STUDY AND MEASUREMENT OF CORPORATE SOCIAL RESPONSIBILITY -AN INDIAN PERSPECTIVE

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ABSTRACT

CSR is a strategic process of mutual commitment between a company and its stakeholders. The concept of CSR helps to understand how to make the process of wealth creation more effective and fair. In defining CSR programs, shareholders and managers should choose those actions that will maximize the welfare of the community by providing the desired goods and services while minimizing financial, social and environmental costs. Corporate social performance should be seen as processes based on voluntary and explicit commitment to accept both economic and social responsibility. Since the triple bottom line including people, planet and profit has become more and more important in the companies of the 21st century, they will have to progressively take into bigger consideration the stakeholders other than the shareholders. Therefore, measuring the performance of a company only from a financial point of view appears to be inconsistent and even dangerous. Designing and implementing a measurement system based not only on financial performance indicators but also on non-financial indicators leads to better strategic management and decision-making process. CSR has come a long way in India. From responsive activities to sustainable initiatives, companies have clearly exhibited their ability to make a significant difference in the society and improve the overall quality of life.

KEYWORDS: Corporate social responsibility, corporate social performance, principles of corporate social performance, CSR ratings in India.

1. INTRODUCTION

The concept of CSR helps to understand how to make the process of wealth creation more effective and fair. Since companies take advantage of the resources and of the freedom that the communities provide them, the latter are legitimate to ask companies to reciprocate to tackle social and environmental issues. The globalization of the economy and the emergence of a boundary-less environment, make such a phenomenon even more dramatic. Companies are more and more scrutinized and put under pressure by consumers associations and political lobbies.

The main purpose of CSR is to define a social contract to maximize the welfare of all parties concerned. Welfare maximization should be considered both short term and long term, in order to meet present expectations and needs without endangering the opportunities and the resources of the future generations.
The stakeholders participate or contribute to firm’s activities, and have a stake in the firm and are affected by the firm’s decisions. The shareholders being one of the constituencies of stakeholders should actively participate in the decision making process of implementing CSR programs, while the firm should ensure the continuity of their contribution through commitment to pay dividends and increase share value. This concept enhances the idea of CSR as a systemic mutually interactive and cooperative process between companies and communities. Appropriate Corporate Governance practices are necessary to reconcile the interests of different stakeholders.

In defining CSR programs, shareholders and managers should choose those actions that will maximize the welfare of the community by providing the desired goods and services while minimizing financial, social and environmental costs. The outcome of such new way of thinking and behaving in the last two decades has been the development of best practices like client-suppliers partnership, TQM, environmental awareness, decentralization and participative management, network and learning organizations.

2. CORPORATE SOCIAL PERFORMANCE

CSP is a component of the strategic planning process, and can be studied by making reference to two types of environment - internal and external to the firm. The increasing globalization and complexity of the business environment and society requires managers to distinguish direct and indirect social responsibilities of companies. Direct responsibilities are those related to the soundness of the operations of the company. Indirect responsibilities are those related to the power and influence that the company has on the life of the community (L’Etang, 1995).

EXAMPLE 1- ITC- e-CHOUPAL

The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterised by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others.

'e-Choupal' also unshackles the potential of Indian farmer who has been trapped in a vicious cycle of low risk taking ability > low investment > low productivity > weak market orientation > low value addition > low margin > low risk taking ability. This made him and Indian agribusiness sector globally uncompetitive, despite rich & abundant natural resources.

Such a market-led business model can enhance the competitiveness of Indian agriculture and trigger a virtuous cycle of higher productivity, higher incomes, enlarged capacity for farmer risk management, larger investments and higher quality and productivity.

Further, a growth in rural incomes will also unleash the latent demand for industrial goods so necessary for the continued growth of the Indian economy. This will create another virtuous cycle propelling the economy into a higher growth trajectory.

Crossing the three principles with the four domains allows to identify the possible outcomes of Corporate Social Performance, as showed in the following table (Wood, 1991):
<table>
<thead>
<tr>
<th>Domain</th>
<th>CSP Principles</th>
<th>Public Responsibility (Organisational)</th>
<th>Managerial Discretion (Individual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Produce required and appropriate goods and services, provide jobs, increase shareholder value, optimize stakeholder welfare</td>
<td>Price goods and services to reflect true production cost by incorporating all externalities</td>
<td>Produce ecologically sound products, use low polluting technologies, cut cost with recycling</td>
</tr>
<tr>
<td>Legal</td>
<td>Obey laws, regulations and local mores, don’t lobby for or expect privileged positions in public positions</td>
<td>Work for public policy representing enlightened self-interest</td>
<td>Take advantage of regulatory requirements to innovate in product and technology</td>
</tr>
<tr>
<td>Ethical</td>
<td>Follow fundamental ethical principles (e.g. honesty in product labeling)</td>
<td>Provide full and accurate product use information to enhance user safety beyond legal requirement</td>
<td>Implant vanguard management practices to increase the health of workforce</td>
</tr>
<tr>
<td>Discretionary</td>
<td>Act as a good citizen in all matters beyond law and ethical rules. Return a portion of revenue to the community.</td>
<td>Invest the firm’s charitable resources in social issues related to firm’s primary and secondary involvement with society.</td>
<td>Choose charitable investment that actually pays off in social problem solving to foster effectiveness in social and affirmative actions.</td>
</tr>
</tbody>
</table>

For a CSP program to be viable, it is necessary to put together long term vision and short term efficiency. This means nurturing a sound approach to Corporate Social Responsibility (through the building of a visionary corporate culture) while adopting the appropriate level of Corporate Social Responsiveness (through the definition and implementation of viable strategies consistent with the expectations of the social environment). CSP programs should be seen as processes based on voluntary and explicit commitment to accept both economic and social responsibility (Carroll, 1979).
Profit is of course necessary to provide companies with the resources necessary to effectively impact the evolution of the communities in which they operate. At the same time, economics, laws and regulations are no longer the only factors that companies should take into account when defining their strategy. Several researches show that, in general, socially responsible companies outperform or perform as well as traditional ones in the financial market.

**EXAMPLE 2  HYUNDAI MOTOR INDIA FOUNDATION (HMIF) PROJECT “GO GREEN”**

Project “Go Green” is an income generating tree planting project with a difference. Undertaken along with TIST, the project envisages distributing one lakh saplings to farmers in a phased manner. The farmer will plant the sapling on his land holdings and be paid by HMIF for its upkeep and maintenance. The proceeds from sale of the produce will add to his income. Saplings like, teak, jackfruit, mango etc will be given out. HMIL along with TIST will regularly monitor the progress.

Corporate social performance becomes then a critical element to help managers in the appropriate design and implementation of viable strategies, and no longer as just a constraint on the way to the maximization of the profit.

### 3. MEASURING CORPORATE SOCIAL PERFORMANCE

Proper methods, parameters and indicators need to be defined to allow the company and its stakeholders to monitor and evaluate CSP and to foster social effectiveness and economic efficacy and to sustain long term programs. To monitor social actions is necessary to check the correct implementation of the programs. At the same time stakeholders need to have some tool to assess the social behaviour of companies in order to take a decision. The fact that companies have to look at a broad panel of stakeholders other than shareholders complicates the issue of measurement of their performances. In fact, while it is relatively easy to gather and elaborate data to provide information on financial performance, the same cannot be said for social performance. However, this need is more and more compelling, because of the dramatic changes in the features of international competition due to the globalization of the economy and society. To assess CSP programs it is necessary to check their matching with Corporate Social Responsibility statement, their use of socially responsive processes, and their impact on social issues (Wartick & Cochran, 1985).

Shareholders are generally considered a unique category of stakeholders and thus companies pay special attention to them and tend to put in place mainly financial indicators (pre-tax earnings, profit per share, growth rate, market share etc. Many people think that to assess the performance of a company, what matters is the bottom line. Since the triple bottom line including people, planet and profit has become more and more important in the companies of the 21st century, they will have to progressively take into bigger consideration the stakeholders other than the shareholders. Therefore, measuring the performance of a company only from a financial point of view appears to be inconsistent and even dangerous.
New ways of measuring the performance of a company have to be used to provide information to the people who are willing to invest in the company with a better perception of company’s competitive position over a longer period of time. From this perspective, non-financial indicators are often useful to drive a broader and more effective analysis of the context of the company. Designing and implementing a measurement system based not only on financial performance indicators but also on non-financial indicators leads to better strategic management and decision-making process. It affects the culture of the company because it contributes to highlight the moral foundations of the values of a company, and the consistency of the norms used to translate them into day-to-day operations (Jacobs & Kleiner, 1995). Such an approach is difficult because of at least three reasons:

- First, non-financial indicators are often considered as less important than the financial ones;
- Second, setting appropriate non-financial indicators is a difficult task;
- Third, controlling systems are designed for crunching quantitative data, while the indicators describing social performance are often qualitative ones.

The three types of methods that can be used to assess Corporate Social Performance are:

- A social audit, carried out by an independent auditor or by an internal auditor, to analyze actions and programs in social field and assess nonfinancial performance;
- An external audit of the performance of the share of the company (in this case, only floated companies could be assessed);
- An internal assessment of non-financial performance.

Following are the six categories of various non-financial indicators concerning CSP that have been identified and are used to scrutinize companies’ practice:

1. Community relations (donations, contribution to the economically disadvantaged, support to job training)
2. Minorities and women (corporate hiring and promotion of women and minority employees, health care, child care, elder care)
3. Employees (no lay-off plans, hiring and promoting the disabled, work safety programs, cash profit sharing, good union relations, training and competencies development)
4. Environmental (investments in R&D; development, processing and use of products and services that minimize environmental damage or that are environmentally safe, involvement with nuclear power)
5. Customer relations (quality management programs, customer satisfaction measures)
6. Ethical issues (defense contracts and weapons development, business with repressive regimes, alcohol gambling tobacco)

4. CORPORATE SOCIAL RESPONSIBILITY IN INDIA

CSR is not a new concept in India. Companies 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. Many other organizations have been doing their part for the 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. Companies have CSR teams that devise specific policies, strategies and goals for their CSR programs and set aside budgets to support them.

These programs, in many cases, are based on a clearly defined social philosophy or are closely aligned with the companies’ 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.

For example, organizations like Bharath Petroleum Corporation Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited, adopt villages where they focus on holistic development. 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-up and treatment, health camps and health awareness programs. They also provide money, medicines and equipment to non-profit organizations that work towards improving health and education in under-served communities. Many CSR initiatives are executed by corporates in partnership with Non-governmental organizations (NGOs) who 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 the poor and the needy throughout India, has been working on short and long-term rebuilding initiatives for the tsunami victims. Together, they also started The SAP Labs Center of HOPE in Bangalore, a home for street children, where they provide food, clothing, shelter, medical care and education.

EXAMPLE 3- TATA MOTORS- TRAIN THE DRIVERS

Want to sell trucks? Train the drivers first. This is what Tata Motors, India’s largest truck maker, seems to believe. The company is joining hands with quasi-government institutions, NGOs, truck distributors and training institutes to train drivers.
There is a severe dearth of skilled truck drivers in India, which is estimated to have around 5 million truck drivers today. The country has a high fatality rate and is the second-worst in the world in terms of truck accidents.

“To maintain the growth momentum of the industry we decided to take up this skilling initiative under CSR (corporate social responsibility). It will not only help the society but also the business in general,” said GS Uppal, industrial relation CSR administrative head, Tata Motors.

The first pilot for the project is due to begin at Jabalpur, followed by one at Ujjain. The company plans to open at least 10 centres by the end of this year. The exercise is likely to be keenly watched by others in the private sector as Tata Motors paves the way for a system where brand owners voluntarily become a part of skill development.

CSR has come a long way in India. From responsive activities to sustainable initiatives, corporates have clearly exhibited their ability to make a significant difference in the society and improve the overall quality of life. In the current social situation in India, it is difficult for one single entity to bring about change, as the scale is enormous. Corporates have the expertise, strategic thinking, manpower and money to facilitate extensive social change. Effective partnerships between corporates, NGOs and the government will place India’s social development on a faster track.

The ministry of company affairs (MCA), which is finalizing the new Companies Bill, has accepted a Parliamentary Standing Committee’s recommendation on the issue. The standing committee on finance headed by former finance minister Yashwant Sinha has proposed that companies with a turnover of Rs 1,000 crore or net profit of Rs 5 crore or more earmark 2% of their net profit for the preceding three years on CSR.

5. CSR STUDY AND RATINGS IN INDIA

The Karmayog Corporate Social Responsibility (CSR) study and ratings present a snap-shot of the largest 500 companies in India, with specific focus on their CSR initiatives. The study enables an understanding of how different kinds of companies (government owned, private, multi-national) from different industry sectors are responding to global and local conditions that demand and need more responsible behavior by all stake-holders, especially corporates.

This study was started in 2007. Since then, there has been greater awareness and improved practices of CSR in India and more companies are reporting on their CSR activities. Government has started framing voluntary CSR recommendations for companies.

Karmayog’s objective of undertaking an annual CSR rating is to present a common person’s view and understanding of companies and how they behave.

- Customers today expect that companies will be doing something meaningful with the profit that their purchases enabled the company to make.

- Investors and suppliers want to be associated with companies that they can be proud of.
- Citizens know that companies are using resources that belong commonly to all living beings, and so if a company pollutes a beach, or cuts down a forest, it affects everybody, and companies will be held accountable for such actions.

- Employees want to be part of businesses that are helping to build society and contribute towards a better world.

**RESULTS OF THE KARMAYOG CSR RATINGS OF THE 500 LARGEST INDIAN COMPANIES - 2010**

<table>
<thead>
<tr>
<th>Karmayog CSR Rating 2010</th>
<th>No. of cos.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 5 (highest)</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Level 4</td>
<td>12 *</td>
<td>2 %</td>
</tr>
<tr>
<td>Level 3</td>
<td>66</td>
<td>13 %</td>
</tr>
<tr>
<td>Level 2</td>
<td>161</td>
<td>32 %</td>
</tr>
<tr>
<td>Level 1</td>
<td>148</td>
<td>30 %</td>
</tr>
<tr>
<td>Level 0 (lowest)</td>
<td>113</td>
<td>23 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>500</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

* COMPANIES WITH A LEVEL 4 RATING ARE: Ballarpur Industries, HDFC, Infosys Technologies, Jubilant Organosys, Kansai Nerolac, Larsen and Toubro, Mahindra and Mahindra, Moser Baer, Tata Consultancy, Tata Steel, Titan Industries and Wipro.

CSR is intrinsic to all parts of a business, and hence is reflected in the actions of a company; in all aspects such as HR, Corporate Governance, Management, Accounting, R&D, Advertising, etc. and the ratings take these into account as well.

A comparison of the ratings over the last four years shows that while there has been a clear drop in the number of companies undertaking no CSR (level 0), the number of companies with a Level 4 or Level 3 rating, has remained similar.
The current global financial crisis has impacted Corporate Social Responsibility (CSR) in India adversely. Business houses, trying to restructure their resources, have run the red line through CSR budgets. CSR managers claim that managements have issued instructions to put on hold all new CSR projects. Budgets for many ongoing projects have also been curtailed. The global
financial crisis has helped strengthen the belief that CSR, for most Indian business houses, was not a very serious issue.

A study reveals that most Indian business houses feel that CSR was only possible if profitability was high. It was quoted that for an Indian manufacturer “no social activity was possible without at least 25 per cent profitability”.

Instead of cutting down on its community activities, Indian businesses need to use this opportunity to strengthen and streamline their CSR agenda. There is a need today for Indian businesses to re-examine their CSR interventions and determine their effectiveness.

6. CONCLUSION

Corporate social responsibility emerges in organizations to guide decision making (a) in areas where problems recur and (b) in areas of great interest and importance to the organization, so that threats or opportunities in these areas can be handled more effectively. Speaking ideally, a comprehensive corporate social responsibility program, fully institutionalized and operational, would be the logical final outcome of corporate behaviour motivated by principles of responsibility and occurring through socially responsive processes. However, what really matters is the social and business impact that such programs have, regardless if they are short-term one-shot initiatives or long-term institutionalized actions. What makes the success and the effectiveness of such programs is the capability of all the stakeholders to think systemically, to think globally and to act locally, to develop true partnership to protect one common stake: the increase of the wealth for as many human beings as possible. (Alessandro, 2003)

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