

# CORPORATE SOCIAL RESPONSIBILITY (CSR): ISSUES AND CHALLENGES

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## ABSTRACT

The importance of CSR emerged significantly in the last decade. Over the time CSR expanded to include both economic and social interests. Along with this it also broadened to cover economic as well as social interests. Emerging economies like India have also witnessed a number of firms actively engaged in CSR activities, and the Ministry of Corporate Affairs has come up with voluntary guidelines for firms to follow. Companies in India have quite been proactive in taking up CSR initiatives and integrating them in their business processes. This paper is an attempt to understand the present scenario of CSR in India and also present the concerned issues and challenges of CSR, and providing the suggestion for accelerating the CSR.

**Keywords:** Corporate, Social, CSR, Issues & Challenges

## INTRODUCTION

Corporate Social Responsibility [hereinafter referred to as “CSR”] came into common use in the late 1960s and early 1970s but if we were to turn the pages of history, we would know that the history of social and environmental concern about business is as old as trade and business itself. For example laws to protect forests, can be traced back almost 5,000 years. In Ancient Mesopotamia around 1700 BC, King Hammurabi introduced a code in which builders, innkeepers or farmers were put to death if their negligence caused the deaths of others, or major inconvenience to local citizens. With industrialization, the impacts of business on society and the environment assumed an entirely new dimension. The “corporate paternalists” of the late nineteenth and early twentieth centuries used some of their wealth to support philanthropic ventures. By the 1920s discussions about the social responsibilities of business had evolved into what we can recognize as the beginnings of the “modern” CSR movement. In India companies like TATA and Birla are practicing the Corporate Social Responsibility (CSR) for decades, long before CSR become a popular basis. There are many instances where corporate have played a dominant role in addressing issues of education, health, environment and livelihoods through their corporate social responsibility interventions across the country.

## OBJECTIVES

- ✚ To study the CSR status in India
- ✚ To understand the meaning and various benefited aspect of CSR
- ✚ To study the policies governing CSR in India
- ✚ To study the challenges faced by CSR in India
- ✚ To make suggestions for accelerating CSR initiatives in corporate world.

## RESEARCH METHODOLOGY

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study. Available secondary data was extensively used for the study.

## LITERATURE REVIEW

Research work cannot be completed without the in-depth study of the earlier researches. Prior research work not only provides guidance but also throws light on the direction in which any new research must proceed. The researcher has tried to scan the all literature available to her from various sources so as to determine the objectives and methodology of the current research work. Agarwal (1992) in his study attempted to evaluate and compare the divergent social disclosure practices in both private as well as public sector in India. The sample size was 20 companies. The technique used was content analysis with weights for some items in the disclosure. The researcher found that most of the social information was disclosed in Director's report or in separate form or by way of notes to the accounts or schedule. He found that the most of the information was presented using non quantitative description technique. Batra (1996) studied various model formats for corporate social reporting and emphasized urgent need for social auditing. The social reporting practices of many large Indian companies were studied to suggest amendments in Indian Companies Act, 1956 making corporate social reporting a statutory obligation. Raghu (2006) undertook a study to look at the chairman's messages section of annual reports of the top 50 companies in India. This study used content analysis to identify the extent and nature of social reporting. Plan ken et al (2010) investigated CSR platforms and the communication surrounding those platforms in India and established that the CSR platforms are typically used, together with stakeholder attitudes to both the form and content of those platforms. The authors presented the fact that the selected Indian corporations pursued a primarily philanthropic platform with a focus on community development Crawford and Williams (2010) aimed to investigate how country contexts pressure firms for greater The findings, although derived from a small sample limited to the banking sector, pointed to the possibility that higher reporting quality is more closely linked to normative and cultural pressures, and that these pressures appeared to be more important in stronger regulatory contexts reporting activity and to explore the impact of these pressures on disclosure quality. A theoretical lens was used upon the three pillars of institutions: regulative, normative, and cultural projects, as predicted by previous studies.

## MEANING AND DEFINITIONS OF CSR

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.” There has been a general perception that Economic growth is possible only through the consumption of inputs available in the environment and society. The harnessing of natural resources has a direct impact on the economy, the environment and society at large. CSR is a concept whereby organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

CSR is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders. This commitment is beyond statutory requirements. CSR is, therefore, closely linked with the practice of Sustainable Development. CSR extends beyond philanthropic activities and reaches out to the integration of social and business goals. These activities need to be seen as those which would, in the long term, help secure a sustainable competitive advantage.

The world business Council for Sustainable Development defines CSR as, “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” Carroll’s Four Part Definition is more expounding. “CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time”.

## INDIAN STATUS OF CSR

India has a long rich history of close business involvement in social causes for national development. In India, CSR is known from ancient time as social duty or charity, which through different ages is changing its nature in broader aspect, now generally known as CSR. From the origin of business, which leads towards excess wealth, social and environmental issues have deep roots in the history of business. In initial years there was little documentation of social responsibility initiatives in India. Since then there is a growing realization towards contribution to social activities globally with a desire to improve the immediate environment. It has also been found that to a growing degree companies that pay genuine attention to the principles of socially responsible behaviour are also favored by the public and preferred for their goods and services. This has given rise to the concept to CSR.

Today, the world is coming round full circle in emphasizing this concept through an articulation of the principle of social responsibility of business and industry. And this trend is no different in India either. Mahatma Gandhi, the charismatic visionary leader who brought the cause of India’s independence from British colonial rule, was a person who in several respects was ahead of his time. His view of the ownership

of capital was one of trusteeship, motivated by the belief that essentially society was providing capitalists with an opportunity to manage resources that should really be seen as a form of trusteeship on behalf of society in general. In June 2008, a survey was carried out by TNS India (a research organization) and the Times Foundation with the aim of providing an understanding of the role of corporations in CSR. The findings revealed that over 90 per cent of all major Indian organizations surveyed were involved in CSR initiatives. In fact, the private sector was more involved in CSR activities than the public and government sectors. The leading areas that corporations were involved in were livelihood promotion, education, health, environment, and women's empowerment. Most of 3 CSR ventures were done as internal projects while a small proportion were as direct financial support to voluntary organizations or communities. Globally CSR is used as a framework for measuring an organization's performance against economic, social and environmental parameters. The Indian context is distinct. On the one hand, here are long-standing traditions of respect for family and social networks, and high value placed on relationships, social stability and education. Diverse religions and cultures also bring distinct attitudes towards community social behavior and engagement as well as support and philanthropic contributions. Our Government also plays distinct roles – often stronger in terms of influence on economic and social priorities, yet not as advanced in terms of social safety nets. This has resulted in the drivers for corporate citizenship being very different from those in other parts of the globe. In India CSR is still in a nascent stage.

### **GLOBAL INITIATIVE TOWARDS CSR**

Several initiatives are on the move internationally to standardize the CSR reporting framework, the major among them are as follows:

1. United nations environment program finance initiative (UNEP FI)
2. Global reporting initiative (GRI)
3. International finance corporation (IFC)
4. The "equator principles"
5. Collevocchio declaration on financial institutions

A common theme running through all these initiatives is the articulation of civil society's expectations of the financial sectors role and responsibilities with respect to sustainability. Recently in November 2010 the International Standard Organization (ISO) published a new standard ISO 26000, providing guidance on the underlying principles of social responsibility, the core subjects and issues pertaining to social responsibility and on ways to integrate socially responsible behavior into existing organizational strategies, systems, practices and procedures.

### **ISSUES AND CHALLENGES**

The prime purpose of including CSR in corporate business is to make the corporate business activities as well as the corporate culture both sustainable in three ways: economic, social and environmental. Paying equal amount of attention to all the three dimensions, but many companies think that corporate social responsibility is a much exterior part of their business, whereas most think it to be an irrelevant issue for

their business as satisfying their customers/clients is more important for them. It is further felt that customer satisfaction is only about price and service, but concentrating on only these aspects of business makes them blind folded towards other important changes taking place worldwide that could blow the business out of the water. The change is named as social responsibility which is an opportunity in itself for the business.

## **SOME OF THE DRIVERS PUSHING BUSINESS TOWARDS CSR INCLUDE**

### **1. Inefficiency of the Government**

In the past, governments have relied only on legislation and regulation to deliver social and environmental objectives in the business sector which has lead to certain failed initiatives.

### **2. Demands for Greater Disclosure**

There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations.

### **3. Increased Customer Interest**

It has been seen and proved through a survey conducted in the year 2002 in 25 countries, it was found that more than one third of surveyed consumers believed that large companies “should do more than give money to solve problems.” The same study found that almost 50 percent of consumers had considered punishing a company based on its social actions, and that nearly 30 percent had actually avoided a company for that reason. Further it was proved that the ethical conduct of companies have a growing influence on the purchasing decisions of customers.

### **4. Increased Pressure from the Investor**

Investors are changing the way they analyze companies' performance, and are making decisions based on ethical concerns too.

### **5. Change in Employee Behavior**

Employees are increasingly looking beyond paychecks and benefits and seeking out employers whose operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

## **ADVANTAGES OF MAKING CSR A PART**

The concept of corporate social responsibility is now firmly rooted around the globe as a business agenda. But in order to move from theory to concrete action, many hurdles need to be overcome. The positives of a CSR initiative are that it can bestow an organization both in terms of finances as well as managerial talent and also attract right people to work on the initiatives. Thus looking at the initiatives by Corporate around the world one feels that we can expect more from them. There is an urgent need to address the various CSR initiatives and also a need to build a mechanism through which such efforts are recognized and rewarded. It would not be wrong in saying that transparency and dialogue can help to make a business appear more trustworthy, and push up the standards of other organizations at the same time. Corporate Social Responsibility has many benefits that can be applied to any business, in any region, and at a minimal cost. Some of them are as follow:

## **1. Improved Financial Performance**

A recent longitudinal Harvard University study has found that “stakeholder balanced” companies showed four times the growth rate and eight times employment growth when compared to companies that focused only on shareholders and profit maximization.

## **2. Enhanced Brand Image & Reputation**

A company considered socially responsible can benefit -both by its enhanced reputation with the public, as well as its reputation within the business community, increasing a company’s ability to attract capital and trading partners. For example, a 1997 study by two Boston College management professors found that excellent employee, customer and community relations are more important than strong shareholder returns in earning corporations a place on Fortune magazine’s annual “Most Admired Companies” list.

## **3. Increased Sales and Customer Loyalty**

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers’ key buying criteria – such as price, quality, appearance, taste, availability, safety and convenience. Studies also show a growing desire to buy based on other value-based criteria, such as “sweatshop-free” and “child labor-free” clothing, products with smaller environmental impact, and absence of genetically modified materials or ingredients.

## **4. Increased Ability to Attract and Retain Employees**

Companies perceived to have strong CSR commitments often find it easier to recruit employees, particularly in tight labor markets. Retention levels may be higher too, resulting in a reduction in turnover and associated recruitment and training costs. Tight labor markets as well the trend toward multiple jobs for shorter periods of time are challenging companies to develop ways to generate a return on the consideration resources invested in recruiting, hiring, and training.

## **5. Reduced Regulatory Oversight**

Companies that demonstrate that they are engaging in practices that satisfy and go beyond regulatory compliance requirements are being given less scrutiny and freer rein by both national and local government entities. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or “fast-track” treatment when applying for operating permits, zoning variances or other forms of governmental permission.

## **6. Easier Access to Capital**

The Social Investment Forum reports that, in the U.S. in 1999, there is more than \$2 trillion in assets under management in portfolios that use screens linked to ethics, the environment, and corporate social responsibility. It is clear that companies addressing ethical, social, and environmental responsibilities have rapidly growing access to capital that might not otherwise have been available.

## **SUGGESTIONS FOR ACCELERATING CSR INITIATIVES IN CORPORATE WORLD**

The Indian Companies Bill 2012 (en route to becoming an Act) requires companies worth 500 Crore (or just over \$9M) to spend at least 2% of their average net profits on Corporate Social Responsibility (CSR), or

report on the reasons why not. This is creating quite a buzz amongst businesses in India, and a lot of questions too. In order to crystal gaze the future of CSR in India and take time bound steps to mainstream it, the recommendations of the survey are firm indications of the existing state of affairs in the CSR domain; they correspondingly call for necessary and appropriate steps to be initiated to put CSR on firmer ground. Keeping in view, the following recommendations are listed

- ✚ Ensure that the definition of CSR is as much (if not more) about how companies make their money rather than how they spend it. CSR has to be strategic and linked to business benefit.
- ✚ Promote innovation of new business solutions as part of CSR. Companies are powerful beasts that are good at finding new opportunities and solutions. If they can focus their creativity and finance on finding products that can make profits and provide a social good then progress will accelerate.
- ✚ A strong budgetary support would definitely help to grow this sector and research related to respective industry would enhance their organization's contribution further.
- ✚ Training, conferences and seminars could be organized by companies to disseminate and generate new knowledge and information in this sector.
- ✚ Companies can set a network of activities to be taken up in a consortium to tackle major environmental issues. It would also provide an opportunity to learn from each other. Everyone in the organization needs to recognize their own role in promoting CSR. Companies should provide wider professional development activities.
- ✚ Government regulations which are supporting in this direction could attract more response from organizations. All this would also lead to benchmark CSR activities.

## CONCLUSION

Corporate sustainability is an evolving process and not an end. The Companies bill is a good initiative on the part of the government however what would be included in spending on CSR is unclear and is left for the companies to decide. Across the globe, the concept of CSR has been accepted as an element for success and survival of business along with fulfilling social objectives. However, the challenge for the companies is to determine a strong and innovative CSR strategy which should deliver high performance in ethical, environmental and social areas and meet all the stakeholders' objectives. It would certainly not be wrong to say that the leading global companies of 2020 will be those that would provide their customers and clients with goods and services and even reach out to them in a manner and with a approach that accommodates solutions to world's major challenges, such as poverty, climate change, resource depletion, globalization and demographic shift.

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