

# Chapter 2

## Implementing Corporate Social Responsibility in India: Issues and the Beyond

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**Abstract** Corporate Social Responsibility involves the efforts business organizations undertake to meet their responsibilities both as economic and social agents. Businesses become aware of their social responsibilities through pressure exerted by their stakeholders. Customers, for example, expect businesses to supply reliable and safe products at a fair price. Stockholders demand that corporate operations be managed efficiently and that dividends or improved market value reward their investments. Some insights from the Indian arena have been put forward to envisage the basic essence of Corporate Social responsibility being manifested at the corporate level through their initiatives in this direction.

**Keywords** CSR · Stockholder · CSR in India · Responsible business

### 2.1 Introduction

In this age of globalization, Corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years, multinational corporations (MNCs) have played an influential role in defining markets and consumer behavior. The rules of corporate governance have also changed. Reactions to this change have been varied. On the one hand, globalization and liberalization have provided a great opportunity for corporations to become globally competitive by expanding the production base and market share. On the other hand, the conditions that favored their growth also placed these companies in an unfavorable light.

Laborers, marginalized consumers, environmental and social activists protested against the unprecedented (and undesirable) predominance of multinational corporations. The revolution in communication technology and the effectiveness of knowledge-based economics threw up a new model of business and corporate governance. Growing awareness of the need for ecological sustainability paved the way for a new generation of business leaders concerned about the community response and environmental sustainability. Corporate Social Responsibility (CSR) is,

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essentially a new business strategy to reduce investment risks and maximize profits by taking all the key stake-holders into confidence.

The new generation of corporations and the new-economy entrepreneurs recognize the fact that social and environmental stability are two important prerequisites for the long-term sustainability of their markets. From the eco-social perspective, corporate social responsibility is both a value and a strategy to ensure the sustainability of business. For the new generation of corporate leaders, optimization of profit is the key, is more important than its maximization. Hence there is a noticeable shift from accountability to shareholders to accountability to all stakeholders for the long-term success and sustainability of the business. Stakeholders include consumers, employees, affected communities and shareholders, all of whom have the right to know about the corporations and their business. This raises the important issue of transparency in the organization.

## **2.2 Concepts**

The concepts of modern Corporate Social Responsibility evolved only recently. However, the idea has a long history. In both the East and West, it was called social philanthropy. Depending on its nature and context, it was divided into three broad areas. Traditionally, corporate philanthropy aimed at the welfare of the immediate members of the enterprise like staff and employees and their families. This was usually in the form of contributions by visionary business leaders to the establishment of trusts that promoted education, women's welfare, medical care and so on. Corporate Social Responsibility is qualitatively different from the concept of the traditional concepts of corporate philanthropy. It acknowledges the corporation's debt that the corporation owes to the community within which it operates. It regards the community as an equal stakeholder. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities.

In the emerging perspective CSR enjoins upon corporations to analyze profits in conjunction with social prosperity. Corporate gives stress on them as the stakeholders, in a business are not just the shareholders, sustainable development and economic sustainability, corporate profits to be analyzed in conjunction with social prosperity. Thus, ethical business is more a fundamental need, emerging trend on the international scene. In an ethical business, the main thrust is on social values and business is conducted in consonance with broader social values and the stakeholders' long-term interest. This thinking is the trend internationally.

## **2.3 Recent Trends**

Today, CSR is on the agenda of many CEO. Now it is also being considered seriously by on the agenda of governments (national and local), both national and local as well as NGOs', consumer groups, investors and other actors in civil society (Das

Gupta and Das Gupta 2005). Business organizations across the world are realizing the benefits of adopting socially responsible behavior. If a company engages with its stakeholders effectively, it can enjoy a strong and enduring reputation in the market and community. This idea still needs to be understood and implemented in a better manner by the business sector in India. CSR experts blame the lack of trained personnel, non-availability of accurate information and lack of understanding of the necessity, objectives and the benefits for the slow acceptance of CSR in the country. But the present condition seems to be changing as many companies are making the efforts take their CSR beyond 'planting trees or giving away to charity for the needy'. The trend is to move away from just doing a 'social good' to viewing CSR as a business necessity. The corporate social responsibility trend in India is also undergoing change. As more and more companies realize the importance of addressing social and environmental concerns along with transparent stakeholder engagement, CSR will receive the importance it deserves (ArticleSnatch.com, undated).

CSR is not a new concept in India. Corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community ever since their inception. Several other organizations have been doing their part for society through donations and charity events. Today, 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 (Das Gupta 2010).

Companies have CSR teams that devise specific policies, strategies and goals for their CSR programs and make budgetary provisions to support them. These programs, in many cases, are based on a clearly defined social philosophy or are closely aligned with the companies' core business expertise. Employees become the backbone of these initiatives and volunteer their time and contribute their skills, to implement them. CSR Programs could range from overall development of a community to supporting specific causes like education, environment, healthcare etc.

CSR has come a long way in India. From responsive activities to sustainable initiatives, corporations have clearly demonstrated their ability to make a significant difference in society and improve the overall quality of life. In India, it is difficult for one single entity to bring about change, as the scale is enormous. Corporations have the expertise, strategic thinking capabilities, manpower and money financial resources to facilitate extensive social change. Effective partnerships between businesses, NGOs and the government will place India's social development on a faster track (Chillibreeze.com, undated). A common perception about CSR is that it starts and ends with community service and that, if a business undertakes community development works, its responsibility CSR obligations are fully met. This is a wrong interpretation of the CSR. CSR encompasses the entire gamut of activities that are involved in the management of a business. Starting from stakeholder engagement and management, it covers relationships with the supply chain, consumer and customer relations, labour relations, corporate governance, Human Resources (HR), environment, etc (Pramar 2012).

All activities under CSR should rightly be handled by the business and its employees, with or without a partnership with civil society organizations. Handing over its responsibilities, even partially, to the government or bureaucracy would weaken the CSR Agenda and deny the company its rightful standing among the

stakeholders. When government enters the picture, the company would have to shed its responsibility for the programme.

## 2.4 Government Initiatives

Community Investment is an integral part of the overall CSR concept. Expending money and resources without proper planning and implementation is not what CSR is all about. A company traversing on the CSR path must pass several stages of planning. It is only after it has got all the program details in place can the company begin the actual implementation of the programme (Parmar, undated). The government is in the process of replacing the half-a-century old Companies Act 1954, with a new law. The Companies Bill 2009, is expected to be taken up for consideration and is likely to be passed in the monsoon session of Parliament which begins on August 1. By being made applicable only to the organized sector, mandatory CSR would apply to about 300,000 enterprises or about 0.7% of the approximately 42 million production entities, enumerated in the latest Census.

There are several concerns with the introduction of mandatory CSR. One of the biggest concerns is the anticipated rise in '*greenwashing*'. The second concern is the creation of a monitoring body to oversee the implementation of mandatory CSR. The third issue is that the bill covers a very small section of the private sector. This group services the export market which operates on very thin margins. The 2% of turnover that they will require to spend on CSR will seriously affect their already stressed margins. There are compelling arguments, therefore, that the imposition of mandatory CSR might lead to a decline in private industries enterprises. The small and medium scale sectors would be severely affected in such a scenario (Khurana 2011).

Imposing CSR on publicly listed companies like all central and state government enterprises, large domestic private enterprises and multinationals (that, perhaps, already have CSR programs) will make monitoring easier than if it is made mandatory for the entire private sector. As matters stand today, the Corporate Affairs Ministry does not seem to have a clear idea on how it proposes to monitor mandatory CSR; and to ensure that there is a level playing field for SMEs (Vijayaraghavan 2011).

The Government of India initiated Corporate Responsibility for Environmental Protection (CREP) initiated by the Indian government recently in 2003, set guidelines of non-mandatory norms for 17 polluting industries. However, there is no real pressure for its implementation. An ethical being who claims to respect the earth cannot have practices that are inconsistent with his/her claims. Ethical practices have to be placed in an integrity framework, and that implies, at the very least, a lack of multiple ways of being (Parmar, undated). Besides individual efforts in all the countries, some internationally acceptable CSR standards and guidelines have also been defined. These international CSR standards and guidelines include the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, OECD Guidelines for Multinational Enterprises, UN Global Compact and The Universal Declaration of Human Rights (The Times of India 2011).

One feature of the proposed Companies Act while mandating CSR is that the Government had decided it will not police and monitor the implementation. Instead, it will leave it to the companies to implement what is mandated by the law. In case a company fails to meet the prescribed spend, it will have to report and explain the reasons to its shareholders. The CSR spending in the proposed new Companies Act would be in addition to what is being prescribed for companies in the mining or the coal sector. For example, in case of Posco, the environment ministry has asked the Korean company to spend 2% of its annual profit on CSR. The proposal for mandating a CSR spend was first discussed by the corporate affairs ministry around two years ago, but it was reduced to a voluntary exercise in the face of opposition by companies. But, armed with demands and support from parliamentarians, the ministry is now set to implement its plan (Sefi.co, undated).

## 2.5 Corporate Initiatives

In order to leverage its CSR initiatives and make the strategy sustainable, an organization must possess a high level of advanced capability of organizational learning and sustainable innovation to learn and innovate on a sustainable basis. These are critically important attributes which are critical for building sustainable business models that will result in future sustained competitive advantage. CSR initiatives are implemented by companies, usually in partnership with Non-governmental organizations (NGOs) who are experienced in working with the local communities and are knowledgeable about local conditions and are experts in tackling specific social issues specific to the area. From responsive activities to sustainable initiatives, corporations have clearly demonstrated their ability to make a significant difference in the society and improve the overall quality of life. In the present social context, change is required at an enormous scale. Corporations can apply their expertise, strategic thinking abilities and manpower and money material resources to facilitate extensive social change.

Organizations like Bharat Petroleum Corporation Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited, focus holistic development in the villages they have adopted. They provide better medical and sanitation facilities, build schools and houses, and help the villagers become self-reliant by teaching them vocational and business skills. On the other hand, GlaxoSmithKline Pharmaceuticals' CSR programs primarily focus on health and healthy living. They work in tribal villages where they provide medical check-ups and treatment, health camps and health awareness programs. They also provide money, medicines and equipment to non-profit organizations whose work that work towards improving health and education in under-served communities.

Many CSR initiatives are executed by companies in partnership with Non-governmental organizations (NGOs) who, as mentioned earlier, have both the knowledge and experience of local conditions. They are well versed in working with the local communities and are experts in tackling specific social problems. For

example, SAP India, in partnership with Hope Foundation, (an NGO that works for the betterment of India's poor and the needy) throughout India, has been working on initiatives for short and long-term rehabilitation of the tsunami victims. Together, they also started *The SAP Labs Center of HOPE* in Bangalore, is a home for street children, which provides food, clothing, shelter, medical care and education.

Given its potential, and the examples of successes, CSR should ideally be a voluntary initiative. But, often, it should be the efforts of the company itself so that it can serve its customers well. But the businesses are so focused on maximizing profits and minimizing costs world today as we know is concerned only about one thing- money making. Companies do not want to spend in areas they think are useless. Thus, the only option that seems to be available tends to make CSR more broadbased. This way the society at large is at stake. Therefore, in order to protect the society and to encourage companies and businesses to take up CSR the only way left is to make laws which would make it mandatory by law. Many countries are coming around to this view point.

Suitable laws making CSR a compulsory part of corporate activity are being enacted or under serious discussion in many countries. This method has of late has become prevalent in almost all the countries. Every country is slowly becoming aware of the need to enforce CSR to the companies. Therefore, laws regarding implementation of CSR are in process in every country. Denmark made a law on CSR on 16 December 2008. The Danish parliament adopted a bill making it mandatory for the largest Danish companies, investors and state owned companies to include information on corporate social responsibility (CSR) in their annual financial reports.

## **2.6 Challenges to CSR Initiatives in India**

CSR initiatives face many challenges in India and are often seen as deterrent to even the best-intentioned plans. The most important ones are described here.

### ***2.6.1 Lack of Community Participation in CSR Activities***

Often, the communities who are the intended beneficiaries of a CSR program show less interest which will affect their participation and contribution. Also, very little efforts are being made to spread CSR within the local communities and instill confidence in the people. The situation is further aggravated by inadequate communication between the organization and the community at the grassroots level.

### ***2.6.2 Need to Build Local Capacities***

There is a need to build the capacities of the local non-governmental organizations. Many NGOs are not adequately trained and equipped to operate efficiently and effectively as there is serious dearth of trained and efficient organizations that can

effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises efforts to scale CSR initiatives and consequently limits the scope and outcome of a company's CSR initiatives.

### ***2.6.3 Issues of Transparency***

Lack of transparency is one of the key issues. There is a perception that partner NGOs or local implementation agencies do not share adequate information and make efforts to disclose information on their programs, address concerns, assess impacts and utilize funds. This perceived lack of transparency has a negative impact on the the process of trust building between companies and local communities, which is key to the success of any CSR initiative.

### ***2.6.4 Lack of Consensus***

There is a lack of consensus amongst local agencies regarding CSR project needs and priorities. This results in lack of consensus often results in duplication of activities by corporate houses in their areas of their intervention. The consequence results in unhealthy competitiveness spirit among local implementing agencies, which goes against the necessity to have rather than building collaborative approaches on important issues. This factor limits organization's abilities to undertake impact assessment of their initiatives from time to time.

## **2.7 Linkages Between “Business” and “Society”**

The linkages, relationships and interface between “Business” and “Society” have existed since the beginning of civilization. are from their inception, however, over the years, they have undergone spectacular changes. The survival and effectiveness of any organizational entity depends on the quality of support it receives from its stakeholders. This includes the society at large. Till recently, however, in the interface between “society” and “business” Corporate Social Responsibility (CSR) was manifested as “philanthropy”. With successive changes in the business and societal environments; and a better understanding among the stakeholders, ‘philanthropy’ has evolved into more of “business strategy”.

The Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force, their families as well as of the local community and society at large. Businesses need a stable social environment that provides a predictable climate for investment and trade. Understanding society's expectation is, quite simply, enlightened self- interest for business in today's interdependent world. The CSR, therefore, will be centered on (a) fair and equitable

treatment of employees (b) ethical operations and maintaining integrity, (c) respect for basic human values, (d) sustaining the environment for future generations and (e) being a caring neighbor in their communities.

Globalization has brought in along with changed norms for production, labor and treating the environment, which are influenced by 'with conditions of best practices' worldwide. These norms are often outside the letter of the law. The success of the acceptance of these norms has been outside the letter of law and the adoption has often influenced the state to adopt better/improved or, at least, a changed role for itself. To give an example, the norms of for resettlement and rehabilitation (of Projected Affected Persons) as have been laid down as law. These norms must be fulfilled by companies involved in extractive industries, yet there are many other activities that these companies are involved in beyond the law's mandate, but these companies have voluntarily accepted as their corporate social responsibility.

The growth of civil society organizations has also led to increasing democratization among marginalized and impoverished communities. This created local responses to the grand meta narratives. However, it is imperative that the nation- state needs to evolves a new role for itself in this fast changing world. A stable nation providing good governance is thus a basic requirement for developing countries in their endeavor to safeguard the rights and interests of their poor and marginalized.

## 2.8 Key Learning Issues

Corporate Competitiveness, as addressed by strategic management, is a subject rarely discussed in the context of corporate responsibility. However, unless all strands of corporate responsibility are brought together under a common management framework, CSR and its sustainability will remain a peripheral activity and its impact is likely to remain well below required levels to achieve the Millennium and related goals. Corporate Governance must establish the legal framework which will protect a company's stakeholders, the relative emphasis being dependent on national models.

CSR is aimed at extending the legal requirements to promote ethical practice, philanthropy and social reporting to satisfy stakeholder concerns. Corporate sustainability must focus on the long-term economic and social stakeholder expectations both by optimizing their sustainability performance and by participating in networks with governments, NGOs and other stakeholders. Such an arrangement will significantly enhance the capacities of all stakeholders and lead to faster and more sustainable development.

Business ethics and social accountability are important bridges between CSR and corporate governance. Investor demands, and specifically SRI, philanthropy and corporate citizenship provide a common ground for CSR and corporate sustainability. Performance stability and fair globalization are important aspects both in strategic management and corporate sustainability. Competition policy and regulation affects strategic management and corporate governance; but it also has



implications for business ethics and CSR. Downstream, risk management is also key issue for strategic management and governance strategy. Specifically, a company must adequately safeguard against and specifically in terms of reputation risks to its reputation.

The Parameters for CSR Initiatives are

### ***2.8.1 Civil Society Strengthening***

Capacity for strong performance in the community is the foundation for lasting social benefits. Worldwide, civil society is an important social and economic force with the potential to create a more free, fair and just global order. The collective nature of civic action helps to ensure that the interests of all citizens—including women, the poor and other marginalized groups—are adequately weighed by public institutions that make policy and allocate resources. Many civil society organizations (CSOs) face common challenges that limit their effectiveness namely, the ability to manage human and financial resources, weak advocacy abilities, and insufficient management ability to scale up promising innovations and results to achieve wider impact.

### ***2.8.2 Performance Management***

It is necessary to measure the outcomes to distinguish success from failure. Thus, managing for results is central to the global revolution in public management and aid effectiveness. Strong performance monitoring systems help to sharpen strategy and learning, improve communications with stakeholders, help ensure that resources are focused on key results, and promote accountability. Yet these systems are often impractical and out of alignment with organizational skills and incentives. Thus, the focus areas for performance management are:

- An acceptable Performance Management Systems designed for a given project, which will identify key result areas, monitor implementing performance management systems for specific projects and programs to reinforce program performance, learning and accountability, encourage learning, and enforce accountability and objectively measure outcomes.
- Building Capacity for Performance Management: All stakeholders must be enabled and their capacities enhanced—at both organizational and individual levels, to meet the goals of the CSR initiative—building performance management capacity for entire organizations, including international donors and local partners such as governments and civil society organizations.

### **2.8.3 Programme Evaluation**

Program Evaluation provides the platform for learning, accountability and focusing strategy. Program evaluation is central to organizational learning, performance improvement and accountability. Through program evaluation it is possible to determine the efficiency, relevance, effectiveness, sustainability and institutional impact of development activities. Impact evaluation helps in a better understanding of the extent to which the activities benefited the poor and the magnitude these effects on people's welfare. The focus areas for Program Evaluation are:

- Impact Evaluation: A systematic assessment of the impact of CSR activity, program or plan on individual households, institutions, and the environment.
- Evaluating the Program for Improvement: Evaluations must focus on improving the quality of implementation and project outcomes and programs during the project life.
- Evaluating Participation and Empowerment: Programs must also be evaluated with the objective of fostering participation, learning and empowerment among the local stakeholder groups.
- Evaluation of Capacity Development: Evaluation must result in actions to incentivize and building organizational skills, incentives and systems to use evaluation in order to achieve the desired results.

### **2.8.4 Strategic Planning**

Managing with a clear vision, mission and strategy produces lasting outcomes. Globalization and failed and fragile states, the Millennium Development Goals (MDGs) and country Poverty Reduction Strategies require more strategic alignment of development assistance. Donor coordination provides added potential to design and manage country programs that help to create stability and prospects for longer-term development. To stay relevant in this environment, aid agencies need to sharpen their missions, mandates and strategies and engage in constant learning and innovation. The focus areas for strategic planning are:

- Designing Results-Oriented Sector Strategies and Countrywide Programs: Strategy planning needs engagement with working with donors, governments and local stakeholders to develop a results-oriented program for the sector (strategies and programs in health, education, environment, governance, and etc.).
- Strategic Planning for Organizations and Teams: This involves creation of a shared vision, mission and formulation of a strategy with measurable results across the organization and teams. Doing so establishes an operating unit; creating a culture for strategic management.

### 2.8.5 *Effective Teams*

Harnessing the creativity, collective wisdom and the energies of diverse teams is an effective catalyst for achieving development results. Effective teams are important catalysts for development and social change and they are increasingly diverse and dispersed. Teams and their members come with different values, varied skills and experiences, technical skills and cultural traditions. Technical assistance teams are often under pressure to produce quick results, especially in challenging environments. Teams that work closely with their local counterparts must learn the model values of empowerment and participation. In such settings, traditional team building effort is not enough. The areas of focus for effective teams include:

- Team Planning Meetings: To achieve an early start-up for effective technical assistance.
- Team Building for Existing Teams: Team assessment, and tailored team building, (including Myers Briggs Type Indicator, (MBTI), to improve performance of existing teams.
- Building Team-based Organizations: Creating organizational leadership processes, procedures, structures and incentives to support effective teams.
- Building Effective Virtual Teams: Using specialized tools and methods for building virtual teams and communities for effective collaboration of practice.

### 2.8.6 *Social Impact Management*

This addresses the issue of inclusive growth is more than mere poverty alleviation. It seeks to address the problem of equity through the enhancement of opportunities for everybody.

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