



Review Paper

Corporate social responsibility: principals and practices in India

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Available online at: www.isca.in, www.isca.me

Received 12th August 2016, revised 8th December 2016, accepted 11th January 2017

Abstract

Corporate Social Responsibility (CSR) is the growing commitment of the organizations to operate responsibly. The three aspects of responsibility are economic, social and environmental concern. In deciding the CSR policy of the organization stakeholders play a very important role. There is a very popular saying that customer is the king. Now corporations are paying attention to their important stakeholders which otherwise will be very costly for them. From Nike to Nestle, companies who have ignored their stakeholders had paid heavily. Due to growing awareness of the stakeholders of their rights and business obligations, a changing equation is taking place between the society and the corporations. Using the stakeholder perspective the paper tries to analyze the concept of CSR. The paper is a conceptual paper based on the past literature on CSR. The present study has highlighted the historical evolution of the concept, the drivers and principles of CSR, perceived benefits offered by it.

Keywords: Commitment, Corporate social responsibility, Stakeholder perspective.

Introduction

Liberalization, globalization and privatization have paved the way for various Multi National Companies (MNCs) to operate beyond the boundaries of their home country. As companies are operating in various countries, they will have to comply with the institutional and regulatory frameworks of those countries. They also have to satisfy the expectations of various stakeholders. Apart from earning profit companies should do something for society. It is the obligation of the business firm to operate in a responsible manner. The business operations must be socially, environmentally and economically sustainable. It is considered as a useful strategy for meeting the expectations of the stakeholder of the firm. Most commonly CSR is considered as a voluntary action. It is the contribution of the business community towards a better social and environmental development. CSR is considered as the contribution of the business to sustainable development (SD) which has been defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs", and its main concern is how to strike a balance between economic, environmental, and social imperatives¹. There is no unanimous view on the concept of CSR. Many scholars and institutions consider CSR as morally just and are highlighting the positive effects of CSR on society. Authors like Carroll and Sethi have developed the typologies of corporate responsibility^{2,3}. Hemphill in his writings put emphasis on the importance of good corporate citizenship⁴. While critiques of the concept like Milton Friedman consider the only responsibility of business organization is to earn profit⁵.

Methodology

Present study is based on secondary literature. For developing this conceptual paper the researcher has used secondary literature. An extensive study of articles, books and web sources has been made. The paper has been developed with following objectives. i. To develop an insight in to the concept of CSR. ii. To understand the various factors that act as drivers of CSR. iii. To study the various national and international guidelines on CSR.

Definitions of CSR

The Canadian Centre of philanthropy defines CSR," as a set of management practices that ensure the company minimizes the negative impacts of its operations on the society while maximizing its positive impacts⁶."

The world Business Council for Sustainable Development (2000) defined 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 large⁷.

According to Howard Bowen, "CSR refers to the obligations of businessmen to peruse those policies, to make those decisions or to follow those lines of relations which are desirable in terms of the objectives and values of our society⁸."

Michel Hopkins is of the opinion that CSR is concerned with treating the stakeholders of the firm ethically or in a socially

responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation⁹.

According to Business for social responsibility CSR is operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as 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 management¹⁰.

Literature Review

CSR as an academic discipline became popular during the twentieth century and today it has become a mini industry in itself. However, the scholarly literature dates back to at least the 1950s¹¹. Howard Bowen in his book *Social Responsibilities of the Business Man* pointed that social institutions do have an impact on the economy of the society. Thus business firms are economic outcome of societal interests and should consider the social impact of business activity⁸.

Keith Davies is of the view that CSR is not limited to the narrow economic, technical and legal requirements of the firm. CSR involves the firm's consideration and response to issues beyond its immediate environment¹². Likewise Frederick commented that Social responsibility is fulfilling the expectations of the people. And this means in turn that the valuable resources of the economy should be utilized in such a manner that it will promote total socio-economic welfare⁷. Thus, during the 1960's CSR was viewed and defined so as to establish a link between the society and businesses¹³.

The European Commission stated that CSR is maintaining relationship with stakeholders voluntarily by involving the social and environmental issues of the local community in its business operation¹⁴.

Similarly Lee emphasized the business's stakeholder orientation and is of the view that CSR is the commitment of the company to remain sustainable in its economic and environmental operations. He also viewed CSR as a value crating activity which maximizes the economic, social and environmental value of the society. It is holistic concept that can mean different things to different groups and stakeholders¹⁵. According to Gray, Owen and Maunders CSR is the process of communicating to particular interest groups within society and to society at large, the social and environmental effects of organization's economic actions¹⁶.

A very prominent writer in the field of CSR Archie B Carroll identified four prominent responsibility of business towards

society. The first responsibility that lies in the CSR Pyramid suggested by him towards its stakeholder is the economic responsibility which implies the business should maximize the wealth of its shareholders. The firm also holds legal responsibility towards the society. While operating within the society, the business must abide by the rules and regulations framed by the country. The ethical and the discretionary responsibilities are another set of obligations that the business assumes for the society. The third set of responsibility that a company owes towards the society is the ethical responsibilities. Business should perform according to the norms and values prescribed by the society and discretionary responsibility stands for responding to the needs of the society².

Rosabeth Moss Kanter introduced a term 'corporate social innovation'. According to her the social issues in any society can be used as a learning laboratory for identifying the unmet needs of that society and for the creative solution of those issues which will help in creating new markets¹⁷.

Companies can assess their social performance through social reporting and social auditing. Perks opined that corporate social reporting is the disclosure of the costs and benefits reaped by the company either in monetary terms or in non monetary terms¹⁸. Kapstein holds the view that, recent trends in CSR literature resolves around growing interaction between stakeholders and business. There is ongoing discussion between labor unions, environmental groups and other significant stakeholders. Companies are adopting code of conducts, monitoring and reporting through the implementation of certification solutions¹⁹.

Babington highlights the link between the reporting function and the organizational functions and operations which emerges as a result of activities associated with CSR. CSR reporting has an impact across the organization, and at various levels like governance, strategic planning, risk management, decision making, data collection and management systems, performance measurement, performance management, public relations and communications. An article published in 1970 by Friedman stating that the responsibility of business is to increase its profits', gave fuel to the early CSR movement²⁰. CSR has emerged as the business issue of the 21st century and has been studied for over 80 years.

In CSR literature India is one of the most covered regions. The Journal of Corporate Citizenship's special issue on CSR in Asia (Issue 13, spring 2004) notes that CSR performance varies widely between countries in Asia, with a variety of CSR activities being undertaken (education, health care, environment) and modes of action (Volunteering, partnerships, environment)²¹.

In a survey of CSR reporting in Asia, Chappell and Moon found that nearly three quarter of large companies in India were having a CSR policies and practices while only one quarter

large companies in Indonesia were having the same. Between these two extremes fall Thailand (42%), Malaysia (32%) and Philippines (30%). They also concluded from the research that the evolution of CSR in Asia occurred in three phases with community involvement being the most established form of CSR, the second wave is socially responsible production process and the third wave is employee relations²².

Evolution of CSR in India

CSR is not a new concept in India. In earlier days CSR and philanthropy were considered as synonymous. Social welfare through charitable activities was deeply rooted in Indian society. In ancient time Indian kings were especially concerned with public welfare and social developments. Philanthropists like TATA and Birla were considered as biggest charitable donors. TATA is recognized for its pioneering role in the field of CSR. It has introduced the labor welfare measures like eight hour working day in the year 1915, establishment of welfare department in 1917 and ensuring maternity benefits in 1928 to name just a few.

A survey conducted by Tata Energy Research Institute (TERI) titled as “Altered Images: The 2001 State of Corporate Responsibility in India Poll”, reveals that there is a

chronological evolution of CSR in India. The four thinking approaches show in Table-1²³.

Principles of CSR

Wood has contributed to the CSR literature significantly. He has developed a model on CSR which is based on three principles. The principles are: i. Principle of legitimacy: Society possesses the power to grant legitimacy and power to business. Business uses this legitimacy to operate in the society. Corporate fully recognize their responsibility towards society and if the expectations are not addressed properly, society may take away the power. ii. Principle of public responsibility: The corporate affect society in different ways as the operation process of companies differs. They influence their stakeholders in diverse ways. So they need to fulfill their social obligations by formulating appropriate strategies. iii. Principle of managerial discretion: Managers are the moral actors. They should be morally upright and act ethically for the achievement of the organizational goals in a socially responsible manner²⁴.

Drivers of CSR: A number of factors are contributing to the development and implementation of the CSR as a concept. The main drivers of CSR are shown in Table-2.

Table-1: Thinking approaches

| Model | Pioneer | Approach |
|--------------------------|-----------------------|--|
| Ethical Model (1930-50) | Mr. M. K. Gandhi | The owners of property should voluntarily manage their wealth on behalf of the people. |
| Staitist Model (1950-70) | Mr. Jawaharlal Neheru | Community development and improved worker relationships were emphasized and enshrined in labor legislation and management principles. |
| Liberal Model (1970-90) | Mr. Milton Friedman | It is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends to uplift the downtrodden. |
| Stakeholder Model | Mr. R. E. Freeman | Corporates have to fulfill their societal role. They should take care of the people, planet and profit. |

Source: TERI (2001)²³

Table-2: Drivers of CSR

| Why CSR | Motto | Nature of the drivers | Key ideas and concepts |
|--|---|-----------------------|---|
| CSR helps in maintaining the profitability of the company for a long period of time. | There is a business case for CSR. | Economic | Maximization of shareholder value Socially responsible investment Competitive advantage Bottom of the pyramid strategies |
| CSR helps in solveing day to day management problems | CSR helps in developing strong stakeholder relations. | Managerial | Stakeholder theory Corporate social performance |
| CSR is the morally right thing to do | CSR means doing the right thing. | Ethical | Business ethics Sustainability |
| CSR is a way to be a legitimate and accepted member of society | CSR makes us a political and good corporate citizen. | Political | Corporate citizenship Accountability Transparency |

Source: ICCA Handbook on CSR²⁵

Corporations practicing ethically responsible business practices can build goodwill among customers which directly or indirectly promotes brand value of the corporations. Employees of these organizations value professionalism and avoid unfair business practices.

Globalization has now opened up avenues for international business. The corporations need to comply with the law, general ethical standards, advertising standards, distributor relations etc.

The concept of corporate environment responsibility is gaining momentum today. Corporations directly or indirectly are affecting the environment. Apart from the government and general public it is the responsibility of the corporations too to protect the environment. Issues like air and water pollution, e-waste, climate change are becoming threat for our survival. These issues require immediate attention.

Benefits of CSR to the organization

According to a report published by PHD Chamber and Ernest & Young (2013) companies experience a wide range of benefits by undertaking CSR activities. Some of the benefits include: i. Strengthening relationships with stakeholders, ii. Enabling continuous improvement and encouraging innovation, iii. Attracting the best industry talent as a socially responsible company, iv. Additional motivation to employees, v. Risk mitigation because of an effective corporate governance framework, vi. Enhanced ability to manage stakeholder expectations²⁶.

Important guidelines on CSR

Worldwide various guidelines, policies, mechanism and instruments have been developed for implementing CSR. It is worthwhile to discuss some of them.

International labor organization (ILO) tripartite declaration of principles concerning multinational enterprises and social policy: The purpose of this policy was to encourage positive business practices among MNCs. The main areas covered under this declaration are obeying national and international laws, employee welfare and safety, industrial relations etc.

Organization for Economic Cooperation and Development (OECD) guidelines for Multinational enterprises: The OECD guidelines are voluntary in nature and issued by countries to the multinational enterprises covering areas like employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation.

United Nations (UN) global compact: The compact was formulated with two broad objectives. The first one aims at proposing principles related to ethical conduct of business activities and the second objective strives to initiate actions in

support of broader UN goals, such as Millennium Development Goals. The compact was based on ten core principles related to human rights, labor standards, and environment and anti corruption.

Government of India CSR guidelines: This guideline has been prepared taking in to consideration the interest of the stakeholders. It urges the business enterprises to consider and implement the Triple Bottom Line approach. The business community should be responsible in their business operations so that inclusive growth can be achieved. This guideline is applicable to all business enterprises in India irrespective of their size, sector or location. There are nine guidelines which are based on the principles of ethics, transparency and accountability, environment, human rights, consumer interests etc. The Companies Act, 2013 has made CSR compulsory for all the business organizations operating in various sectors. Mandatory CSR spending and reporting is a unique feature of Indian CSR²⁷. Companies with a turnover of Rs.1000 crore and more or a net worth of Rs 500 crore and more or a net profit of Rs. 5 crore and more, comes under the Company's Act 2013. They will have to spend at least 2 percent of their three years average profit annually for CSR activity²⁸.

Conclusion

Change is the only reality. Gone are the days when stakeholders are taken for granted by the companies. Today stakeholders are well aware of their rights. They demand the business enterprises to be responsible and accountable to the broader society. In spite of the growing awareness among various stakeholder groups with regard to CSR and development of regulatory frameworks, a very little progress in this field has been achieved. There is a growing need of the involvement of the private sector for bringing development in our country. The companies, who are able to respond to the customer demand and are fulfilling their expectations, are respected. It is truly said by William Clay Ford that "There is a difference between a good company and a great company. A good company offers excellent products and services. A great company also offers excellent products and services but also thrives to make the world a better place to live"²⁹.

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