CHAPTER 3

INDIAN AND GLOBAL PERSPECTIVE OF CSR

3.1 Corporate Social Responsibility In India

3.2 Corporate Social Responsibility Around The Globe

3.3 Corporate Citizenship In Different Economies

3.4 CSR Context In Developed & Developing Countries
CHAPTER – 3

INDIAN AND GLOBAL PERSPECTIVE OF CSR

From the beginning of the Industrial Revolution, those within and outside the business world have battled over the very notion and extent of corporate responsibility.

A company’s presence in the society can take many forms including Corporate Social Responsibility, Corporate Citizenship, Corporate Philanthropy, Corporate Community Involvement, Global Citizenship etc. But Corporate Social Responsibility is usually the discretionary business practices which include contribution of resources and effort to the community. What needs to be emphasized here is the voluntary nature of such initiatives and denotes actions which go beyond the mandatory ones.

The key areas where such activities are engaged in are usually in the sectors of health, safety, education, environment, community development. The corporates engage in these usually in the form of cash contributions, grants, social marketing, sponsorships, employee volunteering or private public partnership, and schemes which may or may not be aligned with the mainstream business of the company. The trend today is towards increased reporting and visibility of these actions of corporates and establishment of norms and standards to help in the transition from doing good being an obligation to doing it as a business
strategy. In addition to increased giving many company websites are also displaying sections of reports on Corporate Social Responsibility which may be labeled differently. Many of these provide information on their philanthropic activities, initiatives and sustainability measures.

Though some MNCs and foreign companies indicate the annual expense thereon, Indian companies usually are reticent on sharing such information on the public domain. A means of understanding the company's seriousness of intent is in verifying whether the information provided is aligned to the company's vision and mission and whether there is a strategy for implementing it.

The shift from charity to strategy can be seen in the recent years. Earlier the philanthropy of companies was demonstrated by them by giving to as many social causes as possible or to those causes which the management believed in rather than those associated with their line of business. These avenues usually were limited to those which were either most visible or most trendy. There was usually a tendency to avoid issues which might be seen as self serving or controversial. In fact even today, the majority of organizations skirt problem areas.

Of late it has been seen that corporates pick initiatives which have a relation to their business goals directly or indirectly and incidentally reaping the benefits of such involvement whether it is stated expressly or not. The various forms of such strategic philanthropy can be seen in employee volunteering, integration of issues in marketing, corporate communication, community relations, etc. Also merely being good or
doing good is not perceived to be sufficient, it is also important to evaluate the benefit given and benefit derived and assess the road ahead in terms of methodologies, mechanisms and resources to be deployed.

The benefit derived can be felt and measured by many metrics—the more popular ones being the bottom-line benefits and the margin gains. Some of these tangible and intangible perks to a corporate are increased sales and market share, brand positioning, enhanced goodwill, employee retention, increased operating margins and attractiveness to investors.

The process of engaging in Corporate Social Responsibility flows through the following stages:

a) Identifying a cause to be associated with after analyzing
   
   • how it is compatible with the company’s vision
   
   • the magnitude of the social issue
   
   • Verifying which other companies governmental or non governmental agencies are engaged in it. If not, why?
   
   • What would be the long term impact of associating with this cause?

b) Once the cause is identified, the initiatives that can be taken to engage with the cause and the extent to which the engagement is to be done and the perimeter of such abilities needs to be defined.
c) The third stage is to develop an implementation plan and the mechanics of operationalizing it i.e., budgeting, assigning roles, developing a calendar for the activities.

d) However, no process can be successfully implemented if the controls for monitoring and evaluating the progress are not in place. Unfortunately the benchmarks and standards for doing so in this area are not fully developed, tested and refined through ages of usage. This is more so in a country like India where the concept of Corporate Social Responsibility is in its infancy.

The concept as such is certainly not new but the range of definitions which are often rather general in nature hamper operationalization and measurement of Corporate Social Responsibility and its various dimensions. Moreover, there are persistent problems related to limited availability of data. In countries other than the US such databases are hard to obtain or non-existent. A vast range of activities now comes under the doing-good umbrella. It spans everything from volunteering in the local community to looking after employees properly, from helping the poor to saving the planet. With such a wide range many companies find it hard to know what to focus on.

3.1 Corporate Social Responsibility in India

The origins of the first ethical model of corporate responsibility in India lie in the pioneering efforts of 19th century corporate philanthropists such as the Tata family. The pressure on Indian industrialists to demonstrate their commitment to social progress increased during the Independence
movement, when Gandhi developed the notion of ‘trusteeship’, whereby the owners of property would voluntarily manage their wealth on behalf of the people.

*I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no makeshift, certainly no camouflage. I am confident that it will survive all other theories.*

- Gandhiji (1939)

Gandhiji’s influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the 20th century. The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts, and provision of essential services such as schools, infirmaries, etc. Many firms, particularly ‘family-run businesses’, continue to support such philanthropic initiatives. The call for greater corporate responsibility to a wider range of stakeholders is highly relevant in the Indian context. Many companies in India are facing new pressures, not simply to comply with legislation, but also to meet the requirements of international and national business partners, for example, through codes of conduct related to labor and environmental standards in their operations as well as their supply chains. If one were to trace the path of Corporate Social Responsibility in the Indian corporate sector we can clearly demarcate it into four phases- the first two being in the pre-independence era. In the earliest stage i.e., before the British rule the philanthropy of business people in
India was rooted mainly in religious belief. Thereafter India came under British rule, until the First World War, Corporate Social Responsibility activities were undertaken mainly by outside companies and mostly comprised donations to temples and various social welfare objectives.

In the second phase which lasted until the Independence movement, industrialization was pioneered by a few families, which grew to become business dynasties over the decades. The leaders among them were Tata, Birla, and Bajaj etc. Their charity was only partly altruistic: they had a commercial interest in supporting efforts to further the country’s industrial and social development and were influenced by caste groups and political objectives. This phase was also strongly influenced by Mahatma Gandhi’s theory of trusteeship. At that time, Indian business leaders also became freedom fighters and social activists at national and community level.

The third phase until the era of liberalization was rooted in the system of the “mixed economy”. In this context, Corporate Social Responsibility was mainly characterized by legal regulation of business activities and/or promotion of public-sector undertakings (PSU). However, a debate on Corporate Social Responsibility was already initiated during this period. According to this agenda, businesses were to play their part as respectable corporate citizens, and regular stakeholder dialogues, social accountability, openness and transparency were demanded. Despite these progressive statements, the Corporate Social Responsibility approach did not materialize at that time. Interestingly, the fourth phase from liberalization until date of India’s Corporate Social Responsibility
approach continues to be largely externally oriented, i.e. traditional philanthropic commitment and various forms of community development dominate. In recent years, however, further steps to integrate Corporate Social Responsibility into a sustainable business strategy have been observed. (UNDP / British Council / CII / PwC 2002)

**Fig. 3.1 Drivers of CSR**

[Source: Corporate Social Responsibility Survey 2002 – India UNDP, British Council, CII, PricewaterhouseCoopers]
India has aspired to be a welfare state ever since Independence and welfare has been the primary objective of all governmental endeavors. This has mainly been achieved through the mechanism of planning.

Today, with the Indian political thinkers moving away from the Socialist to the free market form of thinking, we note that the Services sector contributes a lion’s share of the GDP and the increase in Tele density has brought information to the doorstep of the remotest parts. But despite the gradually increasing wealth of the large middle class population a majority of the nation’s population still lives in villages where access to infrastructure is poor. The Government has realized at long last that its business is to create and maintain a healthy society. It can not work in isolation to meet all the aspirations of society and is therefore, welcoming Public Private Partnerships. Any sustainable strategy of Social Development has to be based on the economic betterment of people and social transformation.

It is apparent for all to see that development is possible only with Governmental efforts being supplemented by people involvement at grass root level and adopting a Multi-stakeholder approach involving Corporates, Communities, Village Committees and NGOs. Only sustained efforts on the part of all the players can ensure continuous dissemination of awareness and improvement in the society. A 2006 article in the Harvard Business Review outlined four justifications for CSR: moral obligation, sustainability, license-to-operate and the quest for enhanced reputation. The survey by Partners in Change, an agency set up by the NGO Action Aid, however, found philanthropy, reputation and
market positioning to be the prime drivers in India. Between May and October 2003, the Social and Rural Research Institute, a specialist unit of IMRB, polled 536 companies across India on behalf of Partners in Change. These companies, with turnover upwards of Rs 25 crore, were randomly selected from a CMIE database of 5,928 companies. The study revealed the following:

Fig 3.2 The PiC-IMRB Survey [Source: The state of CSR, Business World, December 29, 2003]
FICCI’s Secretary General, Amit Mitra, notes that corporates in India are moving from philanthropy to project-based CSR. They are yet to understand that what they are doing—more commendable than not doing anything at all, as it may be—is not CSR. The vast majority of the Indian corporate sector is barely writing cheques to NGOs or charitable institutions.

Evidence for only few companies going about CSR in an enlightened manner is available. A survey of 536 companies by Partners in Change found that even as late as in 2006, donations emerged as the main technique of CSR in the survey, with barely 18 per cent organizations writing cheques for more than Rs 10 lakh a year. Over a third of the companies surveyed, confessed their endeavors had little success currently.

A CSR rating of the 500 largest Indian companies by Karmayog, a website focused on social issues, concluded that the overall CSR spend by these companies for FY07 at barely Rs 2,000 crore. “Very few companies are using their core competence to benefit the community—most are only making token ad hoc donations to charitable trusts or NGOs,” it says.58

India is also a signatory to the UNDP, Millenium Development Goals (MDGs) and the status of the nation in the various focus areas as defined by the MDGs reveals that the targets are far away from where the nation is positioned today. [See Appendix 4]. Indian corporates need to gear up for the shortfall in government’s ability to make good the deficit in
infrastructure, services and welfare measures because they will also be indirect beneficiaries of a society which is educated, healthy and employable or has a low unemployment rate because it will mean the companies will have a larger and more discerning customer base and then their profit graphs will look northward.

3.2 Corporate Social Responsibility around the globe

There has constantly been a global diversity in terms and concepts of CSR in the world. It has varied,

Across time:

From the entrepreneur merchant funding Marco Polo's journey to large business houses which came up in the early post-war period, to the EBITDA, PAT, ROA and ROI driven CEO of today, much change has taken place in the definition of the CSR issue.

Across national cultures:

In the US, it is believed that the corporation should care for the society because it will benefit shareholders, over time. Maximize shareholder's value and be socially responsible because it will pay.

In Europe, a variety of concepts and models are in vogue from Germany to Sweden, from the Italian small entrepreneur to the large business families... Often a social contract has to be negotiated among stakeholders with conflicting interests.
In Japan, the large enterprise used to be a defined as a "community", whose leaders were responsible for its welfare, and for pursuing growth strategies likely to benefit the society.

Every culture defines CSR in its own way, but the Anglo-Saxon model was becoming pervasive at the macro level and at the corporate level the model of profit maximization, until many worldwide financial scams and scandals changed idea of the superiority of capitalism and the obsession with shareholder value.

Change in the definition of CSR is visible everywhere. Japanese define CSR as an integration of the environment in corporate life, the Korean Chaebol or the overseas Chinese firm in SE Asia are rethinking corporate governance paradigms.

**Across industries:**

Each industry sector defines CSR in its own way and how to implement plans. For the chemical industry, Bhopal made CSR relevant. For the financial services, Barings contributed to hone the responsibility range. For the energy sector, many ecological disasters changed the attitudes toward some stakeholders. For the consulting industry, Enron has made corporate responsibility a subject to investigate. For the tobacco industry, CSR opens a field for diversification.

For the chemical and pharmaceutical industry, CSR is the weapon needed to survive in the competitive war. Each industry defines its concept of
risk, its bottom lines, and its way to translate a corporate philosophy into action.

Across companies:

Each corporation defines CSR according to the values of its leaders and according to its corporate culture. Whether it is the issue of global warming, the issue of transparency, and the issue of retrenchments or with the client confidentiality issue, companies define CSR in very different ways, introducing strategic perspective and action.

Some corporations exhibit transparency by making public the compensation packages of the top team. Others have a different concept of CSR and need for transparency.

Corporations demonstrate their CSR in the way they manage priorities among stakeholders, they handle conflicts of interest or the importance they give to the local community. In consulting and financial services, the way tightness of confidentiality and integrity is managed, illustrates how the concept of responsibility toward stakeholders is internalised.
Fig 3.3 Views from across the world

[Source: Corporate Social Responsibility, The WBCSD’s journey]

To conclude, the role of business in society is entrenched into a rich diversity of perceptions. Not only, CSR is defined differently according to time, to space, industrial and corporate cultures, assumptions about the role of business in society and the paradigm of competition but it also reflects the changing trends in socio-political ideologies and it internalizes all major ongoing events in the corporate world to change its appearance from time to time.

3.3 Corporate citizenship in different economies

Some of the world’s most socially responsible firms are companies based in the U.S. and the U.K. These countries are also the headquarters for many of the most important NGOs, while London and New York are the major centers for socially responsible investment (SRI). Ethical mutual
funds, as well as ethical indexes and rating services now exist in every European country and capital market. Nearly half of European financial institutions now offer social investment products.

Fair Trade coffee labeling began in the Netherlands, Rug mark, the first human rights label, was developed in Germany, and eco-marketing has been prominent in northern Europe.

In France corporate social responsibility has become increasingly significant within the French business and investment community. France requires companies listed on the Bourse to disclose the social and environmental consequences of their business activities, while a 2001 revision to French company law requires firm to report on their human rights practices and dialogues with stakeholders.

Belgium, France, Germany and Great Britain require pension funds to disclose how they integrate socially responsible behavior into their business decisions.

Denmark, Norway, Sweden, the Netherlands, Germany, and Austria require annual company reports on corporate environmental practices.

Interest in and support for CSR policies and programs has also emerged in a number of other countries, including Canada, New Zealand, Australia, South Africa, Brazil, Singapore, Malaysia and Japan. The wide geographical origin of the global firms associated with the UN Global Compact has ensured that CSR becomes a global phenomenon.
3.4 CSR context in developed and developing countries

Many believe CSR to be a Western invention in its modern form but there is abundant evidence that CSR in developing countries draws strongly on deeply embedded indigenous cultural traditions of philanthropy, business ethics, and community roots. CSR in developing countries cannot be isolated from the socio-political reform process which drives business behavior towards amalgamating social and ethical issues and the development priorities this creates.

The flipside of the socio-economic priorities driver is to see these unfulfilled human needs as an untapped market which has given rise to ‘bottom of the pyramid’ strategies, which refer to business models that focus on turning the four billion poor people in the world into consumers (Prahalad and Hammond, 2002; London and Hart, 2004; Rangan et al., 2007).

Various kinds of crises associated with developing countries often have the effect of catalyzing CSR responses. These catastrophes can be economic, social, environmental, health-related, or industrial. Calamitous events with immediate impact are often more likely to bring forth philanthropic CSR responses.

Despite the argument about the Western imposition of CSR approaches, CSR codes and standards of the developed economies are a key driver for CSR in developing countries in the form of the requirements that are being imposed by multinationals on their supply chains.
In the absence of strong governmental controls over the social, ethical, and environmental performance of companies in developing countries, activism by stakeholder groups has become another critical driver for CSR. It is well known that many developing countries suffer from a shortage of foreign direct investment, as well as from high unemployment and widespread poverty. Therefore economic contribution of companies in developing countries is highly prized, by governments and communities alike.

Also, companies realize that they cannot succeed in societies that fail, and philanthropy is seen as the most direct way to improve the prospects of the communities in which their businesses operate. And a final reason for developing countries’ prioritization of philanthropy is that they are generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy, rather than embracing the more embedded approaches now common in developed countries.

Many developing countries are also behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation. This does not necessarily mean that companies flout the law, but there is far less pressure for good conduct. CSR tends to be less formalized or institutionalized in terms of the CSR benchmarks commonly used in developed countries, i.e. CSR codes, standards, management systems and reports.60

The rationale for focusing on CSR in developing countries as distinct from CSR in the developed world is necessary because developing
countries represent the most rapidly expanding economies, and hence the
most lucrative growth markets for business (IMF, 2006); it is where
social and environmental crises are usually most acutely felt in the world
(WRI, 2005; UNDP, 2006); it also are where globalization, economic
growth, investment, and business activity are likely to have the most
dramatic social and environmental impacts (both positive and negative)
(World Bank, 2006); and they present a distinctive set of CSR agenda
challenges which are collectively quite different to those faced in the
developed world.

Fig. 3.4 Carroll’s modified CSR pyramid for developing countries

The concept of corporate social responsibility (CSR) aims both to
examine the role of business in society, and to maximize the positive
societal outcomes of business activity. In practice, much of CSR has been
driven by the concerns of investors, companies, campaign groups and
consumers based in the world’s richest countries. CSR agendas in
developing countries have been less visible internationally. The result has been CSR practices that are largely framed in rich countries, then internationalized and transferred to other businesses and social settings through international trade, investment, and development assistance.

Over the past few years CSR movements and initiatives have emerged in countries such as China, India, South Africa, the Philippines and Brazil, among others. In developed countries too, there is increasing acknowledgment among companies that a ‘one-size fits all’ approach to CSR in operations around the world is ineffective in responding to the business drivers of socially responsible behavior. The result has been revitalized focus on themes of greater importance in developing countries — including the value of sustainable local enterprise and the role of business in poverty reduction.  

In 2005, Globe-Scan conducted a survey of international public opinion on corporate social responsibility- the 25-nation CSR Monitor and identified an important societal trend: a widening gap between the public's expectations for CSR and the increasingly negative perceptions of industry CSR performance. This trend was found to be consistent across both developed and developing countries, likely influenced by worldwide media coverage of a range of corporate scandals such as Enron, WorldCom etc. In 2007, Globe Scan re-examined this issue and found an interesting dichotomy between developed and developing nations.
While the gap between expectations and perceived industry performance continues to widen in most industrialized nations, the gap is narrowing in developing countries, with people in these emerging markets being far more positive about corporate performance in the area of corporate social responsibility, citizens in developed and developing countries have similarly high expectations when it comes to a company fulfilling its operational responsibilities, however, when it comes to citizenship responsibilities, people in Asia, Africa and Latin America are more likely than people in Europe and North America to hold companies responsible, potentially looking to business to contribute to areas where government support is perceived as lacking or ineffective.  

A survey carried by the Economist Intelligence Unit, a sister company of The Economist, shows corporate responsibility rising sharply in global executives' priorities. None of this means that CSR has suddenly become
a great idea. But in practice few big companies can now afford to ignore it. Beyond the corporate world, CSR is providing fertile ground for think-tanks and consultancies. Governments are taking an ever keener interest in it.\textsuperscript{64}

Business leaders embrace corporate responsibility for a number of reasons. Most of the rhetoric on CSR may be about doing the right thing but much of the reality is plain risk management. Prudent companies include a CSR perspective when considering new projects. In such cases CSR is not a public-relations exercise but part of systematic due diligence for new investments. There is no doubt that the greening of corporate responsibility finds acceptance with many companies. They can cut costs, delight employees and give their brand a new sheen. By preparing their business for the expected demands of customers and regulators they may also be giving themselves a competitive advantage. But if it is to involve much more than public relations, it will be long, hard work.