CHAPTER – 1

INTRODUCTION

1.1 Title of the Research Study

“Corporate Social Responsibility as a Sustainable Measure by Large Enterprises”

1.2 Background of the Study

In today’s global society there is growing and heightened concern for Corporate Social Responsibility (CSR) primarily because of the growing influence of multinationals over the world economy and the heightened publicity it attracts from the media. The growing pressure of media sees any mistakes by companies and is brought immediately to the attention of the public. Furthermore, Internet communication among like-minded consumers and groups empowering them to spread their message, and giving them means to coordinate collective action i.e. refuse a product offering. The growing concern for CSR, coupled with the growing importance of brand and brand value to corporate success produce’s a shift in the relationship between corporation and consumer, in particular, and between corporation and all other stakeholder groups in general. The stakeholders associated with the organization get influenced with both the positive and negative news relating to the company and its operations. Therefore, it is integral for the companies not only to develop and improve their core production processes but also focus on social issues that reflects company’s attitude towards its stake holders.

From a company’s point of view, market parameters within which companies are to operate have been broadened and extended. The relationship between consumer and company has changed dramatically (Carroll, 1998). CSR is particularly important

within a globalizing world because of the way brands are built, largely on perceptions, ideals and concepts that usually appeal to higher values. CSR is a means of matching corporate business with stakeholder values and demands at a time when such values and demands are on the move; CSR can therefore be described as the best approach to business (Dirk Matten, 2003) \(^2\). CSR tends to move stealthily deeper into all aspects of operations of a business. It is something that businesses today should be genuinely and wholeheartedly committed to.

The dangers of ignoring CSR are too dangerous (Miller, 2002 \(^3\)), when it is remembered that how important brands are to overall company value and that how difficult it is to build brand force in this era of heavy competition.

One major factor that has boosted the increasing need of CSR Initiatives within the corporate sector can be referred due to the corporate scandals that reduce public trust in corporations. Such scandals also translate into reducing public confidence in the ability of regulatory bodies and organizations to control corporate irresponsible behavior (Clarke, 2007) \(^4\). Stakeholders prefer companies who hold themselves personally liable for social well being and ensure its implementation of CSR initiatives within the company policy. With increasing prosperity of CSR policies not only in the corporate sector of the developed nations but also in developing nations, consumers can choose to pick products that they want to buy. A developing economy in need of work and inward investment is less likely to enforce strict regulations and penalize organizations that might take their business and money elsewhere. In such cases, the responsibility lies on the shoulders of the company to implement CSR policies for the betterment for the society and thus the stake holders.


\(^3\) Miller, L., Stauber, J., & Rampton, S. (2002). War is sell. *PR Watch, Okt.*

The private sector is increasingly seen as a key player in the achievement of many national and international strategic objectives for governments, which is also enabled by CSR. So from a political or governmental perspective, CSR can be seen as a duty (having intrinsic value), but there are also material incentives for corporations to be socially responsible, relating to sustainability and clear consumer preferences for ethical business.

The evolution of corporate social responsibility in India refers to changes over time in India of the cultural norms of corporations' engagement of corporate social responsibility (CSR), with CSR referring to way that businesses are managed to bring about an overall positive impact on the cultures, societies, communities and environments in which they operate. The essentials of CSR is the fact that not only public policy but even corporate should be responsible enough to address social problems. The companies thus should deal with confront and issues looked after to a positive extent among the states. India has one of the richest traditions of CSR. Much has been done in recent years to make Indian Entrepreneurs aware of social responsibility as an important segment of their business activity but CSR in India has yet to receive extensive recognition. If this goal has to be realized then the CSR approach of corporate has to be in line with their attitudes towards mainstream business-companies setting lucid objectives, undertaking likely investments, measuring and reporting performance.

The role of corporate by and large has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. As corporate have been regarded as institutions that furnish to the market demand by providing products and services, and have the responsibility for creating prosperity and jobs, their market position has conventionally been a function of financial performance and profitability. However, over the past few years, as a consequence of rising globalization and burning ecological issues, the perception of the role of corporate have changed in the broader societal context within which it operates.

Stakeholders (suppliers, community, employees and shareholders) today are redefining the role of corporates taking into account the corporates’ broader responsibility towards
society and environment, further going ahead towards economic performance, and are evaluating whether they are conducting their role in an ethical and socially responsible manner. As a result of this shift, many forums, institutions and corporate are endorsing the term Corporate Social Responsibility (CSR).

They use the term to define organization’s commitment to the society and the environment within which it operates. The World Business Council on Sustainable Development’s (WBCSD) report was titled Corporate Social Responsibility: Making Good Business Sense and the OECD Guidelines for Multi-National Enterprises which includes a discussion on how CSR is emerging as a global business standard. Further, there is a global attempt towards reinforcing CSR programmes and initiatives through local and international schemes that try to identify best-in-class performers.

The background of CSR is very strong and has initiated the researcher to study the impact of CSR in various dimensions in this study especially in large organizations of Pune region of Maharashtra. This study will provide the importance of adopting CSR as a sustainable measure as the impact on competitive advantage of these organizations is focused.

1.3 Purpose of the Study

India, in the last five years, has seen a pour and phenomenal growth in various businesses; thus, CSR has a long way to travel. The onset of globalization and liberalization of the Indian economy over that of the last two decades has resulted in the shift of the corporate goals from socio-economic focus towards increasing shareholders value to the welfare of various stakeholders. A detailed analysis of Indian CSR along with its relevance within the business arena leaves us with some important points to discuss. Thus, it is the requirement of today to judge this heated relationship in the Indian context with association to socially responsible initiatives.

Given the enormous tug towards CSR, without the accompanying discipline, the question for corporations is not whether to engage in CSR, but what the best way
forward is for crafting CSR programs that reflect a company’s business values, while addressing social, humanitarian and environmental challenges. Considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, it is naïve to expect a company to somehow weave all this together and incorporate it as part of business strategy. CSR programs will lend themselves to such an exercise, to bring discipline and structure to the many fragmented components. The fundamental problem with CSR practice is that companies usually don’t have a proper CSR strategy, but rather numerous disparate CSR programs and initiatives are taken. However, that our notion of CSR Strategy does not equate to a complete absorption into the company’s core business strategy.

The new Companies Act, 2013, has made it mandatory for companies to be socially responsible by introducing the 'corporate social responsibility' (CSR) regime. Section 135 of the new Companies Act, read with the CSR Rules, mandates companies meeting certain criteria to set aside two per cent of their net profits for undertaking and promoting socially beneficial activities and projects in India. The Ministry of Corporate Affairs (MCA) recently issued the CSR Rules, 2014, to implement this legislative mandate, which comes into effect on April 1, 2014.

Every company with a net worth of at least Rs 500 crore, or a minimum turnover of Rs 1,000 crore, or a minimum net profit of Rs 5 crore, is obligated to constitute a CSR committee dedicated to undertake a mixed spectrum of initiatives, such as promoting education, gender equality, women's empowerment, improving maternal health, or ensuring environmental sustainability. The company's net profit would, however, exclude any profit from its overseas branches or companies, and would also exclude any dividend received from other companies in India. The law does not treat foreign companies differently, and includes foreign companies doing business in India, whether by themselves, or through an agent or even electronically.

Thus as per the act, it is expected from the organizations, especially from large companies that they choose the social cause or project that wants to support from the list of activities specified in the Act. The CSR committee will then have to frame a CSR
policy in accordance with the rules and implement it. The company's board of directors will have to play an active role by participating in the CSR initiative at various stages, including the identification of the activities, approving the policy, and disclosing its contents in the board's report and on the company website.

Becoming socially and environmentally responsible is a very complex task because neither social nor environmental problems can be laid out as a series of neatly packaged alternatives. Moreover, CSR literature provides only limited guidance about how to integrate various initiatives into a sound program that can address a wide range of CSR aspects. Studies usually focus on implementing a few aspects of CSR, and little research pertains to the concrete and systematic implementation of CSR within an organization.

With all these importance, it is to understand how far the above is accepted and implemented by the large organizations in Pune. This research focuses on the study of CSR efforts put up by these large organizations to know if those efforts are more worked on for the society benefits or for their employees. The study also works on understanding whether restructuring of corporate strategies happen as per the CSR efforts put up and the impact of CSR activities and its relevance with competitive advantage of the organizations.

### 1.4 Statement of Problem

Though CSR has been practiced in most of the manufacturing organizations, there is not much information on to what extent that is being carried out. Even though, clause 135 schedule VII of Company Bill 2013, makes the organizations that are registered under the companies law or any previous laws (Section 1) of (Section-135) having net worth of rupees 500 crore or more or Turnover of rupees 1000 crore or more or Net profit of rupees 5 crore or more during any financial year to adopt the corporate social responsibility mandatorily and they have to at least spend 2% of its average net profit made during the three immediately preceding financial years on CSR still there is question of to what extent this has been implemented.

The above question puts the researcher to explore the extent of CSR activities followed in large organization of Pune region.
The study is endeavored to ascertain firstly

1. Whether CSR activities are being practiced to as per the clause (Section 1) of (Section-135) of company bill in large organizations?
2. How effectively it is being practiced?
3. Whether the CSR activities followed provides benefit to the society?
4. Whether the CSR activities impact on the corporate strategies for environmental protection?
5. Whether the CSR activities create better work culture and employee motivation?
6. Whether CSR impacts on the competitive advantage of the organization for sustainability?

1.5 Scope of the Study

The broad areas of investigation that constitute the scope of study are listed below:
1. The investigation in the present study includes only large manufacturing organizations of Pune region of Maharashtra.
2. The study analyses the impact of CSR efforts of large organizations with respect to society benefits, corporate strategies, work-culture, employee motivation and competitive advantage of large manufacturing firms.
3. The present study explores the suitability of using CSR efforts to link its relationship with competitive advantage as a sustainable measure concept of business.
4. The study also explores the current CSR methods of large firms and so as to make respective restructuring of methods to suit the changing scenario.
5. The study does not fully explain all the core conceptual pillars of CSR in terms of stakeholder’s perspective and corporate governance and other subjects, but only shows its importance in framing a socially responsible scope.

1.6 Objectives of the Study

1. To understand the organizational efforts for CSR practices followed by Large Enterprises for society.
To understand the organizational efforts towards employee motivation and work culture as part of CSR in large organizations.

3 To understand the corporate policies towards environmental protection as a part of CSR by Large Enterprises.

4 To understand how companies are using CSR activities as Competitive Advantage for corporate sustainability.

5 To study the existing CSR programs and make suggestions in order to improvise the corporate sustainability.

1.7 Hypothesis of the Study

H1: CSR Activities taken by Large Enterprises have significant impact on society benefits.

H2: CSR Activities taken by Large Enterprises have significant impact on work culture and employee motivation.

H3: CSR Activities taken by Large Enterprises have significant impact on corporate strategies towards environmental protection.

H4: CSR Activities taken by Large Enterprises have significant impact on competitive advantage as a measure towards sustainability.

1.8 Significance of the Study

“It’s all about the bottom line”. There are few people, whether in the private or public sectors, who haven’t heard that phrase. Because the bottom line refers to the last line of a financial statement – profit or loss – it has traditionally been the ultimate measure of short and long-term organizational decisions, referring to the economics of costs and revenue. While economics is still important, the increased complexity of global markets and sophistication of consumers, as well as the increased importance of environmental and social impacts, has changed the way successful organizations look at what positively impacts their bottom line. Today, organizations that want to achieve long-
term success consider what is known as the Triple Bottom Line: Economic, Environmental and Social.

A strategic approach to CSR is increasingly important to a company's competitiveness. It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity. It also encourages more social and environmental responsibility from the corporate sector at a time when the crisis has damaged consumer confidence and the levels of trust in business.

Through CSR, enterprises can significantly contribute to the India’s objectives of sustainable development and a highly competitive social market economy. CSR activities for organizations can create a smart, sustainable and inclusive growth. CSR requires engagement with internal and external stakeholders so it enables enterprises to anticipate better and take advantage of fast-changing expectations in society as well as operating conditions. This means it can also act as a driver for the development of new markets and create real opportunities for growth. By addressing their social responsibility, enterprises can build long-term employee, consumer and citizen trust as a basis for sustainable business models. This in turn helps to create an environment in which enterprises can innovate and grow.

The economic crisis and its social consequences have to some extent damaged levels of trust in business, and have focused public attention on the social and ethical performance of enterprises, including on issues such as bonuses and executive pay. Helping to mitigate the social effects of the crisis, including job losses, is part of the social responsibility of enterprises. In the longer term, CSR offers a set of values on which to build a more cohesive society and on which to base the transition to a sustainable economic system.
CSR is seen by Porter and Van Der Linde (2000, p. 131)\(^5\) as a competitive driver that requires appropriate resources. CSR programmes, however, on their own, have certain main drivers which are as follow:

- **Bottom Line Effect** - This is the most relevant driver of CSR programmes as it incorporates a socially responsible element into corporate practice. As John Elkington (1997)\(^6\) rightly underlined that many companies exhibit corporate citizenship through charity or philanthropy. Nevertheless, a new perspective evolved over time for some corporate stakeholders. Success of a corporation is now weighted and defined by evaluating businesses using a "Triple Bottom Line" comprised of its social, environmental and financial performance.

- **Managing Risk** - An endeavor to adopt CSR programme has been the gain in market share, key personnel and investment which pioneering companies enjoy when they seriously address labour and ‘green’ issues. In fact, corporations implement such a programme to manage risks and ensure legal compliance as denoted by Levine Michael A. (2008)\(^7\). They try to avoid investigation, litigation, prosecution, regulation or legislation.

- **Influence of the Corporate Disasters** - There has been an increased perception of greed amidst senior business officials in the corporate world following corporate scandals affecting Enron, WorldCom and the like. CSR is important in counteracting allegations of corporate greed. As a result, as described by Hancock (2005)\(^8\) in his book, corporations are now shifting away from the philanthropic approach towards CSR and are moving towards the greater alignment of CSR with business strategy and corporate governance.

- **Lower Equity Risk Premium & Reputation Management** - Corporations can face economic damage when their corporate reputations and brands are assailed or sales are affected by consumer boycotts. As argued by some rating agencies, a

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\(^5\) Porter and Van Der Linde (2000, p. 131).


comprehensive CSR programme will lower a company's equity risk premium. A direct correlation between reputation and financial outcome measures – share price and credit rating (Hancock, 2005) has been illustrated through a model designed by the global public relations company Bell Pottinger. In fact, companies may face a variety of legal and reputational risks if they do not have adequate social compliance or corporate social responsibility/sustainability programs in place.

- **Customer Loyalty** - In today's markets, companies have to focus on building and maintaining customer loyalty. As proposed by Zhou Y. (2009), this can be done through a CSR programme which builds loyalty with customers by offering a competitive advantage in a marketplace where consumers find ethically delivered or produced goods and services.

- **Stakeholder Activism & Investment Incentives** - As perceived by Visser, W. (2008), CSR is encouraged through the activism of stakeholder or pressure groups which often address the alleged failure of the market and government policy. The trend of socially responsible investment gives CSR an incentive where funds are screened on ethical, social and environmental criteria. Thus, this proactively encourages businesses to inform shareholders of potential risks and issues and it helps them to better understand their stakeholders, including shareholders.

Thus the significance of CSR activities are mentioned by many researchers and it impacts the large organizations in a multi facet way. With that intention, this research study has been initiated with large firms of Pune region. This research targets these firms to understand the CSR efforts that they take, the activities that they have been implementing and its impact could be understood with respect to benefits of society, employees in terms of work culture and motivation, competitiveness as a sustainable

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measure and restructuring of corporate strategy so as to suit the activities of CSR in order to protect the environment.

1.9 Limitations of the study

The research study is limited to the following:

1. One of the problems was lack of willingness of respondents especially while filling up the questionnaire. Hence the responses from the participants were low and reluctance in cooperating.

2. This study assumed that respondents were reflecting the true state of the companies however the individual perceptions and biasness might have crept in.

3. Studies in this area in the Indian context were in the limited scope of the detailed investigation because CSR activities are not fixed to a particular concept.

4. This study was primarily on the focus of only large organization of Pune region. A longitudinal approach is very important for a further detailed study of CSR approaches.

5. Further categorization of large firms was not included in the study.

6. As this study was conducted in large firms of Pune region, the findings may only be generalized to similar nature of industries.

7. Only few parameters such as society benefits, work-culture, employee motivation, corporate strategies and competitiveness as a measure towards sustainability are considered in the study.