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Corporate Social Responsibility: A Twin Blade Weapon

Abstract

Corporate Social Responsibility (CSR) has been broadly used for a long time. It has grown exponentially in the last decade and today contains number of theories, approaches and terminologies that are controversial, complex and unclear. CSR is debated by different scholars, business people, investors, the public and the society and it is expected that CSR will be one of the main issues in the future. Each company differs in how it implements corporate social responsibility and the differences depend on various factors like company's size, industry involved, business ethos, stakeholder demands etc. Some companies emphasis on a single area, which is considered as the most significant for them or where they have the highest influence while others intention to integrate CSR in all aspects of their operations. It is also important that the CSR strategy is associated with the company's specific corporate objectives and fundamental capabilities. Most people categorize certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure. It is understood that the organization is atool for wealth creation and that this establishes its ground social responsibility.

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Introduction

Corporate Social Responsibility is a new credo, but it is not a new concept. As long as business has existed, we have had expectations from governments, stakeholders, NGOs and individuals concerning voluntary obligation to society. Business faces global problems whereas solutions of these problems involve economic, social, political, ethical, legal and environmental concerns. Today, business is becoming more global and meeting greater market opportunities and the explosive growth of multinational companies operating all over the world, has contributed to a growing demand for Corporate Social Responsibility.

The idea of CSR in the existing form began to take recognizable shape in the middle of the 1920s. Business representatives and executives began to search for the need for corporate directors to act and build up trust for shareholders. The important factors which influence for adopting CSR are the globalization of markets, the establishment of the knowledge economy, the ubiquity of global communications technology, the coalescence of power, and therefore responsibility, in the hand of a relatively small number of international and global corporations and the need for a new social partnership between corporations states and civil society seeking solutions to local and global problems. These drivers make companies more accountable in their relationships towards investors, governments and other stakeholders.

Aim of the Study

This paper aims to study the association between corporate financial performance and corporate social responsibility. It explores the role of UN Global Compact in developing the CSR in India.

Concept of Corporate Social Responsibility

The concept of CSR is that every human being has a responsibility. Individuals have this responsibility as members of society, and companies also have this responsibility given that the companies consist of a lot of individual persons. Finally, an organizations existence depends on bringing together resources to achieve desired goals and outcome and produce goods and services for customer satisfaction.

CSR is seen as a concept in which companies voluntarily integrate social and environmental concerns into their business operations and into the interaction with their stakeholders. The idea of being a socially responsible company means doing more than comply with the law when investing in human resources and the environment.

The fundamental idea behind CSR is that business has an obligation to work for social betterment and this obligation acts as a constant function of the company's operations. CSR is not a clearly defined area of research and neither is it a clear construct of organizational practice. CSR is in an emergent phase and acts as an umbrella for many related concepts.

According to the World Bank, CSR can be broadly defined as the commitment of business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development.

The conceptualization of corporate social responsibility till the 1990s was purely in terms of charity. Welfare programs were introduced not as a duty but as a form of charity that was supposed to indicate the virtues of the organization. Many industrial groups like the Tatas or Birlas setup charitable trusts that provided financial grants for various worthy causes. Although there were some cases where the corporation took up a more active role like the establishment of the Birla Institute of Technology, Pillani by the Birlas or setting up of primary schools by several major industrial groups for their workers children but even in these cases the approach was philanthropically.

However the post-liberalization phase has seen a fundamental shift from this philanthropy-based model of corporate social responsibility to stakeholder- participation based model. . The change is evident in the statements being made by India's leading industrial groups like the Tata, over the years, the nature of the company's involvement with the community has undergone a change. It has moved away from charity and dependence to empowerment and partnership

Implementation of CSR

An implement of corporate social responsibility is vary from company to company. Some companies focus on a single area, which is regarded as the most important for them or where they have the highest impact while others aim to integrate CSR in all aspects of their operations. The differences depend on various factors like company's size, the particular industry involved, business culture, stakeholder demands, and company's past experience in implementation of CSR.

For successful implementation, it is essential that the CSR principles are part of the corporations values and strategic planning, and that both management and employees are committed to them. It is also important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies.

Adopting the CSR principles involves costs and these costs might involve the purchase of new environment friendly equipment, the change of management structures, or the implementation quality controls. Since being socially responsible involves costs, it should generate benefits as well in order to be a sustainable business practice. The shareholders invest their money in a corporation, expecting the highest possible risk adjusted return. A corporation could not continue a policy that constantly generates negative cash flows. Therefore, being socially responsible should have bottom-line benefits in order to be sustainable.

If companies improve working conditions and labour practices have also experience increased productivity and reduced error rates. Implementation of CSR practices is costly, but the increased productivity of the workers and improved quality of the products generate more revenue that covers the associated costs. So, firms may actually benefit from such actions in terms of employee morale and productivity.

A company regarded as socially responsible can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners and socially responsible companies have enhanced brand image and reputation.

CSR: In Indian Context

The Indian CSR agenda seems to be becoming more comprehensive, philanthropic patterns remain and community development is still the decisive element. For Indian companies, community development is very important since it paves the way for good relations with communities and also has an appreciable public relations effect. The long tradition of CSR in India indicates and the recent changes in the Indian CSR agenda further underline that CSR in India has considerable potential for improving corporate environmental and social conduct.

The Indian understanding of CSR seems to be shifting from traditional philanthropy towards sustainable business. Even philanthropic patterns remain widespread in many Indian companies and community development still plays the decisive role in the Indian CSR agenda.

The innovative programs and schemes in several areas like education, healthcare, rural development, environment protection, protection of artistic and cultural heritage and disaster management has been customized to meet the specific needs of the target group and corporations devote not only financial resources but expertise, manpower, products and services for the successful implementation of such schemes. We can take following schemes as examples:

Lupin India Ltd - Indias third largest manufacturer of pharmaceuticals has started a project for providing sustainable development in 154 villages across Rajasthan that includes an Agricultural Income Generation Scheme, sericulture and water-recycling programs, establishment of medical and educational centers, land cultivation and fruit plantation programs, fodder preservation schemes, adult literacy programs and credit schemes.

Cipla

A major Indian pharma has found a novel approach to fulfill its corporate social responsibility obligations by offerering to sell of three anti-HIV drugs, Stavudine, Lamivudine and Nevirapine, to the Nobel Prize-winning voluntary agency Medicine Sans Frontieres (MSF) at a rate of $350, and at $600 per patient per year to other NGOs over the world.

Ranbaxy

Another Indias major pharmaceutical firm operates seven mobile healthcare vans and two urban welfare centers that reach over a lakh people in various parts of northern and central India as part of its corporate social responsibility initiative.

Tata Consultancy Services (TCS)

It has set up a fully equipped computer-training laboratory for children from the Society for the Welfare of the Physically Handicapped and Research Centre, in Pune for imparting basic computer knowledge.

NIIT has launched a highly popular hole-in-the-wall scheme where it places a computer on a public wall in urban and rural areas so that neighborhood children can learn computer basics using the play-way method.

Bharat Electronics Ltd

Bharat Electronics Ltd has built cyclone proof houses for the victims of the super cyclone in with the help of the victims themselves so that the houses are built according to their needs.

The post-liberalization phase of the Indian economy was a catalyst for the radical transformation in the corporate social responsibility related practices in the country. The change was two fold i.e. transformation of the conceptual understanding of corporate social responsibility and innovations at the implementation level.

CSR development is resulted in India in different CSR phases, first phase is pure philanthropy and charity during industrialization, next is CSR a social development during the independence struggle, next is CSR under the missed economy paradigm and latest is CSR in a globalized world in confused state.

Mrs. Sundar is the Executive Director of the Delhi-based Sampradaan Indian Centre for Philanthropy (SICP). It aims to promote and strengthen Indian philanthropy by motivating all sections of society to go beyond giving of alms in charity to the giving of money, time, talent, skills, and other resources for bringing about social change and progress; and by assisting donors to make informed choices so as to ensure that charitable funds have a maximum impact.

In India, many NGOs are playing very prominent role in developing the CSR approach. The number of NGOs in India is estimated at between 50,000 and 100,000. These organizations engage in a wide range of activities throughout India. They include business and professional organizations and trade unions, which are engaged in traditional development activities associated with these NGOs. They are performing various activities like running literacy programmes, operating dispensaries and clinics, helping such artisans etc. they also support government agencies in providing public goods as they usually operate at the local level.

India's long tradition must be taken into account to understand the current state of Indian CSR. Its CSR approach is closely linked to its political and economic history, in which four phases can be distinguished. In First phase (1850-1914), CSR activities were mainly undertaken outside companies and included donations to temples and various social welfare causes. Second phase (1914-1960) was largely influenced by Mahatma Ghandhi's theory of trusteeship, the aim of which was to consolidate and amplify social development. Third phase (1960-1980) was dominated by the paradigm of the mixed economy. CSR largely took the form of the legal regulation of business activities and the promotion of public-sector undertakings. The Fourth phase (after 1980) is characterized partly by traditional charitable engagement and partly by steps taken to integrate CSR into a sustainable business strategy.

Un Global Compact in India

Public-private partnerships have attracted the attention of the international community, particularly since the launch of the United Nations Global Compact (UNGC) in 1999, and the convening of the International Conference on Financing for Development and the World Summit for Sustainable Development (WSSD) in 2002. The Global Compact Society (GCS) is the main national network, having evolved after the launch of the UNGC in India. The main objective of UNGC is to provide a forum to various Indian Companies/Organizations to exchange experience, network & work together on activities related to Corporate Social Responsibility. This is expected to promote sustainable growth besides encouraging good corporate citizenship.

The Global Compact Society was formed by some of the organizations from India who were participating in the United Nations Global Compact Programme. It was registered on 24th November, 2003, with Registrar of Societies, NCT, Delhi, as a non-profit body. The Society acts as an all India Apex level nodal agency representing various Indian Corporate bodies, Institutions/ SMEs/ NGOs, who are committed to UNs Global Compact principles on human rights, Labour, the environment & anti-corruption. A survey showed that in Indian GC companies, only 25 % had not heard about the GCS, and among the subsidiaries of foreign companies the figure was as high as 70 %.

The Global Compact Society (GCS) is the main national network, emerging after the launch of the UNGC in India. The GCS is now in the process of improving its conditions and activities. In November 2003, the GCS was registered as an all-India forum embracing the separate informal networks. Some 40 organizations joined the GCS as founding members to exchange experience and to launch joint initiatives. The GCS has canvassed some 300 to 400 larger companies aware of CSR as well as business associations and training institutes whereas no labour organizations or NGOs have so far been approached. In May 2005, it was decided to include NGOs and unions, and the Society is considering the establishment of a national coordinating body for them.

Corporate Financial Performance & Corporate Social Responsibility

A view is emerging that corporate social responsibility can contribute to the financial performance of a company. This approach, which has been described as the enlightened shareholder approach, suggests that corporate decision-makers must consider a range of social and environmental matters if they are to maximize long-term financial returns. A lot of studies have been done on the topics related to CSR and different researches made different results with different views. According to Margolis and Walsh (2002), one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The first study was published by Narver in1971.

Empirical studies of the relationship between CSR and financial performance comprise essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Some studies discovered a negative relationship some reported a positive relationship, while others found no relationship between CSR and financial performance. McWilliams and Siegel (1997), discussed in similarly inconsistent concerning the relationship between CSR and short run financial returns.

The second type of study examines the relationship between some measure of corporate social performance (CSP) and measures of long-term financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran and Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSP and a firms risk adjusted return on assets. In contrast, some studies found significant positive relationships between an index of CSP and performance measures, such as ROA in the following year.

Companies target is always to earn profit and companies will never survive if their owners don't get profitable return on their investment. Maximizing the shareholder value focuses on social actions contributing to increased shareholder value. Every investment in social demands that contributes to increased shareholder value is acceptable, without deception and fraud.

There are different views about the objective of a firm but it is assumed that wealth maximization should be the sole goal of a corporation. Most people identify certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure. The firms, which have solid financial performance, have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. Financial performance also depends on good or socially responsible performance. Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners.

There is currently a debate on the extent to which company directors and managers should consider social and environmental factors in commercial decision making. An approach to decision-making that routinely encompasses these factors may be described as corporate social responsibility.

Corporate social responsibility is increasingly an important factor in attracting and retaining a talented and diverse workforce. Companies that account for the interests of their employees by offering good working conditions will achieve better performance in terms of quality and delivery, and, therefore, experience higher levels of productivity.

An initial challenge in testing the relationship between corporate social responsibility and financial performance is identifying those companies that have adopted corporate social responsibility. This is because corporate social responsibility reflects an approach to internal decision making, the presence or absence of which may not easily be determined by external observers.

Generally sustainability reports provide information about a company's environmental performance, such as energy efficiency, water usage and greenhouse gas emissions, as well as their social performance, such as their staff recruiting and retention policies and engagement with stakeholders. There are a number of voluntary reporting guidelines and sets of indicators available for these companies; the most widely used is the Global Reporting Initiative. An alternative approach to measuring corporate social responsibility would be to draw on existing corporate social responsibility indices such as the Corporate Responsibility Index. This index was initially developed in the United Kingdom by the Business in the Community initiative, and is administered in Australia by the St James Ethics Centre. Participating companies are assessed against a corporate responsibility framework, including an examination of how corporate responsibility is translated from strategy into mainstream management practice, and how material risks are monitored and managed.

A second alternative approach to measuring corporate social responsibility would be to draw on the criteria used by socially responsible investment funds to identify appropriate investments. The Ethical Investment Association (2006) has stated that there are now $11.98 billion in managed investments and super funds that identify themselves as socially responsible (EIA 2006).

Under some circumstances, it's possible that CSR itself might add value to a company, even without impacting other drivers of financial success. In other words, companies with strong corporate social responsibility programs may be particularly desirable to socially responsible investing funds. With enough demand from such investors, the stock price could rise as a direct result of CSR programs.

While it may be difficult to clearly attribute positive financial outcomes to corporate social responsibility, it may be easier to identify the direct negative effects of a lack of CSR on financial performance. Poor CSR, he says, may lead to lawsuits and fines, which depress earnings and thus lower stock prices.We can observe the relationship between corporate financial performance and corporate social responsibility from the following points:

Companies operate in a market of opinion. How customers, suppliers and the broader community judge companies will have an impact on their profitability and success. Corporate social responsibility offers a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage.

Corporate social responsibility offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues and use positions of leadership as a means to gain competitive advantage.

Corporate social responsibility branding can draw consumers away from competitors and thereby improve profitability.

Corporate social responsibility can offer opportunities to reduce present and future costs to the business thereby increasing operational efficiency.

Most companies' financial success is the performance of its employees, so a CSR program that adds value to the workforce can also contribute to the bottom line. In addition to building employee skills, practices in the CSR sphere can also contribute to employee retention. In a 2000 CSR Europe Study that looked at cause-related marketing, 85% of the American business executives responding said that one of the most important outcomes of such programs is increased employee loyalty.

As CSR helps to improve a company’s reputation, it increases long-term market potential and so makes a business case. Brand value and reputation are therefore major business-related motives for companies to engage in CSR. Specifically, 47% of the private Indian UNGC companies, 33 per cent of the public ones, 40 per cent of the non-UNGC companies and 55 per cent of the foreign UNGC companies referred to brand enhancement as an important business case for CSR. A company's reputation can also impact its financial performance, and CSR can positively contribute to reputation. Bad things happen to every company, even the best companies and just like a business with fire insurance is more valuable than one without it, businesses that have earned a reputation for being generous through acts of philanthropy are given the benefit of the doubt when negative events occur.

One of the important factors in financial success, of course, is demand for the product, and here, too, socially responsible activities can play a role. In a 2000 survey by Cone Inc. and Roper, nearly 90% of teenagers surveyed reported that they would change to a brand associated with a good cause, assuming equal price and quality. The most recent incarnation of that study found that, in 2005, 68% of Americans reported that they were likely to consider a company's reputation for supporting causes when shopping over the holidays.

So maybe corporate social responsibility leads to improved financial performance. The indicators explored above seem to show that it's a logical conclusion, and after all, the two factors were correlated in both studies. But correlation does not imply causation; maybe financially successful companies are more likely to implement strong CSR programs.

Companies that are financially successful are able to concern themselves with more than simple survival; they have the freedom to take on practices that may be considered icing on the cake of their core competencies. It's possible that CSR falls into the former category - nice to engage in, once the company has addressed its direct business needs. The companies most likely to have money left over for CSR initiatives are those with the strongest financial performance. Under this model, CSR doesn't cause financial success; instead, it's made possible by financial success, and thus the two are correlated.

Companies that are financially successful may also be the most likely to face pressures to be socially responsible. The companies with the highest stock prices may garner attention for their success; they may also be among the largest employers, the most quickly expanding, the industry leaders, or possess other attributes that draw public attention. Similarly, the companies that are making the most money may face the greatest pressure to share the wealth.

In other words, when a company is well managed, this management extends to everything it does, including CSR. The companies with the best CSR performances are the ones with the best leaders. Similarly, good management results in a strong financial performance. So there is not necessarily a causal relationship between CSR and financial performance - instead, both may be related to the quality of the company's management.

If the wide range of programs that fall under CSR can enhance the employees' skills and contribute to their loyalty; sustain the company's reputation in times of crisis; increase demand for the company's products; drive sales; and perhaps even increase demand for the stock, it may be worthwhile for the company to reexamine and enhance its CSR program - and maybe CSR performance and financial performance rise together.

Conclusions and Implications

There are different views of the role of a firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Most people identify certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure.

This study attempts to address the question whether corporate social performance is linked to financial performance. We tested the sign of the relationship between corporate social responsibility and financial performance. Different explanations for this result depend on the direction of the causality between CSR and profitability. Arguments exist that support the view that firms which have solid financial performance have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees.

Other arguments propose that financial performance also depends on good or socially responsible performance. Socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners.

Future research in this area could proceed in a number of directions. First, more extensive studies are needed to explore the causal mechanisms linking CSR to profitability and to determine whether or not those relationships hold consistently over time. The reliability of the CSR data is also an important issue, as data from different sources have significant differences regarding how to evaluate the CSR performance of a firm.

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