

**Market Friendliness and Corporate Social Responsibility:
Can they work in tandem?**

By

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The aim of this paper is to inquire into the current status of Corporate Social Responsibility (CSR) in India and to examine the effects of liberalization on its working.

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‘All institutions including business firms need to validate themselves. There are two ways of doing this. One is by being successful which translates in the case of business firms into showing profits. The other is to contribute towards what society considers important goals. Corporate Social Responsibility (CSR) can be regarded as the second type of contribution. Contributing to policies, which, are considered desirable such as more transparency or education of the underprivileged ought to be regarded as a major way of legitimizing on the part of business firms.’(2004)

Professor. Theodore Levitt of Harvard Business School has stated, “Corporate Social Responsibility makes good sense if it makes good economic sense- and not infrequently it does. But if something does not make economic sense, sentiment or idealism ought not to let it in the door.” (1958) Social Responsibility has taken such a priority in corporations that the role of the government too has undergone a tremendous change from ‘governing businesses’ to the ‘business of governance’

The descriptions and interpretations of what CSR really is exceed the number of corporations in this world. CSR clearly is a journey and not a destination. First and foremost it is essential to understand what CSR is. *Business for Social Responsibility* defines it as “achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment.’ The obligation to society

stems from the fact that organisations can no longer act in isolation because they draw their resources from their social environment.

The U.N. Secretary-General Kofi Annan, a strong advocate of CSR terms it '*the human face o corporations*' and calls it '*a licence to operate as a business in the short term, a necessary condition for sustainability and competitiveness in the long term*'.

These definitions represent the situation in the developed world. But that does not mean that they cannot be adapted to the developing world. Indeed they can be, provided certain issues are given the right priority.

Indian NGOs.com has a different interpretation of the same concept. According to them '*CSR is a business process wherein the institutions and the individuals within are sensitive and careful, about the direct and indirect effect of their work on internal and external communities, nature and the outside world.*'

This definition is aimed not only at corporations but is equally applicable to governments, NGOs, educational institutions and every other authority and entity. It has been said that a truly socially responsible corporate should be a right mixture of business ethics, products and process management, consistency in generating profits and its distribution, sustainability and financial as well as non-financial investment in communities.

True, CSR requires a fundamental shift in corporate mindset, beginning with the organisational vision and mission and it does however require goal clarity, long-term commitment, transparency and accountability and a measurement index.

With professionalism, corporate philanthropy has evolved into good corporate citizenship. It has shifted the focus from spending a portion of profits on 'good works' for

the community to adopting good business practices to co-exist with the community; it has shifted focus from charity to enabling business processes to produce an overall positive impact on society.

The reasons for the change in this attitude are several. Whether in the sweatshop conditions in Nike's in its developing nations' outlets, the sinking of the spar by Shell in the North sea or nearer home, the tragedy caused by Union Carbide or the controversy over cola and mineral water, rising consumer and societal expectations, the emphatic voice of NGOs have combined to give a new dimension to the concept of stakeholder

Indian Scenario, A Historical Perspective:

The above ought not to be construed as playing down the role of philanthropy, one of India's greatest social practices. The term 'CSR' is new, but the concept is certainly not. It goes a long way and has its roots in religion along with a tradition set by royalty. It was natural that business houses should follow this-for a variety of reasons like concern for the employees and their dependents by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. The donations monetary or otherwise however were sporadic activities of charity or philanthropy from the personal wealth of the company promoters and did not belong to the shareholders and did not constitute an integral part of business

The idea of social responsibility in a systematic manner started with the second Five-Year Plan based on the Mahalanobis model with the then Prime Minister Jawaharlal Nehru's visit to the Soviet Russia. Nehru was impressed by the Soviet success in planning and the eradication of poverty but the Indian attempt was to blend Soviet

planning with parliamentary democracy. One major result of this blend was the high preference to the public sector more as major instruments in the planned growth with equity. They were given the mammoth task of industrialising India, creating employment and improving the standards of living for the people. But with the passage of time, the population grew and so did the social pressures, public sector lost its focus on the aspect of profitability and turned to be institutions only for social obligations, the reason for this situation being the government subsidies. About a quarter of a century ago, people used to refer to the public sector in glowing terms as something that would bring strength to our economy and prosperity to the people. As a result of this, public sector enterprises proliferated. Today, people shun them for reasons more than one.

A study of the economic situation of pre and post liberalization India Inc., brings forth the following observations:

a. ***Market Realities***: In India, as companies used to the license system adjusted to the realities of market forces, the skeletons tumbling out of various corporate cupboards have raised many questions on the issue of corporate governance. It is not possible to eliminate corruption but good corporate governance ensuring transparency of decision-making and effective shareholders control can deter it.

b. ***Ownership Pattern***

In India, based on market capitalization, 85 percent of the top 35 companies are either family or state owned. Also among the corporations that have a market capitalization of more than Rupees 5000 million, 77 percent of the total 123 corporations are either family or state owned, clearly indicating the concentration of ownership. Since philanthropy involved the personal wealth of the promoter donor, there were some problems that were

usually associated with this philanthropy-based model. For instance the corporation did not consider it as a long-term investment and restricted it generally to periodical or a one-time grant. Also since it was considered to be an act of charity, the corporation did not encourage any participation from the beneficiaries either in designing or managing the activities which further contributed to decline in its effectiveness and its success considerably.

c. *Legal System:*

The effectiveness of implementation depends largely on the legal system that penalizes the defaulters and enforces compliance. Regulation has, over the years, proven only partially successful in dissuading individuals from playing with the rules of accounting.

The difference that we find between the Indian situation and that of a developed nation is that, in India, public policies while taking note of the large business interests tend to ignore the interests of the masses whether it is a case of the farmers retaining the seeds for cultivation or the prices of essential drugs both under the WTO regulations.

With these differences in mind, the definition of CSR in the Indian context would have to be based no doubt on the European models but with suitable modifications required in the Indian context. It should look foremost into activities where the communities are the ultimate beneficiaries, be they philanthropic, commercial initiatives or even a social investment. They should also adopt business practices that go beyond legal compliance like employing the socially disadvantaged people as well. Though Partners in Change (PiC) advocate bringing about a change in public policy and laws that benefit disadvantaged people, it would be impractical to implement the reservation policy in employment in the private sector in the name of equity

The changing scenario:

The scams that have rocked the business world point an accusing finger at corporate governance and these scandals seem to be completely detached from their philosophy of 'doing good' to a wider body of stakeholders. Enron was listed as one of the best firms to work for and was the recipient of many awards for being environmentally conscious and it issued triple bottom line reports as well. But the end result only showed that an organization is only as good as the people who run it. *What is important is what goes on inside the company.*

The public sector, of which many were located in backward areas were not totally focused on their goals and were considered more as a provider of employment and believed to be so located for electoral conveniences with little or no regard to profitability. The subsidies were the only lifesavers till the economic reforms stripped them of the cocoon and showed up to the entire nation as a failure to bring together its core objective of business profitability with social commitment. But all this changed with the decision to open up the country for transnational corporations to conduct business in India. There has been a palpable change in the way corporations function post-economic reforms. The reduction in government controls and the free markets have been the basic reason for them. With the invitation to foreign firms to enter and operate in India, Indian corporations have had to make a conscious effort to not just stay afloat but to compete globally.

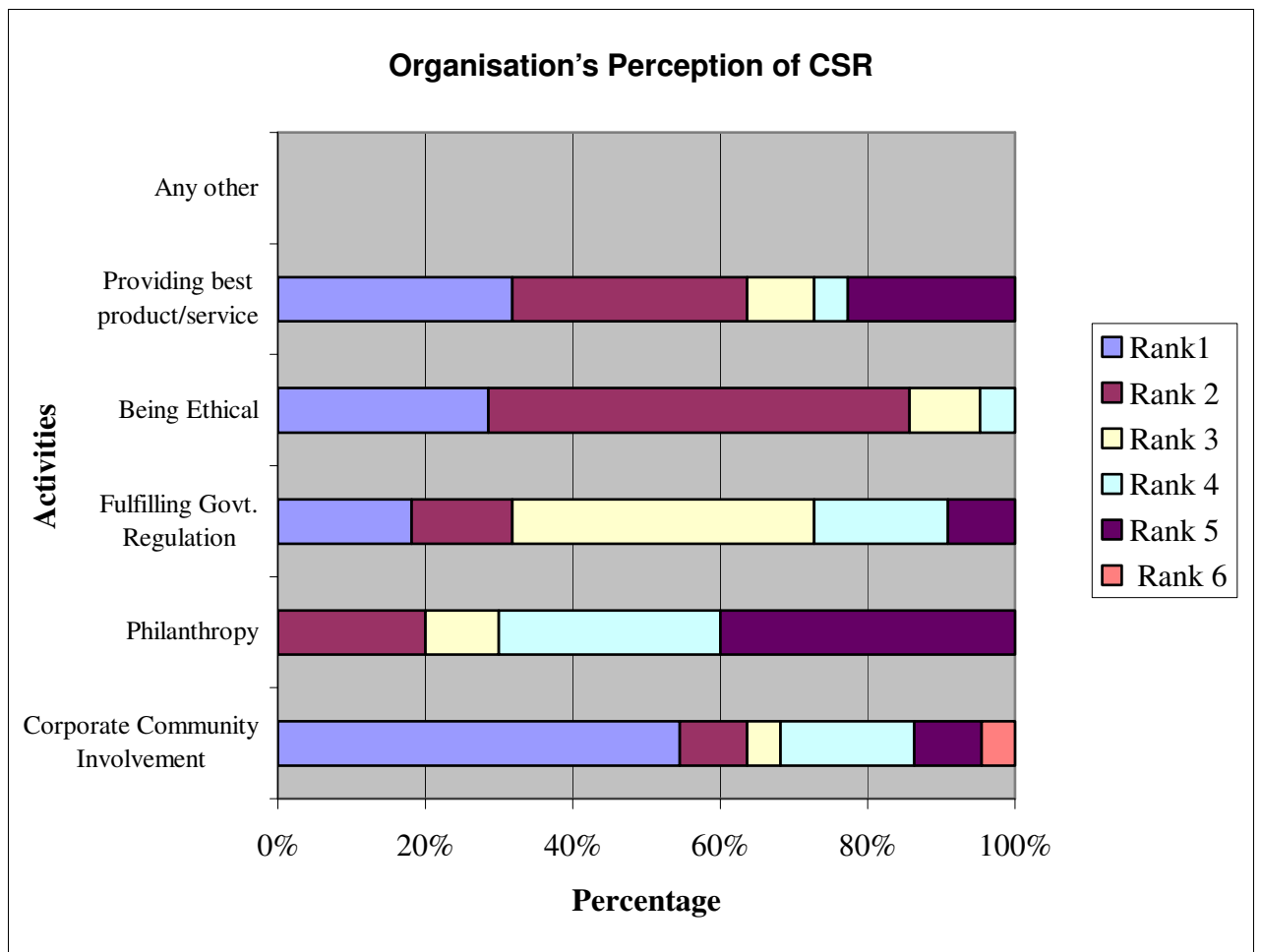
Today CSR means much more than building a temple or donating used computers to a rural school. Though there are people who lay emphasis on ethical, social and environmental aspects, there are an equal number of them who would think traditionally

that the business should concentrate on the economic aspects of value creation i.e., profitability with growth. Yes, CSR does need to internalize the costs which in turn raises the total cost of production and in this world of cut-throat competition, pricing makes a difference. This changing environment has brought a corresponding change in the form of restructuring and downsizing, right sizing, diversification and mergers. These economic reforms have brought in freedom to corporations hitherto unknown on matters of production and pricing. This gave rise to a shift in the model to a stakeholder-participation based one.

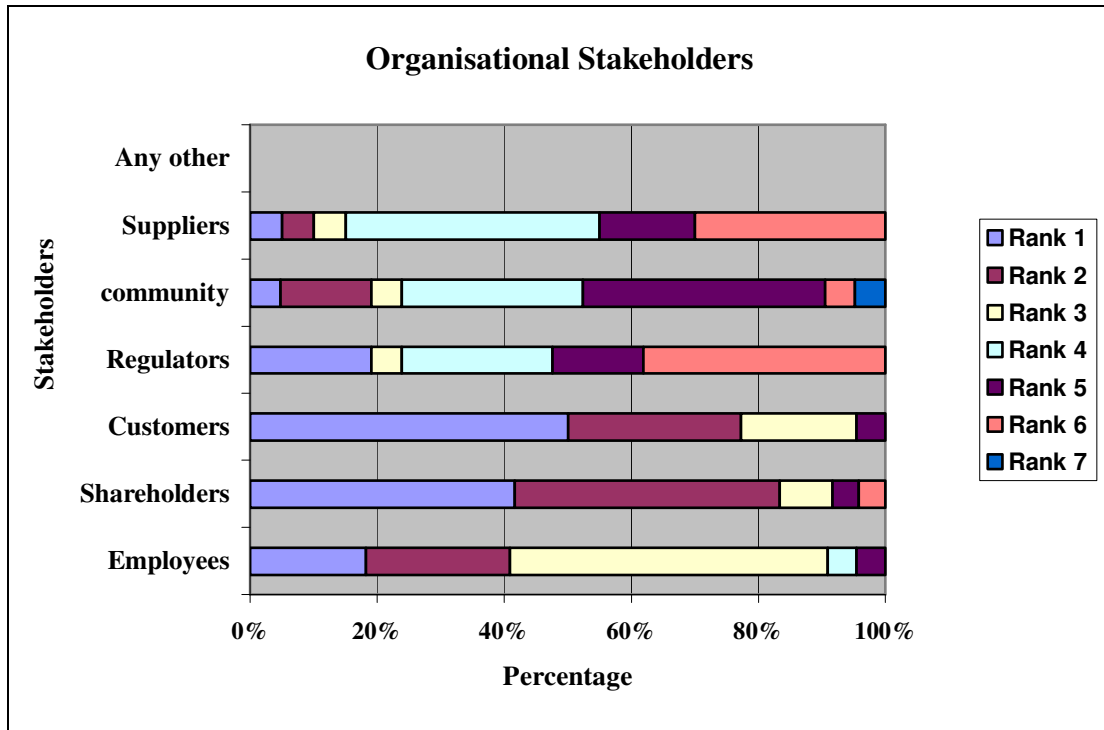
The study focused on the following: organisational perception of CSR, the concept of stakeholder issues concerning CSR policy, and key drivers for change. An important finding is that there has been a change in the perception of CSR in the recent past. This is evident from the table and the accompanying graph.

Table showing Organisational perception of CSR

Perceptions of CSR	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Total
Corporate-Community Involvement	12	2	1	4	2	1	22
Philanthropy	0	4	2	6	8	0	20
Fulfilling Govt. Regulation	4	3	9	4	2	0	22
Being Ethical	6	12	2	1	0	0	21
Providing best product/service	7	7	2	1	5	0	22
Any other	0	0	0	0	0	0	0



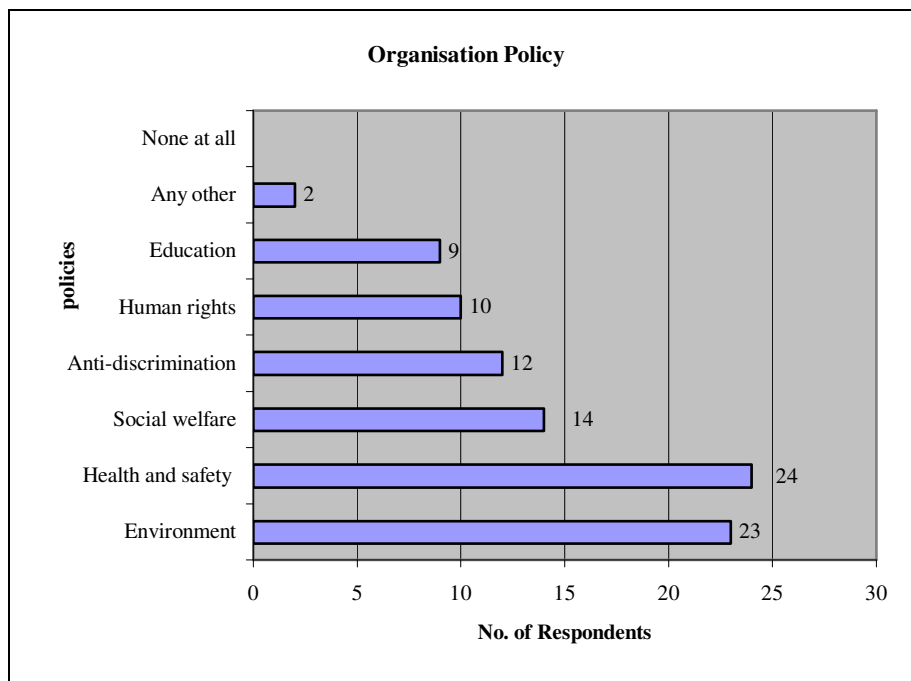
Corporate-Community partnership seems to be at the top of the agenda in relation to CSR. This indicates that companies believe that their long-term sustainability can be



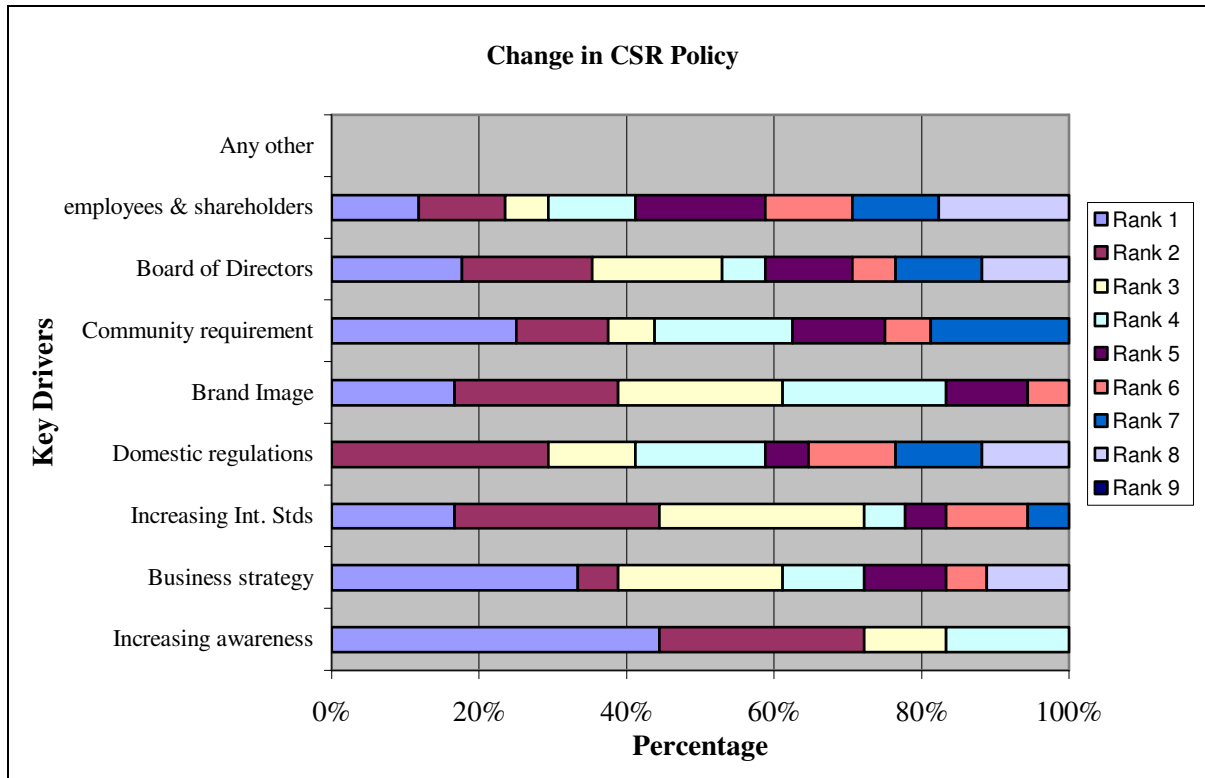
Customers and shareholders vie each other for the slot of the most important stakeholder with employees coming in a close third. These responses show the right mix; these priorities need to be maintained along with increasing attention to other stakeholders like regulators and the supply chain for long-term survival. But the responses reveal that neither the customers nor the shareholders have much voice or influence in the formulation of the company's CSR policy. This highlights the fact that 'important stakeholder' is understood as only being compensated appropriately either through their pricing structure, the return on their capital or through employee remuneration. The essence of a true stakeholder has been lost on them

Table showing Organisation's CSR Policy

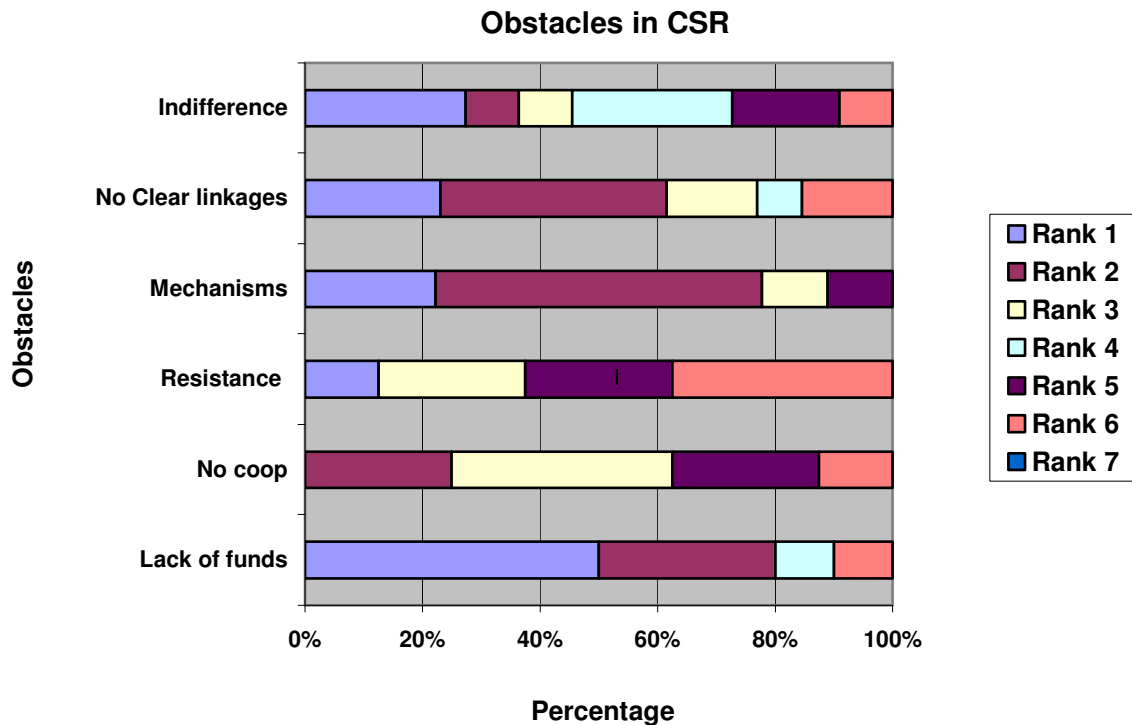
CSR Policy	No. of Respondents	Percentage
Environment	23	92
Health and safety	24	96
Social welfare	14	56
Anti-discrimination	12	48
Human rights	10	40
Education	9	36



Majority of the organisations have a policy on occupational health, safety and environment. A matter, which requires a lot of deliberation and a change in the mind-set of decision makers, is the matter of **'Equal Opportunity Employer'**. Being one entails that no discrimination be made during recruitment in the matter of religion, caste, gender



Indeed a change is seen in the CSR policies over the years, the key drivers of which, are increasing awareness of the economic situation, the global requirements, competitors etc. Business strategy comes a close second. International standards, the Board of Directors and Brand Image of an organization take an almost equal place. Domestic regulation too has played an important role, which brings out the fact that laws/regulations are quite effective in India and are almost at par with globally accepted standards. The prevalence of a ruthless or aggressive market makes the organizations more careful about their non-financial activities, like CSR the costs of which would need to be internalized which, would nevertheless impact their bottom line.



Lack of funds seems to be the dominant obstacle in medium and small scale industries not only with the entry of multinationals but flooding of markets with cost effective Chinese and other S.E. Asian countries' goods. At this juncture, every rupee is diverted to stave off insolvency and trying to keep the organisation afloat. In such a situation, it is but natural that the limited resource is very judiciously allocated and obviously CSR takes a back seat. The next obstacle that organisations have faced is the lack of a clear linkage between the CSR activities and organisational profitability. Though there are many theories doing the rounds about the relationship between CSR and profitability, it is still considered ethereal and no concrete outcomes can be traced. This coupled with limited budget results in scepticism among the smaller organizations. The third main difficulty is the lack of instruments for measurement of CSR outcomes. Tracking of projects on a continuous basis involves tedious efforts by skilled personnel and the benefits received

both by the targeted community and the organisation is almost impossible to quantify. A surprising revelation is the indifference of the targeted beneficiaries, which makes it more difficult to achieve any positive results from a hostile community.

India still being in the throes of the 'developing nation' tag has to achieve a lot in the economic scene before it can pat itself on its back to compare itself globally with many other competitors. Till such time sustainable development agenda being in the forefront, it has to ask for and accept help given to it from every quarter. The NGOs with a proven history in the developed countries seem to be having a potential for growth here too. These not-for-profit organisations dedicate themselves to working on social issues either at the grass root level or support relevant activities.

Even though NGOs are limited by certain weak characteristics such as inadequate resources, lack of strong systems and procedures, which do not render them as the greatest players in the society, they do possess certain strengths like their commitment to development, their adaptability and most importantly the trust of the community. The reasons for their lack of popularity could be zeroed down to the negative publicity of a few NGOs, their core values and competencies being different and their culture. NGOs see development as a process and aim for qualitative outcomes whereas the corporations have been accused of being short sighted and tend to treat 'development' as a product like any other.

CSR and the Need for Leadership:

While discipline is a necessary part of an ethical system, legal compliance is an inadequate way of addressing ethical issues for "*There is no right way to do a wrong thing.*" To create an organisation that encourages exemplary conduct, companies need to

adopt an integrity strategy based on the concept of self-governance in accordance with a set of guiding principles. Good corporate governance can ensure transparency of decision-making and effective shareholders control. The best results would be achieved when the companies begin to treat the code not as a mere structure, but as a way of life.

Infosys Ltd. in India has been a pioneer in benchmarking its corporate governance practices with those of the best in the world. This has been made possible due to the vision provided by its founders. Where a Board does not prescribe its requirements, the chief executive officer's style and experience will tend to determine the Board's governance quality. To provide governance "roadmap" for directors and management, formal guidelines should be established covering Board and committee responsibilities, their processes, the related management support roles, and other governance matters. While the CEO must firmly lead the company, he or she must respect the Board's responsibilities and encourage all the directors to respond to his/her leadership.

With the limited scope of the study that has been chosen, **a few suggestions** have been put forth which the researcher is of the firm belief would enhance the standard of CSR in industries in any developing economy and bring about greater level of sustainability for all times to come.

- a. Dow Jones sustainability index may not suit all economies. There must a unanimously accepted code of standards and their adherence to raise finance in the market.
- b. Accreditation regarding CSR initiatives should be made by an independent organization and accepted by all.

- c. The State or any local authority should be pro-active in creating and regulating CSR friendly environment.
- d. An organization should take an active role to promote and extend its CSR principles across its supply chain.
- e. If multinational corporations can team up with some of the medium and small enterprises engaged in the manufacture of similar goods and services without the thought of competition, they can raise the CSR bar in developing nations, thereby creating a direct correlation between FDI and enhanced drivers for CSR.
- f. Non-financial parameters need to be included while judging companies adjudged as the 'Most Admired' ones.
- g. All companies would do well to constitute a CSR committee comprising a member of the Board, senior management, Trade Union representatives, shareholders and NGOs instead of attaching these activities to the HR department as it is usually done.
- h. The reason for an organisation's success lies in its leaders who believe in '*walking the talk*'. Leaders should also anticipate changes in this fast moving business environment so that their weaknesses and threats could be changed into strengths and opportunities.
- i. Social Accountability (SA) 8000 may be accepted in principle and modified to suit the situation, environment and the industry.

CSR needs to be integrated into core business strategies if it is to survive global recession or insecurity. CSR has gained prominence against a backdrop of relative economic

stability and growth. However, the trend of global economic cycles means that this pattern of growth will at some point slow down, and possibly go into recession. If any downturn is compounded by global insecurity as a result of increased political conflict, the further development of CSR may be seriously challenged. Where CSR is integrated within the core business strategy, it is likely to remain strong, whereas CSR as a philanthropic add-on in SMEs is vulnerable to cost cutting. Ultimately, the long-term success of CSR will be based on its ability to be positioned within the core of business strategy and development, thereby becoming part of 'business as usual'.

If CSR is to truly become a strategic force in contributing to international development and eliminating the negative externalities of business, it must help to develop effective and practical approaches towards its responsibility to small and medium businesses since they are unable to stand up and compare itself with any of the universally accepted standards. The accepted standards should try and reduce the barriers and threats while strengthening the opportunities and key drivers in order to ensure that CSR has a wide and positive impact on small and medium businesses.

Conclusion:

The time has arrived for every business to take a good look at themselves and decide that just Social Responsibility in the form of charity, philanthropy by just any name would never suffice to justify its role or its existence in society. It has to turn into a development-driven business in order to have a win-win situation most of the time. It has been a long road for Indian corporations. Over time, professionalism has converted mercantile philanthropy into corporate citizenship.. After many decades, the corporate hand that has helped in distress is now seen as that of empowering people like Tata in

community development, GSK in Mumbai running shelters for girl children and Infosys Foundation in spreading computer education in rural areas.

The focus has shifted from donating towards a good cause to adopting best practices in order to co-exist with the community. Agreed, that the role and responsibility of the government cannot be shifted to a corporation, but the corporate organization cannot distance itself from the responsibility for the failure of delivery of public right and economic development.

If CSR were addressed at two levels i.e., strategic CSR and operational CSR, it would go a long way towards sustainable development. Strategic CSR would be a long-term activity, which should aim at addressing societal changes, have partnerships with industry, Government, NGOs as well as competitors which ultimately would result in competitive advantage. The operational Corporate Social Responsibility would rest with the management, which would ensure that the investments and operations meet with the stakeholders' expectation. This would require an integration of organisation's social, economic and operational expertise, the result of which would be higher profitability as well as securing legitimacy.

But the success of both strategic and operational CSR would result only when they are used for value creation. But in reality, errors do creep in, the most common one being failure to anticipate changes in stakeholders' expectations and being slow in identifying opportunities and threats.

Indian economy has picked up since 15 years but still finds that no concrete evidence exists to prove that there is a positive link between CSR and profitability. The country is caught up in transition not only in relation to the implementation of CSR activities but

also in its economic development, more so when the measurement techniques used for CSR are not developed or under developed and no common modalities and no external social audit exist.

India outperforms most others in respect of CSR penetration and can offer experience in organized philanthropy, innovative NGO-corporation partnership but can learn much in the areas of NGO accreditation initiatives and involvement of the State in promoting CSR-friendly environment, mainstreaming CSR teaching in business schools, quality of CSR disclosure, extending CSR principles across a company's supply chain etc. Partners-in-Change's surveys on CSR trends in India support the view that corporate philanthropy remains a dominant feature of corporate community interface and only a very small fraction of companies in India have woken up to the full realization of the competitive edge that the adoption of CSR as an integral part of business has to offer. They are of the intent that the domestic companies' and the multinational corporations' approach to CSR is different and so is their dimension.

. The CSR developments have been concentrated in industries that involve health or environmental risks activities covered by high levels of regulation and industries that provide essential services or lifestyle products. The current emerging issues include product responsibility and responsible downsizing

Its doubtless a fact that all that has been said about the importance of CSR is very true but in a non-specific ethereal manner, which can be felt but difficult to prove. The study has highlighted that it is illogical to link CSR and financial profitability in case of Indian industries in any given time period since the effects of social good if they are measurable, will not be immediately visible in the year of investment not is it guaranteed that it would

be visible for a gap of specified time. Any financial measurement like ROI would be a weak link without any data to substantiate it. Though there will be plenty of defense that there exists a degree of positive correlation, there is no such strong evidence of it this survey conducted for this project.

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