

# Analysis of Corporate Social Responsibility with Special Reference to India



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## Abstract

Corporate Social Responsibility (CSR) has become more common in business practices. CSR remains a very relevant strategic Marketing tool. Many companies use CSR as a way to increase their image, generate brand equity, and increase employee loyalty. The purpose of the project is to understand the various CSR activities carried down by select MNC's in India and how are they integrating Corporate Social Responsibility into their marketing strategy to build and sustain a competitive advantage.

**Keywords:** Corporate Social Responsibility, Business Ethics.

## Introduction

Corporate Social Responsibility (CSR) necessary implies the practice of socially accepted norms with respect to business done by the organization. Ethics amongst the business practices was considered as an abstract notion rather an individual discipline<sup>1</sup>, also this practice was erroneously missed out by the traditional M.B.A curriculums, as CSR was added in these curriculums not as an area of specialization (nor as a subject), but mostly as seminar courses, etc which definitely lacked to infuse ethical considerations amongst the prospective Corporate managers<sup>2</sup>. Ethics is derived from a Greek word 'Ethos' which means Social rules.

1. Ethics is not to be reflected as an abstract notion but rather as a concrete substantial discipline.
2. Study and exploration of the scope of business ethics at various levels in a corporation is a must for effective CSR implementation<sup>3</sup>.
3. Study and exploration of the process of internalization of ethical behavior and CSR compliance instinct should be an integral part of the business curriculum.<sup>4</sup>
4. Study of various other key drivers in the development of Corporate Ethics cannot be ignored.<sup>5</sup>

## Objective of Study

For the purpose of clarity and convenience, the project work shall discuss in detail with the concept of Corporate Social Responsibility in India, it's emergence, necessity, functioning and adoption by various corporate entities. The project shall also be dealing with the statutory provisions regarding the Corporate Social Responsibility in India.

## Definition and Meaning

Corporate Social Responsibility (CSR) is defined as operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business<sup>6</sup>. 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. CSR has become increasingly prominent in the Indian corporate scenario because organisations have realised that besides growing their businesses it is also vital to build trustworthy and sustainable relationships with the community at large. This is one of the key drivers of CSR programs. CSR is coming out of the purview of doing social good and is fast becoming a business necessity.

## Need for Revitalizing the Business Education in the Backdrop of CSR

In the backdrop of present upsurge of big time corporate frauds, the paper put forwards three pertinent questions exploring why there is an urgent need for revitalizing the business curriculum in the backdrop of ethics. They are namely:

**Understanding The Process of Internalization of Ethical and Unethical Behavior in Corporation**

More and more corporations regard ethics as a management issue and have already started to systematically deal with ethical and legal compliance of their corporations.<sup>7</sup> Thus it becomes more necessary to understand exactly how the individual as well as the corporation manages its ethics compliance mechanism. This concept of internalization of ethics by a corporation can be understood at two levels; one at the individual level and the other at the level of corporation as a whole:

**At the Individual Level**

It becomes further necessary to analyze, whether the Corporate manager's vision is built at the backdrop of socially sensitive or socially myopic assertions, which depends upon the internalization from the very beginning. At the individual worker level in a corporation, there are three levels of moral development which reflects in individuals working in the corporation. The levels can be identified namely as pre-conventional; conventional level; post conventional level.<sup>8</sup>

**Pre conventional Level**

This level can be termed as a beginner's level where the action is motivated by incentive of reward and fear of punishment.

**Conventional Level**

At this level the human actors learn to internalize other's expectation. In this level the behavior formation of an individual depends upon the society or the activities of the outside world.

**Post Conventional Level**

It is at this level, that the human actors after all those years of imbibing societal values, actually start to think and follow the self-imposed principle which they have seen in their respective upbringing.

**At the Corporation Level**

The internalization and infusion of ethical substratum in a corporation is distinct from the internalization process at the individual level because of its formal identity. Companies do not become model citizens overnight, the corporation learns whether its business strategy is accompanied by an ethical consideration in conformity of societal values or not, not on its own but rather after a formal market experience of its strategy. This process of internalization in a corporation thus can be divided into five stages, namely:

**Defensive Stage**

Initially when a business activity or strategy is alleged to be anti-ethical the corporation immediately denies practices, outcomes, or responsibility for activities alleged, to defend their reputation in short term which could otherwise affect their sales in the short term.

**Compliance Stage**

The corporations after analyzing what went wrong with the previous business strategies, get into adopting and complying those grounds for which they were previously criticized.

**Managerial Stage**

To further bolster the compliance mechanism, the corporations embed the societal

issue in their core management process to achieve long term economic gains. At this stage when company realizes that it's facing a long –term problem that cannot be swatted away with attempts at compliance or a public relations strategy. The company will have to give managers of the core business responsibility for the problem and its solution.

**Strategic Stage**

The Corporation further integrates this core societal issue into their other core business strategies to avoid such conflicts in the future. A company at this stage learns how realigning its strategy to address responsible business practices can give it a leg up on the competition and contribute to the organization's long term success.

**Civil Stage**

Also the corporation aims at practicing such socially oriented business practices to attract broad industry participation. In this stage companies promote collective action to address society's concerns.

**Key Drivers in the Development of Corporate Ethics**

After understanding the process of internalization of CSR mechanism in a business organization, certain other factors also are to be considered which act as catalyst for the cause of promoting efficient CSR policies. They are namely:

**Leadership**

It has been argued to be a key driver for corporate ethics. A sound leadership sets the ethical tone of a corporation because employees imitate their superiors. Therefore it is not the communicated values but the values which can be observed by their behavior that primarily shape the ethical climate of the organization.

**Organisational Climate**

The ethical climate of an organization has been defined as the set of shared perceptions of what ethically correct behavior is and how ethical issues should be handled in an organization. Big corporation might stumble when its ethical climate gets corrupted. The maintenance of a positive and progressive environment does not only depend upon only the top level management, but is also the responsibility of lower level management.

**Social Accountability in The Statutory Provisions**

The introduction of the Companies Bill 2009 in the Lok Sabha on August 3, 2009 was an important step. The new Bill was meant to address issues of corporate governance and accountability but has failed to discuss the social impact of corporations and their accountability<sup>9</sup>. Voluntary measures such as codes of conduct or voluntary social and environmental reporting have also failed to address these issues and deliver real change. During discussions last year on the need for a new Bill, there were concrete demands for changes in the law which would ensure that companies became<sup>10</sup>:

1. Transparent on social and environmental impact: They should be legally required to report on these, both to shareholders and the public<sup>11</sup>.

2. Responsibility: Companies and their directors must have a lawful responsibility to manage their wider social and environmental impacts, including taking action to minimize any harm caused to workers, local communities and the environment.
3. Accountability: People who are harmed by the activities of a company should be able to take action against it in court, especially when government remedies are inadequate or unavailable.

#### **Finding out Lacunae Through a Comparison with U.K Companies Act 2007-08**

The U.K. Companies Act that came into force in 2007-08 laid out the basic procedures and systems for the operation of a company also in terms of social accountability, which are lacking in proposed Indian Bill<sup>12</sup>. Unlike any previous law, the U.K. Act states companies must now consider their impact on the community, employees highlight links between a company's financial performance and its social and environmental impacts. They are:

##### **Directors' Duties (Section 172)**

They have a responsibility to consider their company's impact on a *range of social and environmental matters*;

Transparency (Section 417)

Publicly listed U.K. companies have a responsibility to report openly on their social and environmental risks and opportunities to their shareholders, as well as on employee matters and risks down supply chains.<sup>13</sup>

#### **Provisions the Current Companies Act Must Contain**

To make the Companies Bill in India truly effective, we have to think of it within the framework of corporate social accountability. The directors of a company have a primary duty to promote its success for the benefit of shareholders. Importantly, the Bill must state that in fulfilling this duty, directors should also consider issues relating to employees, suppliers, customers, community, and the environment. In practice, this means that violating social and environmental standards can present a financial risk to the company. Generally speaking, directors will be required to be more conscious of how they manage their social and environmental impacts.

#### **Corporate Social Responsibility in India**

##### **Multinational Corporations**

Multinational companies are the organizations or enterprises that manage production or offer services in more than one country<sup>14</sup>. And India has been the home to a number of Multinational companies<sup>15</sup>. In fact, since the financial liberalization in 1991, the number of multinational companies in India has increased noticeably (Raj Kumar, 2008). Globalisation and development of the new market economy in the last decade have brought the global multinationals and investment houses to India for competing in the domestic and international markets. As many as 90% of the Fortune 500 companies now have explicit CSR initiatives. In a globalised world, the role of the state is diminishing and non-state actors, including corporations, are undertaking many functions previously performed by the state<sup>16</sup>. There is no doubt

that this has created a more open and liberal business environment, promoted competition leading to a better quality of products and services, improved the efficiency and effectiveness of the services offered and, indeed, given rise to profits<sup>17</sup>. But corporations have to make conscious efforts to become socially responsible, recognising that the role and functions they perform inevitably have an impact on society<sup>18</sup>. Corporate social responsibility ensures that corporations promote corporate citizenship as part of their culture<sup>19</sup>.

##### **CSR at HUL**

Hindustan Unilever is involved in number of CSR initiatives in India. The main objective of Project Shakti of Unilever is creating rural entrepreneurs<sup>20</sup>. It trained 13,000 underprivileged Indian women distribute the company's products to 70 million rural consumers. The company is working with women's self-help groups to teach selling and book-keeping skills and build commercial knowledge<sup>21</sup>. The women who participate in this programme are, by and large, able to double their household income<sup>22</sup>. Shakti has also allowed Unilever to increase its reach to 30% more of India's rural population since its inception in 2000<sup>23</sup>. The company is joined in its efforts by some 300 groups, NGOs, banks and various government entities allowing it to take part in strategic public-private partnerships (Joseph Vackayil, 2007).

##### **CSR at Coca-cola**

Coca-cola India worked hard towards water conservation and community development and has been given Golden Peacock Global award 2008 for CSR<sup>24</sup>. The award has been conferred to Coca-Cola India for its efforts in water conservation and management and community development initiatives<sup>25</sup>. The soft drink major now has 320 rain water harvesting implements across 17 states in India, and it has also been successful in restoring water conservation programme. Side by side, the company is running the 'Elixir of Life' project that provides drinking water to 30,000 children in 100 primary and panchayat schools in around Chennai<sup>26</sup>. Coca-Cola India undertakes a diverse range of activities for the benefit of the community across the country<sup>27</sup>.

##### **Intra- National Companies**

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short term profits. Critics argue that it distracts from the fundamental economic role of businesses, others argue that it is nothing more than superficial window-dressing; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations<sup>28</sup>.

Critics of CSR as well as proponents debate a number of concerns related to it. These include its relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy<sup>29</sup>.

**The Birla Group**

The Birla group of companies is also among the pioneers in the field of corporate social responsibility in India. As part of the Aditya Vikram Birla Group's Social Reach, the Birla group runs as many as 15 hospitals in India; includes Adult education and schools conducting as many as 78 schools all over India; rehabilitates Handicapped persons having touched more than 5000 physically challenged individuals. More than 1,00,000 patients have been examined under the Group's medical programmes. Over 15,000 children along with 2000 pregnant women have been immunized, over 500 cataract patients operated, 2000 TB patients provided medical care, 100 leprosy-afflicted attended to, free of cost.

It also provides vocational training having provided to over 3000 women and having distributed over 1400 tool kits in a variety of areas like electrical, auto repair, electronic equipment maintenance and repair and tailoring. It has adopted several villages under its Village Infrastructure Development programme and has provided extensive training to over 10,000 villages in its Carpet weaving centre.<sup>30</sup>

**The Mahindra Group**

Among corporate who have displayed commitment to corporate social responsibility over long years is Mahindra and Mahindra. Promotion of education among Indians at all levels has been made. Every year, the trust offers upto 30-40 interest free loan scholarships to PG students going abroad for higher studies.

**Risk Management**

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents<sup>31</sup>. These can also draw unwanted attention from regulators, courts, government and media building a genuine culture of doing the right thing within a corporation can offset these risks.

**Brand Differentiation**

In crowded marketplaces, companies strive for a unique proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values. Several major brands, such as TAT or BIRLA are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice<sup>32</sup>.

**Indian Approach towards Implementation of Corporate Governance**

Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, —*Desirable Corporate Governance: A Codell*, established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India's largest industry and business association. A *National Foundation for Corporate Governance* (NFCG) has been established by the Ministry of Corporate Affairs. This is a partnership with the Confederation of Indian Industry (CII), the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered

Accountants of India (ICAI). The purpose of the *National Foundation for Corporate Governance* is to promote better corporate governance practices and raise the standard of corporate governance in India towards achieving stability and growth. Legislation authority in India is shared between the Central Government and the State Governments. Some laws, such as those regulating minimum wages, differ from state to state. Likewise, the implementation and supervision mechanisms may vary between states.

**Conclusion and Suggestions**

Talking of CSR in terms of its applicability in India, it can be enunciated that, the Industry would not practice or include CSR policies in their business strategies till the time some incentives are not offered. In lieu of the above the latest introduction to vow the industry on the lines of CSR is *Corporate Credit Rating system*. Industry should seriously think about this idea (trading in CSR credits) the companies would have to get certification for their CSR activities from a government body and earn credits. The credits could then be traded in a CSR credit exchange. The company that does not want to do a CSR activity would then have to purchase CSR credits from companies that have earned them. This is similar to carbon credit where the polluter gets his right to pollute by buying the carbon credits from companies that have earned them through environment-friendly activities. The Ministry has roped FICCI into the CSR credits project and has asked the Indian Institute of Corporate Affairs to undertake a study on the scope of CSR credit trading. In practice though CSR initiatives are part of normal functioning of companies, they don't get any tax exemptions. But if a company donates money to a charitable trust, it gets tax exemption. This would help companies to do their own CSR activities and get some exemptions for them and not just passively donate to charity. The activities which should earn CSR credits should be education, housing, health and sustainable projects. 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 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. Hence, Indian companies are now expected to discharge their stakeholder responsibilities and societal obligations, along with their shareholder-wealth maximization goal.

The proposed overhaul of the UK's out-dated and over-complicated company law system contained within the government's White Paper is a sensible mix of the modern and the practical shaken with a mild blend of radicalism in parts. In the UK all listed companies have to comply with the Combined Code. The UK White Paper moves further towards greater integration of Social, environmental and ethical issues into mainstream business practice. It is very essential

that the Indian company law need to follow and inculcate something like that in their law in their system to ensure a greater responsibility towards the society. We would like to state that CSR is not a sycophancy in India, as many facts have been presented by the researchers in the above submissions which clearly indicate that both the private and public corporations have been moving in the direction to achieve the goal of social accountability. The bigger a corporation is, the bigger is the responsibility towards society. Hence, it would be an absolutely wrong assumption to consider that Corporate Social Responsibility is not working upto the expectations. So many tasks have been undertaken by corporations which directly aim at the establishment of one of the strongest pillars of corporate governance. It's definitely a commendable approach in the field of corporate governance. We suggest formation of stronger policies in this regard and a better and more effective implementation of the same.

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