CHAPTER 1
INTRODUCTION

The first chapter of any thesis acts like an opening batsman in cricket who sets the tone of the entire game. This chapter gives an overview of the problem, laying out specific research questions and objectives. Significance of the problem and scope of the study are also outlined in the chapter.

‘In the welfare of the people lies the king’s welfare and in their happiness his happiness.’
– Kutilya’s Arthshastra.

1.1. Corporate Social Responsibility
Corporate Social responsibility is not a new concept in India (Arora and Puranik, 2004). The subject has been practiced by the corporate and researched by academicians since decades now. Jamsetji Tata established the JN Tata Endowment Trust in 1892, to promote higher education in India (Official website of Tata Group). Tata group is an example of the traditional business families which not only excelled in the respective businesses but also fulfilled their social responsibilities. They brought about socio-economic development from the very first decade of the twentieth century (Bhattacharya et al., 2008). Business promoters in India realized their commitment towards the society decades ago, but became oblivious to the fulfillment of their responsibilities in the quest for wealth and profit maximization. The occurrence of various mis-happenings around the world like Bhopal gas tragedy in India, oil spill case of Shell, Exxon etc. in other parts of the globe, awakened the corporate world. This in turn led to the revival of the concepts of responsible and ethical business practices. Businesses have now started realizing their responsibilities towards society in which they operate.
The concept of corporate social responsibility has been an issue of debate, since its inception. Where Friedman (1963) opined that the only responsibility of a business unit is to do business in a legal and ethical manner, Davis (1973) was of the view that Corporate Social Responsibility (CSR) begins where law ends. Carroll’s (1979) model described corporate social responsibility as a pyramid starting with economic responsibilities and then including legal, ethical and discretionary responsibilities. Various thinkers have understood CSR as being merely philanthropic activity to upgrade the living standard of the marginalized people in a society, some think that CSR is about responsible business practices; some others feel that CSR is to promote interests of the stakeholders of an organization.

Even in practice, the way firms undertake responsible business activities vary profusely. Most firms believe in giving funds for community welfare such as hospitals, schools and other social infrastructure facilities. Some companies have become responsible the way they conduct business. For instance, McDonalds changed the packaging of their food products using eco-friendly materials. A survey carried out by Flieshman Hillard highlighted that maximum number of people understood CSR as company’s responsibility towards communities followed by company’s responsibility towards their employees.

1.2. Statement and Explanation of the Problem of Research

This research aims to assess the Corporate Social Performance of Indian Multinational Manufacturing Companies.

Corporate Social Performance

Once the company has understood and assumed its social responsibilities along with the financial responsibilities, the next step is to evaluate its activities and identify the shortcomings. Performance measurement is essential to find out the gaps that otherwise may remain unfulfilled and that is how the idea of corporate social performance was conceived. As stated by Carroll (1979), corporate social responsibility is only the matter of principles; corporate social responsiveness is about implementation of responsible
behavior. Corporate social performance is about measuring the responsiveness in order to identify the areas of work that require improvement.

The study of corporate social performance is important so as to ensure that there exists no gap between the social goals and business actions. Measurement is one part of dealing seriously with an important matter (Carroll, 2000). Businesses, in order to sustain their existence, depend on society. Therefore, they constantly strive to pattern their activities so that they are in congruence with the goals of the overall social system (Sethi, 1979). Husted (2000) also emphasized that to maintain legitimacy and social support, it is necessary for the firm to satisfy and sometimes even exceed the expectations of its stakeholders. In other words, firms must be concerned with their social performance. The principal objective in developing indicators and measuring performance is to generate information on which future action (i.e. management initiative) can be based (Warhurst, 2002).

Corporate social performance has been assessed in different contexts through different parameters. For instance, in form of social accounting, social reporting, social auditing, social and environmental reporting or accounting, evaluation of CSR and so on. Most companies report their CSR in their annual reports or on their websites, while some of them publish their CSR reports separately and only a few of them have ventured into sustainability reporting. However, evaluation of the performance is missing in these reports.

**Corporate Social Performance of the Indian Multinational Manufacturing Companies**

Most of the academic literature on CSR originates from Western countries (Vancherwaran and Gautam, 2009, Raman, 2006) and argue that the utilization of Western CSR approaches can fail in Asia because of cultural as well as economic and political differences. Arevalo and Arvind (2011) pointed out that study of management and CSR practices in emerging economies like India is important not only because these are strategically significant economies for global growth but also that such studies can offer new insights to global managers. Also, these economies can provide many examples
of companies which have not only gained success economically but also have succeeded in social dimensions. Arevalo and Aravind (2011) quoted Reserve Bank of India and UNIDO in supporting the fact that India is playing a big role in CSR arena as it is the country with lowest Gross National Product and highest CSR amongst Asian economies.

Current research on CSR in India consists of nature of CSR in India, perceptions of Indian society and businesses on CSR, corporate social reporting, CSR practices of multinational companies in India and linkage of CSR to the stakeholder model. The motivation for this study of corporate social performance in India has been derived from the fact that it needs to be explored with regard to Indian companies as this has not been done before to the best of the researcher’s knowledge. Gupta (2007) very succinctly said that there is no scarcity of CSR activities in India but a clear metrics to evaluate the actual impact of those activities in improving social conditions is missing. Authors like Mishra and Suar (2010) have tried to link CSP with CFP but standalone studies measuring companies’ social performance have not taken place which can give specific action oriented insights about social performance by Indian companies.

**Corporate Social Performance of the Indian Multinational Manufacturing Companies**

The process of globalization in India has resulted in an increase in the number of multinational corporations which are under increasing pressure for socially responsible behavior in their global operations (Mohan, 2006). Amongst the promotional factors, global business environments, voluntary organizations and compliance initiatives etc. are the dominant ones. The debate over the CSR involvement by MNCs in the developing countries has been extremely polarized in recent years. Invoking this parallel stream of literature will add value in assessing the CSR by MNC subsidiaries in the developing countries (Jamali, 2010). Cruz and Boehe (2010) stated that MNC’s face various local challenges in implementing their CSR in different countries. As businesses rapidly transcend national borders and bring about added complexity, MNCs are being increasingly held accountable for greater transparency and social responsibility (Tan, 2009).
There are studies available in which the CSR practices have been analyzed in countries of operations of the companies but in the host country, such a study could not be found. Since management practices of companies are generally influenced by and similar to the host country practices, this research will study the CSR practices of multi-national companies in their country of origin.

**Corporate Social Performance of the Indian Multinational Manufacturing Companies**

The manufacturing sector has been chosen for the study as it is one of the main ingredients of Indian economic growth. The manufacturing sector contributes 16 percent of GDP of India (National Manufacturing Policy, 2011). The same report also states that the development of the manufacturing sector is critical from the point of view of ensuring that the growth model of India which is sustainable by providing value addition to our natural and agricultural resources, addressing the strategic needs, and developing new technologies for the welfare of citizens. A report by UNIDO (2005) states that a knowledge-based economy cannot be sustained in the long run unless it is adequately supported by a growing manufacturing economy.

Companies belonging to the sector also score high in terms of their exposure in social issues which include supply chain management issues (Dargusch and Ward, 2010); labor issues/worker rights (Edwards et al. 2007) etc. This study is necessary because manufacturing sector has a great role in the export led growth and many companies have their operations across the globe. The controversies surrounding the process of globalization have raised concerns that multinational companies (MNCs) might be pursuing profit at the expense of vulnerable workforces, the environment and so on (Edwards et al. 2007).
1.3. Research Questions and Objectives

To cater to the above explained problem, techniques to measure corporate social performance undertaken by previous researchers have been studied.

Husted (2000) quoted Preston (1991 a) that there are two kinds of approaches to evaluate corporate social performance, i.e. by focusing on outcomes and by focusing on process. Pojasek (2009) emphasized that sustainability programs should seek to use and report on a mix of leading and lagging performance indicators, referring to process based indicators as leading indicators and outcomes based indicators as lagging indicators. According to him, performance measurement on any one of the above is not sufficient for various reasons which are discussed in the later chapters of the thesis.

Hence, the thesis aims to answer the following questions:

1. How do Indian multinational manufacturing companies score in social performance when assessed through the process approach?
2. How do Indian multinational manufacturing companies score in social performance when assessed through the input-output approach?
3. What are the sluggish as well as the success factors of CSP in Indian multinational manufacturing companies?

The first approach takes into account the processes followed by the organization. According to this approach, if the magnitude and the quality of effort are as good as can reasonably be expected, then performance is by definition adequate. To carry out this assessment, determinants of corporate social performance need to be identified through quality literature. An assessment tool will be prepared on the basis of the determinants identified and responses taken from appropriate respondents to assess the companies. The second approach is to assess the social performance in form of the final outcomes of the CSR, given the inputs put in by the company. This assessment has been carried out through Data Envelopment Analysis as we found it to be the most appropriate method and also used in the literature.
This research will explore both the ways of measuring corporate social performance with the help of the following objectives.

**Objectives in Process based approach**

1. To identify the key process related determinants of corporate social performance and their indicators.
2. To assess the social performance of Indian multinational manufacturing companies.
3. To discover whether the key determinants of CSP reinforce each other in Indian multinational manufacturing companies.
4. To find out whether social performance of the companies as perceived by the CSR heads is similar to the perception of their employees.

**Objectives in input-output based approach**

1. To identify the input and output variables to measure social performance of the companies for Data Envelopment Analysis.
2. To measure the performance of Indian multinational manufacturing companies through Data Envelopment Analysis.
3. To find out the changes in the outputs and inputs to improve the performance of companies.

Once the above objectives are fulfilled, we compare the corporate social performance of companies as assessed with the help of the two approaches and identify the possible areas of improvement which need to be strengthened.
1.4. Scope of the study

The research study being conducted in this thesis is limited in scope. Social performance of those companies has been assessed and analyzed which are of Indian origin and have operations in India and also have their operations in at-least one country outside India. The companies should belong to the manufacturing sector in India.

Secondly, we assess the CSP scores with the help of two approaches as outlined in the literature. The process based CSP assessment is undertaken by using a CSP questionnaire, addressed to the CSR heads and to stakeholders. We have limited our scope to only one stakeholder i.e. employees of the companies.

Thirdly, the outcomes based CSP assessment is done using Data Envelopment Analysis as a tool for efficiency measurement. Within the DEA approach, the scope is limited to the input and output variables used. The scope can be expanded by using more inputs and outputs subject to data availability. Again, within the DEA techniques, we have limited ourselves to the two basic models and their extensions, only the ones which are required. We have not gone deep in using extended models of DEA as the purpose of this research is not theoretical extensions of DEA but rather to add literature to the field of CSP using DEA as a technique to approach CSP.

Lastly, it is important to mention here that this research study focuses more on the methodological part of CSP assessment in Indian context and the sampling of companies on multinational and manufacturing is more of a sampling criterion to facilitate the empirical study. However, we have discussed the results contextually as much as possible.

1.5. Significance of the study

In the context of India, in the light of the widening income inequality, the business sector also needs to take the responsibility of exhibiting socially responsible business practices that ensures the distribution of wealth and well-being of the communities in which the business operates (National Voluntary Guidelines on corporate social responsibility,
issued by the Ministry of Corporate Affairs, Government of India). The CSR activity has moved up the ladder from ethical beliefs of the founding fathers to a part and parcel of corporate strategy for existence of each player (Report on Business and Society by PriceWaterCoopers, 2012).

According to a paper by the Department for International Development on Corporate Social Responsibility, businesses can help to reduce poverty in the following ways:

• Investing, producing, and paying wages and taxes, they can contribute to growth,
• Respecting labour standards and encouraging local sourcing, they can contribute to pro-poor growth, and
• Creating jobs, providing skills and training, and producing products that meet the needs of the poor, their operations can have a direct impact on the poor.

In view of that, the Government of India has made it mandatory for public sector enterprises and private companies of a specific size and above (yet to be passed in the Parliament) to contribute a fixed proportion of their profits after tax for the sole purpose of corporate social responsibility. These companies also have to monitor their performance and report their progress in the annual reports. We see that the component of social performance has been found mention in the guidelines issued by the Government of India also.

The review of literature in the next chapter clearly pinpoints that there is abundant work done on the concept of corporate social performance in the developed countries but similar work or contextualization of the concept of corporate social performance is not there in countries like India. Therefore, we can affirm that this research study will fulfill an important knowledge gap. This research can pave a way to developing a robust social performance tool and methodology for Indian companies, a tool similar to that of Kinder, Lynderberg and Domini in the United States.
1.6  **Expected contributions of the study**

In answering the aforementioned research questions and by fulfilling the said objectives, the thesis will bring forth the following contributions to the theory and to the industry.

To the theory:

- The study will add to the empirical literature of corporate social performance, thus, emphasizing on the importance of assessment of social performance.
- It will provide a process based social performance measurement tool for the manufacturing sector, multinational corporations, and will add literature about the relationship between the process based determinants of CSP.
- It will add literature related to the use of data envelopment analysis in the area of CSR which has been very rarely used.

To the industry:

- The study will help in assessing the performance of the manufacturing multinational companies and study the reasons for some companies performing better than the others on the social front.
- The study will bring forth process related loopholes of the company which are important to enhance the company’s social performance but the managers are not aware of those limitations.
- By evaluating the relative efficiencies of companies in CSR, DEA will also give the benchmark companies with best practices and will also outline the amount of change required in input and output to attain efficiency.

1.7. **Chapter Scheme**

*Chapter 2* is the review of literature on corporate social performance, methods used in the literature to evaluate social performance of the companies, pros and cons of all the methods. This chapter will also highlight some literature on CSR in India.

*Chapter 3* is a very crucial chapter as we talk about the research design of the thesis. Following the research design, we elaborate on the process as well as the outcomes based
approach that we have used to evaluate CSP. We also throw light on the data used for the empirical study, sources of data and methods used for data collection.

*Chapter 4* brings out the results of the process based assessment of CSP. Descriptive as well as statistical analysis of the data is done. The chapter will see the analysis of questionnaire data in descriptive format as well the use of correlation and regression analysis.

*Chapter 5* gives the results of the outcomes based assessment of CSP. The data has been analyzed using the data envelopment analysis. Two models of DEA have been used to bring out results of the thesis.

*Chapter 6* is the discussion of results of the two approaches. This chapter brings in the comparison of results from the two approaches. Success factors of corporate social performance in India and a few areas of concern for Indian companies are also discussed in this chapter.

*Chapter 7* comes out with conclusion of the research. This chapter also has the recommendations made to the industry managers for improving their CSP.

*Chapter 8* which is the last chapter of the thesis contains limitations of the study. Academic scholars have also been provided with a few directions for future research.