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Corporates as socially responsible citizens: A study on the present status of socially responsible behavior of corporates in India and other nations

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Abstract

Corporate social responsibility is an old concept that has recently gained momentum as the governments have started realizing the potential of corporates in uplifting the society. Even corporates are acknowledging the long term benefits bestowed by such efforts in bringing in goodwill and credibility in the market. This paper is an attempt to understand the status of corporate sector in being socially responsible in India and other nations and it utilizes a descriptive research design for this purpose. It was found that despite an improvement from the past, yet we are still a long way from benefitting and utilizing the true potential that such endeavors promise.

Keywords: Corporates, CSR, India, Social accounting

1. Introduction

Corporates are citizens and they survive in a social environment. It is imperative for them to behave like responsible citizens and contribute towards the welfare of the society. They do it through various means like 'adoption of village's schemes' and 'green policies'. It is more of a norm now than exception that corporates are undertaking initiatives to uplift the weaker sections of the society. Not only they are working towards the betterment of people associated with them but are also aiming at sustainable development students. CSR is defined as the acts and acceptance of the corporates to behave responsibly towards the society, environment and the people associated with it. It also includes the philanthropic initiatives taken by the company. These are usually voluntary acts but now they have been made mandatory by some governments. It is a general perception that if companies aim at the betterment of society along with achievement of targets, then their goodwill gets a good boost. In fact, a section of consumers is even ready to pay more if that translates into support to some genuine charity which the company is doing. This aspect is gaining popularity and recognition even though the overall understanding of CSR is very heterogeneous and perceptions' focus also changes from place to place. Some place more value to the quality and safety of products, some value security of employment while some stay old school with appreciation for the monetary donations to the charitable causes. The corporates need to work in areas like education, environment, arts and social prosperity apart from following fair and just policies. This paper is dedicated to understanding the concept and rationale of CSR and to find the efforts put by the corporates in this direction.

2. Objectives

The objectives of this study are:

1. To get an overview of the concept of corporate social responsibility.
2. To comprehend the rationale of CSR.
3. To understand the initiatives undertaken by the corporates as responsible citizens of a nation.

3. Hypothesis

This study is based on a hypothesis that more socially responsible a corporate is, better will be its goodwill.

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4. Research Methodology

This paper utilizes a descriptive cum exploratory research design as it is based on the existing studies available and also since it is trying to explore the areas in which the companies are trying to showcase their social sensitivities. For this purpose a thorough study of the available data and literature was done and conclusions were hence drawn.

5. Review of Existing Literature

Every business needs to work and earn well so as to indulge in philanthropy. Not just this, they also need an educated and satisfied workforce, justifiable resources and efficient government to work effectively. The Harvard Business Review article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* provided examples of companies that have developed deep linkages between their business strategies and CSR.

According to Barney (1990) "formulation of the RBV, sustainable competitive advantage requires that resources be valuable (V), rare (R), inimitable (I) and non-substitutable (S)." A firm introducing a CSR-based strategy might only sustain high returns on their investment if their CSR-based strategy could not be copied (I). However, should competitors imitate such a strategy, that might increase overall social benefits. Firms that choose CSR for strategic financial gain are also acting responsibly. RBV presumes that firms are bundles of heterogeneous resources and capabilities that are imperfectly mobile across firms. This imperfect mobility can produce competitive advantages for firms that acquire immobile resources. McWilliams and Siegel (2001) examined CSR activities and attributes as a differentiation strategy. They concluded that managers can determine the appropriate level of investment in CSR by conducting cost benefit analysis in the same way that they analyze other investments. Reinhardt (1998) found that a firm engaging in a CSR-based strategy could only sustain an abnormal return if it could prevent competitors from imitating its strategy. Jones *et al.* (2005) found that environmental issues are the most commonly reported CSR programs among top retailers. Anselmsson and Johansson (2007) ^[1] assessed three areas of CSR performance: human responsibility, product responsibility and environmental responsibility. Martinuzzi *et al.* described the terms, writing that human responsibility as maintaining fair and positive working conditions and work-place environments for their own employees. Product responsibility means that all products come with a full and complete list of content, that country of origin is stated, that the company will uphold its declarations of intent and assume liability for its products. Environmental responsibility means that a company is perceived to produce environmental-friendly, ecological, and non-harmful products."

Wieland and Hand field (2013) ^[10] suggested that companies need to include social responsibility in their reviews of component quality. They emphasized the use of technology in refining prominence across the supply chain.

6. Results and Discussions

CSR as a concept has widened and it engulfs various other notions like social accounting and auditing. Crowther defines social accounting as "an approach to reporting a firm's activities which stresses the need for the identification of socially relevant behavior, the determination of those to

whom the company is accountable for its social performance and the development of appropriate measures and reporting techniques. "It requires reporting guidelines and standards.

Some of which are given in the following table:

Table 1: List of Some Standards and Guidelines Used For Csr

| S. No | Guidelines And Standards |
|-------|--|
| 1 | Accountability's AA1000 standard |
| 2 | Social Accountability International's SA8000 standard |
| 3 | The Prince's Accounting for Sustainability Project's Connected Reporting Framework |
| 4 | Good Corporation's standard |
| 5 | Global Reporting Initiative's Sustainability Reporting Guidelines |
| 6 | Economy for the Common Good's Common Good Balance Sheet |
| 7 | The ISO 14000 environmental management standard |
| 8 | Earth check Certification / Standard |
| 9 | Environment, Social and Governance (ESG) index |

6.1 CSR across the Globe

Since most of the nations do not specify one standard for accounting, usually the companies adopt the ones that suit them and hence compromise the validity of it. For example, in France since there are no nationally agreed upon standards, despite the legal requirements to provide social accounting; the whole exercise lacks credibility. The reports of the companies differ in style, methodology and even formats.

South Africa, on the other hand, asks for an integrated report on financial, environmental and social performance.

In Denmark, CSR is voluntary but it is mandatory to state the company's stand on it in the financial reports if there are no clear policies in this regards otherwise. Mauritius has mandated that companies registered in Mauritius should pay two percent of their annual book profit to add to the societal and ecological improvement of the nation.

The 'Heilbronn Declaration' is a voluntary agreement of enterprises and institutions in Germany to declare their CSR activities.

The Danish parliament has made it mandatory for the 1100 largest Danish companies to include CSR information in their financial reports.

6.2 CSR in India

According to the Companies Act, 2013, any company with a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore has to spend at least 2% of its average net profit in the preceding three financial years on CSR activities. Failing that, the company needs to explain the reasons to shareholders in its report to the Board of Directors. Such activities include not-for-profit spending on social, cultural, environmental, health, education, sports, and gender issues, among others. It does not include political contributions and activities outside India.

According to the President Pranab Mukherjee, 'This provision can stimulate funds to the tune of 20,000 crore for the welfare of the society and environment and the corporate sector must deliver new stimulus to CSR initiatives towards sanitation, health and education. The corporate sector can work at various models to develop a synergetic relationship with the governmental schemes.' Government has urged corporates to channelize some of their funds towards schemes like Beti Bachao, Disha etc.

Various ministries are encouraging corporates to devote a

fraction of their surplus towards schemes initiated by them. For example, Department of Empowerment of the Disabled, Ministry of Social Justice and Empowerment, has requested corporates to fund buying and distribution of sophisticated cochlear implants for children with hearing disabilities and also to aid the disabled friendly toilets. Ministry of skill development and entrepreneurship has suggested adoption of industrial training institutes (ITIs) and the Ministry of Women and Child Development is asking them to work towards gender sensitization by adopting villages or districts. But, the corporate sector is seeking more of clarity on such partnerships with government.

Various reports on this issue illustrate the fact that even without the legislation, the corporate world had awoken to the call of social responsibilities and while initially the companies have to work more on being able to fulfill their other responsibilities properly, eventually, they start working on building up a credible social account. Most of the companies are combining their commercial goals with environmental and social ones.

A new report from Accenture and the Federation of Indian Chambers and Commerce Industries titled "Organizing for Success on Corporate Responsibility: The Path to High Performance", mentions that the new legislature provides ample scope of amalgamating innovation and new techniques with safer, greener and more ethical practices and still earn profits. It also guides corporates to transcend from thoughtful actions to seamlessly integrated ones. The government's decision to allow companies to collaborate with each other has also been appreciated.

But despite the fact that the situation in the country warrants inflow of funds and efforts towards social welfare, not much is being done by the corporate sector in this regards.

7. Findings and Conclusions

1. Corporates need to understand the long term benefit of CSR and contribute towards it.
2. Corporates should rise above the token efforts and lip service to the cause.
3. CSR as a fair way towards ethical and greener business needs lot of push by both the government and the corporate sector.
4. Government should bring out proper formats of reports that the companies should publish in this regard.
5. CSR as a philosophy should be added to every company's profile.

In the light of above discussion, it can be safely concluded that CSR is a concept that any prudent business would integrate into its business philosophy to gain credibility and goodwill in the long run and hence should be adopted without any outside compulsion. Yet, in the light of shortsightedness of businesses today, governments are wisely making it mandatory at least for the big earners. But still a lot of push is needed to realize the full benefit that can be accrued from such endeavors.

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