

CORPORATE SOCIAL RESPONSIBILITY - A CURRENT MARKETING FAD OR PART OF CORPORATE VALUE SYSTEM

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INTRODUCTION

In market economies, the primary purpose of companies is to maximize shareholder value (e.g. economic profit, share price and dividends) bound by legal/regulatory obligations which address specific social and environmental issues. For this, companies pursue competitive strategies which rely upon and develop relationships between the corporation and its stakeholders.

Since the early 1990's, corporate responsibility issues including the social obligations of corporations have attained prominence in political and business debate. This is mainly in response to corporate scandals but also due to the realization that development centered only on economic growth paradigms is unsustainable and therefore there is a need for a more pro-active role by states, companies and communities in a development process aimed at balancing economic growth with environmental sustainability and social cohesion.

This debate has motivated the following three *interlinked movements* in the corporate world:

- CSR (Corporate Social Responsibility);
- Corporate sustainability;
- World wide reforms on corporate governance.

Early roots of corporate social responsibility can be found in the actual business practices of successful companies and early theoretical views in the 1950s and 60s linked corporate social obligation to the power that business holds in society. Theoretical developments are currently broadly subdivided into the ethical and accountability issues and the stakeholder approaches to strategic management.

The corporate responsibility movement is backed by UN initiatives such as the Global Compact and the Millennium Goals which have defined the goal and principles for responsible corporate behavior in the following areas:

- Human Rights
- Labour Standards
- Environment
- Health
- Anti-Corruption
- Economic responsibility

Key driving forces include investor and consumer demands and governmental and public pressure. Particularly important is the support from Socially Responsible Investing (SRI). The corporate responsibility movement is now entering a mainstreaming phase aided by standardization activities such as the GRI, the AA1000 series and the ISO2600 guide.

“EVERY COMPANY HARMS!”

Corporate Social Responsibility is thus just about two aspects

1. The steps taken by the company to neutralize, minimize or offset the *negative effects* caused by its processes and product-usage
2. The further *positive steps* a company takes using its resources, core competence, skills, location and funds for the benefit of people and environment.

Corporate Social Responsibility helps to define the contribution of a company beyond economic value and creating employment, and weighs this contribution against the damage done by the company through its products and processes.

Corporate Social Responsibility is also a forward-action, i.e. it flows from a company's vision and mission and is part of the company's everyday actions, rather than a retrospective action that is undertaken by a company at the end of its process.

BUILDING INTANGIBLE ASSETS THROUGH CSR

CSR issues are important not only to the maintenance of a brand built over several years but also to the building of a new brand. This is both easier and harder than it used to be, because public perception of many brands today is greatly affected by the social message conveyed by the brand. Some convey it as a conscious strategy called **cause-related marketing**, i.e., linking a commercial product to a cause. Various organizations have begun efforts to quantify the value of a company's reputation to help companies measure the effects of their social responsibility marketing efforts.

Alternatively, a company can suffer negative repercussions for not addressing socially responsible issues. When a company's value depends on its employees and its reputation, the lines between social reporting and financial reporting become blurred. Failures in social reporting could adversely affect the company.

For instance, Nike suffered greatly from the negative publicity concerning the pay and abusive work conditions of workers in Asia who make its athletic shoes. As a result, Nike decided to invest in improving its reputation. Shell suffered from publicity linking the company to human rights abuses in Nigeria, and Exxon was vilified following the *Valdez* oil spill in Alaska. While it is difficult to pinpoint the economic effect, certainly Shell turned itself around and is now perceived as a world leader in social reporting.

POSITIVES

- A paper company manufactures paper from waste cloth to reduce the use of pulp from trees
- A Chemical manufacturer has protected the largest stretch of mangroves along Mumbai's coast
- A software company has developed a special call receiving software for 1098-Childline , India's national helpline for children in distress
- An FMCG company is working to protect and conserve endangered plant species in India through re-forestation programmes

Transforming innovative ideas into commercially-viable realities enables companies not only to invest large amounts of capital into implementing these; it also allows the scaling up of successful pilot projects, thereby improving the lives of significantly more people. By recovering initial costs and becoming self-financing, these business solutions can grow and spread far beyond the limited possibilities of even the best corporate philanthropy projects.

Examples from these projects include:

- Procter & Gamble (P&G), for instance, is working with UNICEF and relief agencies to bring PUR®, its water purifying sachets, to disaster-stricken areas and remote villages.
- Philips is collaborating with local hospitals and NGOs in India to provide specialist diagnostic services to rural areas.
- Leading cement producer, Holcim is working with a microfinance provider to supply low-cost housing solutions in Sri Lanka.
- Unilever has partnered with Ghana's health ministry and UNICEF to reduce the prevalence of iodine deficiency, thus bringing major improvements in maternal and child health.

- EDF provides affordable solar energy to villagers in Morocco, too remote to connect to the national grid.
- Vodafone has developed a microfinance payment platform for African entrepreneurs.

NEGATIVES

- A construction company (in Mumbai) posted a 60 % profit in 2008 amounting to Rs.1400 cr. and did not do any activity to benefit society
- Don't Drink and Drive is the CSR campaign of a leading company that makes alcoholic beverages
- A drug manufacturer in India provides gifts and vacations abroad to doctors who prescribe its products.
- A power generating company is the highest CO₂ emitter in India

CSR on the other hand sounds as is the latest buzzword today it seems corporate Media Houses are going all out to make a change in society and this has raised quite a few eyebrows. The corporate houses who go all out to extend their support and express their concern, do their bit for the society in turn. The media's sudden interest in bringing about social change has raised a number of questions.

The question here is whether media houses are really interested in serving society or whether it is yet another brand building exercise for them. Critics argue that corporate houses today have no link to social responsibility but are actually more focused on the idea of grabbing the attention of the masses. The media today uses CSR activities as a step towards brand-building.

CSR AND QUESTIONABLE MOTIVES

Some critics believe that CSR programs are undertaken by companies such as the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole

Another concern is when companies claim to promote CSR and be committed to Sustainable Development whilst simultaneously engaging in harmful business practices. For example, since the 1970s, the McDonald's Corporation's association with Ronald McDonald House has been viewed as CSR and relationship marketing. More recently, as CSR has become mainstream, the company

has beefed up its CSR programs related to its labor, environmental and other practices McDonald's Corporation CSR information All the same, in McDonald's Restaurants v Morris & Steel, Lord Justices Pill, May and Keane ruled that it was fair comment to say that McDonald's employees worldwide 'do badly in terms of pay and conditions and true that 'if one eats enough McDonald's food, one's diet may well become high in fat etc., with the very real risk of heart disease

Royal Dutch Shell has a much-publicized CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy. Since then, the Shell Foundation has become involved in many projects across the world, including a partnership with Marks and Spencer (UK) in three flower and fruit growing communities across Africa.

Critics concerned with corporate hypocrisy and insincerity generally suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner. Others, such as argue that CSR should be looked more upon as a Corporate Moral Responsibility, and limit the reach of CSR by focusing more on direct impacts of the organization as viewed through a systems perspective to identify stakeholders.

CSR AND THE NATURE OF BUSINESS

Others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since (in their view), only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is incongruent with capitalism and are in favor of neoliberalism argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.

Critics of this argument perceive neoliberalism as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labor protections, and thus their citizens are at a higher risk of exploitation by multinational corporations

A wide variety of individuals and organizations operate in between these poles. For example, the REALLeadership Alliance asserts that the business of leadership (be it corporate or otherwise) is to

change the world for the better. Real Leadership Alliance Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society. Moreover, as discussed above, many CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies while offering a host of potential benefits such as enhanced brand reputation and employee engagement.

Some observations from 2 different Studies on CSR in India

- ✓ 509 out of 1000 companies (51%) are doing CSR.
- ✓ 21 of the 1000 (2%) companies publish a separate Sustainability Report.
- ✓ 30 (3%) of the 1000 companies have reported the amount spent on CSR
- ✓ 107 out of 1000 (11%) companies are doing CSR through their own trust or foundation
- ✓ All PSU's undertake a basic minimum level of CSR based on mandatory regulations (e.g. relating to employment, target groups of beneficiaries, etc.)
- ✓ Several companies repeat the exact same information every year for CSR with no fresh records of the current year's CSR, showing their low commitment to CSR.
- ✓ Common areas in which CSR initiatives are undertaken include Education, Healthcare and Rural development
- ✓ Many companies spread their CSR funds thinly across many activities, thus reducing the effectiveness and seriousness of their initiatives
- ✓ The 1000 companies were grouped into 35 industry sectors and analyzed. The Entertainment & Media, Retail, Mining, Trading, and Construction industries all have low levels of CSR activities. The Software, Banking and Paper industries are amongst those sectors with high levels of CSR.
- ✓ Only Few Indian companies (from this study) publish a Corporate Sustainability Report to measure and assess the impact of their business on the environment.
- ✓ Very few companies openly state the processes followed by them, the damage caused by these processes, and the steps taken to minimize this damage.
- ✓ Very few companies state how much they spend on CSR. There is no mention of the amount spent in any of their balance sheets or annual reports. Most companies just list and describe their CSR activities and seem to be spending minimal amounts on CSR.
- ✓ Very few companies are engaged in CSR activities in the local communities where they are based.
- ✓ Very few companies have a clearly defined CSR philosophy. Most implement their CSR in an ad-hoc manner, unconnected with their business process.
- ✓ Most companies spread their CSR funds thinly across many activities, thus somewhere losing the purpose of undertaking that activity.

- ✓ Most companies appear reluctant to themselves fulfill their CSR unless it is mandatory by law.
- ✓ Generally speaking, most companies seem either unaware or don't care about CSR. However, all companies can be considered to be an upward learning curve with respect to CSR and it is expected that the situation will improve.
- ✓ Many companies are only making token gestures towards CSR in tangential ways such as donations to charitable trusts or NGOs, sponsorship of events, etc
- ✓ Most companies believe that charity and philanthropy equals to CSR; very few companies are using their core competence to benefit the community.
- ✓ Most companies use CSR as a marketing tool to further spread the word about their business. For instance, donation of a token amount to some cause on purchase of a particular product. The fact that companies are hiring advertising agencies for their CSR to further highlights this.

RECOMMENDATIONS FOR AN EFFECTIVE CSR

Minimum annual CSR expenditure

Every company must spend a minimum of 0.2% of its annual income on CSR activities. The CSR spending of a company should not be linked to the profit made by the company because this would vary from year to year

CSR philosophy to be defined

Every company must clearly define its own CSR philosophy and objectives, stating which issues it intends working on or contributing to.

Create inclusive employment

Companies to offer employment to those who find it difficult to get jobs, by reserving a small percentage of the workforce for such jobs, with a special emphasis on the local community

Involve employees in CSR

A company should involve their employees in its social responsibility efforts. This ensures sustainability of CSR initiatives, as there is a commitment to CSR throughout the organisation. Further, each employee acting in a socially responsible manner helps the company as a whole to do undertake more effective CSR.

Expand Reach to benefit society

Companies must extend their products & services to markets and areas that may not be as profitable to the company, so as to extend solutions to the problems and issues in remote, under-serviced areas.

Support areas and issues that are neglected

In a developing country such as India, there are some areas and issues that require sustained support of a greater depth, beyond what government and society is able to provide, and companies must come forward to take up these. E.g. Sports such as chess, protection of endangered species of wildlife, heritage conservation, etc. are all issues that require corporate support.

Developing internal CSR implementation systems

A company may choose to develop an in-house CSR team or division that undertakes the CSR activities for the company. This is desirable as it leads to greater sensitization and awareness within the company about its processes, responsibilities, role, etc. and leads to the internalization of the company's CSR philosophy.

In the first instance, very few businesses operate in a black or white framework, where they are either wholly virtuous or wholly without redemption. There are many aspects which would play to the kind of agenda recognizable to advocates of social responsibility - in particular that of employee empowerment. The time has passed when making a profit and paying taxes was all that a company had to worry about.

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