field of health, livelihood, education, micro-financing, and income generation programmers. These programmes have also made important contribution in the effort to eradicate various social problems as these are all closely intertwined with the rapid inclusive growth of the country. There are some reports showing rapid inclusive growth is possible with more participation by the private sectors. However, unless big companies make

significant improvement and constructive changes in promoting philanthropic behaviors, their best efforts may not prove sufficient for ending various problems being faced by the larger section of society. Meanwhile the companies have started focusing on the middle and lower income group markets and have embraced inclusive growth.

Some of the big corporate entities like Infosys, WIPRO and TATA have become role models in CSR activities in India. TATA group spends more than 40% of its profit for social service. Even though recent bill on CSR of the government is a good move, we can't completely depend only on corporate interventions in social issues. Government cannot escape from its responsibility. Public enterprises in India have already been spending upto 5% of its profits for social causes. Corporate can initiate their own social projects or they can join hands with NGO's. The need of the hour however is to make the local business houses comprehend their obligation towards giving back to the society. The crack seems to lie in the understanding and positive reception of the importance of CSR in the overall scheme of things. Another broad comparative study was made on 232 major corporations, from among the *Fortune* 500, to determine how and to what extent they were involved in social programmes. This research indicated that the greatest involvement in social programmes concerned quality control to meet consumer expectations, anti-pollution activities, and employment and training. Motivations for social programmes were probed and the conclusion was that enlightened self-interest was the most important motive for social action in urban and consumer affairs.

The new economic era in India i.e. the post-liberalization phase of the Indian economy was a catalyst for the radical transformation in the corporate social responsibility related practices in the country, the change was twofold: transformation of the conceptual understanding of corporate social responsibility and innovations at the implementation level. 'At the conceptual level, there was a fundamental transformation from the charity oriented approach to the stakeholder oriented approach where the target group was

Nanjunda

seen as stakeholder in the community whose well-being was integral to the long term success of the company. However, the real revolution occurred at the implementation stages where companies have started committing manpower, expertise in addition to financial resources in order to provide a host of services, programs and schemes that are flexible enough to accommodate the needs of the target community' (Mahapatra and Visalaksh, 2010). The CSR approach has also seen better contribution at all stages and greater responsibility standards.

The development debate associated with FDI is now extended to CSR. The proponents of CSR generally hail voluntary initiatives as a pragmatic and innovative way of enhancing the contribution of MNCs to inclusive development. Many also regard such initiatives as an alternative to government regulation, which is often seen not only as unfriendly towards business but also as difficult to implement, particularly in developing countries. Major portion of criticism of CSR has centered on two main concerns: first, many CSR initiatives amount to "greenwash", or attempts to disguise what is fundamentally business-as-usual; and second, that CSR is a indisputable effort on the part of big business to get better social, environmental conditions leading to inclusive growth (Utting, 2003).

Indian business houses have gained experience in the field of CSR and that is very much obvious from the range of CSR programs that have been undertaken in the last decade. CSR has moved beyond pure charity and philanthropy and has slowly crept into a professional phase demanding inclusion of CSR into company policy and strategy. The companies have started focusing on the middle and lower income group markets and have embraced inclusive growth. Hundreds of millions of low income groups will be ready consumers if the affordability and income and livelihood generating needs are fulfilled. Bringing products and services to remote parts of the country and to low income people in both urban and rural areas has become much more than a way to fulfill corporate social responsibility. "Inclusive

growth is now a business opportunity. The above mentioned cases of Inclusive growth are an excellent demonstration of the innovation that Indian companies can bring to help create inclusive growth domestically and another example for businesses operating in any market of how inclusive business models can have development impact and create commercial success” (Bhujbal and Sharma, 2011).

CONCLUSION

Companies’ social involvement plays a vital role for rapid inclusive growth and to eradicate social exclusion in the society. Companies’ social presence through social business will help in increasing stronger financial performance, social accountability, reputation and branding. This is the time to think to involve small and medium scale industries in the activities of CSR as every business house should give evidence of social responsibility. CSR is a gold mine and it offers opportunities for small players to make their presence felt in the society. It is also an opportunity to share skills with the local NGO’s for the welfare of the humanity. Orienting, educating and training the NGO’s will help in addressing many social problems. There is still a need of CSR in some untouched sectors including human rights, poverty eradication, rehabilitation, training, tribal development, etc which need more focus for rapid inclusive growth.

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