Corporate Social Responsibility in India: Revisiting Carroll's Pyramid and The Road Ahead

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Abstract

Section 135 of the recently implemented Indian Companies Act, 2013 made Corporate Social Responsibility (CSR) mandatory for a certain category of companies in India but a debate on pros and cons of mandatory CSR is still going on. Significant issues in this debate are definition, scope and legitimacy of CSR. The existing definitions of CSR in the literature are congruent to a large extent but there is no universally acceptable definition. This paper attempts to present a conceptual view of CSR in India by tracing its evolution and examining different responsibilities, economic, legal, ethical and philanthropic associated with it, as proposed by Carroll (1991). The paper builds up arguments based on literature, supported by observation and experience of the author and culminates by interpreting CSR as "the commitment of business to abide by law and to operate in an ethical manner when it has the opportunity to do otherwise, with identification and exploitation of business opportunities which generate mutual benefits for business and society." The paper further proposes three pillars of CSR for a sustainable business and society

Keywords:

Corporate social responsibility; CSR; business ethics; CSR pyramid; Indian perspective; CSR in India; evolution of CSR; definition of CSR; revisiting CSR pyramid; sustainability.

Introduction

A staggering development in the Indian corporate scenario in 2013 was Section 135 of the Indian Companies Act, 2013 on mandatory Corporate Social Responsibility (CSR). As per this Section, every company having a net worth of Rs 500 crores or more, or a turnover of Rs 1000 crores or more, or a net profit of Rs 5 crores or more, during a year, shall be required to spend every year, at least two percent of the company's average net profits, during three immediately preceding financial years, on CSR activities. The Section also enumerates provisions related to the appointment of a CSR committee, administration of CSR projects, reporting and disclosure requirements and penalty in case of failure to comply. But activities included under CSR like ending hunger and poverty, promoting public health, supporting education, addressing gender inequality, protecting the environment and funding cultural initiatives are broad and do not provide an adequate detail on what constitutes CSR. Also, no explicit definition of CSR has been mentioned. This could create roadblocks in effective implementation of the clauses as well as open avenues for window dressing.

Defining CSR has been challenging for scholars worldwide. The World Business Council for Sustainable Development (2001) defines CSR as, "the continuing commitment by business to contribute to economic development while improving the quality of life of workforce and their families as well as of the community and the society at large." According to Kotler and Lee (2005), CSR is "the commitment to improve community well-being through discretionary business practices and contributions of corporate resources" while the European Commission's (2011) definition of CSR is, "the responsibility of enterprises for their impacts on society." Dahlsrud (2008) analysed thirty-seven definitions of CSR. He reported that these are congruent to a large extent but there is no single definition acceptable to all companies, industries or economies. CSR is an evolving concept. According to Crane et al (2008), it "means something, but not always the same thing to just about everyone."

A very basic and literal meaning of CSR is that business should be responsible for contributing to the society. Over the years, business houses, apart from economic development, have been giving back to the society through social development. But there are situations paradoxical in nature. A tobacco company fulfilling its social responsibility by putting money, made out of its sales, in child care is controversial. Similarly, rating a football manufacturing division employing child labour but philanthropically contributing to women empowerment is a little difficult on the corporate social performance scale. Many a times, it seems that CSR is a myth; an attempt to put wrong doings under covers or a mere whitewashing exercise to give an angelic appearance to profits earned by all means. Going by the purpose of business, the prime goal of any business is to make profit. To what an extent it can be expected and on a more practical note, it should be expected from business to compromise with profit to serve the society is a big question. This paper attempts to present a conceptual view of CSR by tracing its development in literature and interpreting different responsibilities associated with it. It further proposes three pillars of CSR for a sustainable business and society.

Understanding CSR

Discussions on business responsibilities were initiated long back. These were based on the works of visionaries like John Keynes and Adam Smith. Renowned economist, John Keynes in the 1930s wrote, "Business of business is to do better business and transfer its benefits to its consumers and stockholders." In *The Wealth of Nations* (1776), Adam Smith, the father of modern economics, wrote, "It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest." He opined that people engage in business for self-interest but unknowingly benefit society more effectually than when they really intend to promote it. However, most literature on CSR is the product of twentieth century.

Bowen (1953) marked the beginning of modern literature on CSR with his book titled *Social Responsibilities of the Businessman*. He wrote that actions of firms touch lives of citizens at many points. Thus, these actions should be governed by principles and values of the society.

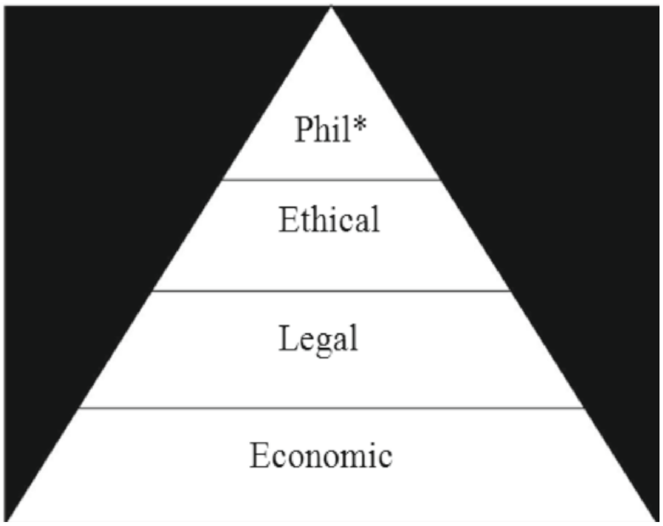
According to Davis (1967), logic of CSR lies in religions and philosophies of the world. Business has a responsibility to act ethically. In fact, up to some extent, it is an obligation rather than a responsibility because a healthy business cannot survive in a sick society.

In 1970, Milton Friedman in an article published in *The New York Times Magazine* expressed, "The only social responsibility of business is to earn profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." He emphasised profits but did not rule out fulfilment of legal and ethical requirements by business. He strongly criticised charitable donations by business houses. According to him, since all shareholders have a stake in the business, contributions on the basis of judgment of few managers should not be made. Johnson (1971) in *Business in Contemporary Society: Framework and Issues* for the first time highlighted multiplicity of interests involved in business and mentioned that fulfilling social responsibility should be equated with long run profit maximisation. Freeman (1984) named it as stakeholder approach to managing business. According to him, for "any business to be successful, it has to create value for its stakeholders."

Another contribution to the concept of CSR was made by the Committee for Economic Development (1971) by putting forth a viewpoint that with changing business environment, expectations of people are changing. In response to the pressing demands of public, business must compulsorily fulfil social responsibility for its survival.

Carroll (1979) proposed a four part definition of CSR. According to him, business responsibility can be segregated into economic, legal, ethical and discretionary responsibilities. Different aspects of CSR discussed by authors over the years, before and after 1979 and till date, can be placed in one or the other of these responsibilities. Later on, Carroll (1991) proposed the pyramid of CSR where discretionary was replaced by philanthropic (see Figure 1). He explicitly mentioned that this pyramid is a mere pictorial representation of the definition and is not indicative of the priorities of business.

Figure 1 The Corporate Social Responsibility Pyramid (Carroll, 1991)



An interpretation of these responsibilities, for conceptual clarity of CSR in the Indian context, follows.

The Economic Responsibility

The inclusion of economic aspect in CSR is not very useful because it is something for which the business exists. Survival of a business depends on profits and including it in CSR seems like asking the sun to shine. This holds true for a business in any part of the world including India.

The Legal Responsibility

Complying with the law is an obligation; all individuals and organisations are required to abide by the law. But in the Indian context, evading law is a very common practice. Many of the biggest scandals since 2010 such as 2G Spectrum scam, Commonwealth Games 2010 scam, Adarsh Housing Society scam, Coal Mining Scam, and Cash for Vote scam have involved very high level government officials including Cabinet Ministers and Chief Ministers. According to a study conducted in 2013 by Transparency International, a non-governmental organisation that monitors and publicises corporate and political corruption, forty percent of the respondents in India felt corruption has increased a lot and more than eighty-six percent of the respondents thought political parties were affected by corruption (Global Corruption Barometer, 2013). In such environment even obeying the law seems to be a social responsibility because of problems like bureaucracy and weak enforcement of laws.

The Ethical Responsibility

India is a land known for its contribution in religion and spirituality. But in the twenty first century, amid competition, ethics and ethical principles are losing their worth. Business houses follow ethics like not cheating customers. Due to competition, they can't afford to ignore it. But they may ignore issues like climate change as its effect on the bottom line is debatable. The foundation of ethics lies in rationality, religion and education. Following them is necessary for every entity, natural or artificial, person or company, to create a just and fair society; business is no exception to it.

The Philanthropic Responsibility

Philanthropy is for the greater good of society but it must not be limited to publicity gimmicks. Media highlights charitable donations from big business houses. However, there is a small risk involved. According to Doane (2005), CSR "is not about doling money; the way business made that money is also important." Some researchers have concluded that investment in philanthropic activities improves financial performance of the firm. But evidence on the association of CSR and financial performance is mixed (Bhal, 2002). According to Doane (2005), consumers do not really buy ethical products; most surveys are on the "intention of consumer" to purchase an ethical product. How many actually buy it is doubtful. Similarly, no matter how much the company invests in CSR, investors never put their money in a loss making firm**.** They look for good returns. United Breweries, a leading manufacturer of alcohol in India, trades at a price earning multiple as high as 112.61[1].

Logically, contributions for the society should come from personal wealth of billionaires of business world and not from dividends of small, scattered individual investors. However, voluntary programs of companies utilising resources of the organisation for societal development and benefitting from synergies of operations, can be useful for both business and society as proposed by Porter and Kramer (2011). These programs will help in achieving a sustainable business and society.

This discussion culminates into the following points:

- CSR is the commitment of business to abide by law and to operate in an ethical manner when it has the opportunity to do otherwise, with identification and exploitation of business opportunities which generate mutual benefits for business and society. The term used to denote this definition may or may not be CSR but these ideas must be adopted.
- Though CSR is mandatory now, it is meaningless to expect business to compromise with profits. Just like government exists for social welfare of people, business exists to make profits for economic development; though not at the cost of laws and ethics. A win-win situation is if business houses indulge in projects which create social as well as economic value. Hindustan Unilever, the world's largest marketer of branded tea, is working closely with millions of small landholders in India, Tanzania and Kenya. By contributing to educating farmers about sustainable agricultural practices, the company has improved the economic and social status of those farmers and earned through improved productivity in return (Unilever, 2014). According to Eenhoorn (2002), former Vice President, Hindustan Unilever, "Business is bad and profit is a dirty word, it is not only wrong but counterproductive."
- CSR has to be a way of life for the corporate. It should not merely exist in the stack of documents. It should not be something external to business but something embedded in the DNA of the organisation. A perfect example of such an organisation is the Tata Group in India. The Tata's have participated in a number of ways in improving lives of people in India.

The Road Ahead

Charity has to be voluntary and responsibility if mandatory loses its essence. Instead of mandatory CSR, a strong regulatory framework which enforces existing legislations and makes it difficult for individuals and organisations to evade laws is required. Ideally, an awakening among individuals to embrace ethics for present and future prosperity is needed. The latter may be difficult to achieve but it is easy to understand that there is a possibility of many opportunities which help in achieving a balance between profitability and societal development. Nestle India's initiative in Moga district of Punjab is one such example. The factory opened in Moga in 1961 when it procured a supply of only 551 kilograms of milk per day. The company invested in village infrastructure over the years and the supply of milk increased to 950,000 kilograms per day in 2005 (Nestle, 2014). Vatsalya chain of low cost hospitals in Southern India; Hindustan Unilever's empowerment of farmers; Mohammad Yusuf's Grameen Bank; General Electric's Ecomagination; Devi Shetty's Narayan Hrudayalaya; Heinz's multivitamin and mineral supplement sachets; drip irrigation system of Jain Irrigation Limited are few other examples[2].

The two most important aspects of these initiatives are conceptualisation and implementation. For this, companies involved in these initiatives must have a few pre-requisites. These include visionary and value driven leadership, innovative products and services, tapping of untapped markets and marketing through various media.

Visionary and value driven leadership

The top management must believe in the existence of opportunities where profitability and community development co-exist. It must also have the vision to locate and exploit avenues of such nature. Further, support must be extended to lower levels of management to be able to contribute. Apart from this, commitment to expend efforts in this direction comes only from a value driven perspective of the top management.

Innovative products and services

Innovation is a key driver for successfully implementing sustainable ideas for social development. These innovations may not be drastic. They may pertain only to small, incremental changes as in the case of Heinz Company Foundation which sold and marketed Heinz Vitalita, a multivitamin and mineral supplement sold in sachets, to meet the dietary needs of Indonesian infants of six months of age and older and children up to age six (CWS Global, 2014).

Tapping untapped markets

Although "fortune at the bottom of the pyramid" (Prahalad and Hart, 2002) is debatable (Karnani, 2006), the potential for profitability inherent in such markets has caught the attention of marketers worldwide. The idea in CSR should be to tap untapped markets where there are opportunities. These markets need not be bottom of the pyramid or even rural; but there must be scope for innovation as demonstrated in the example of drip irrigation systems of Jain Irrigation Limited. This company is the only manufacturer of all drip irrigation components. Their system is a unique design to deliver a measured quantity of water at the root zone of each plant at regular intervals. Apart from water conservation, it saves labour and fertilizer costs (Jains, 2014).

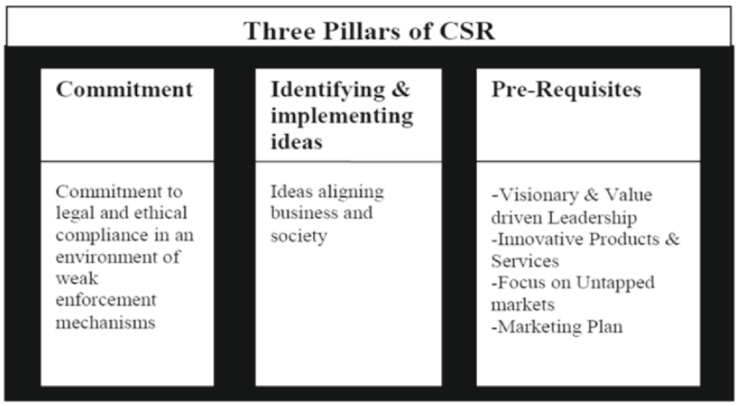
Marketing through various media

The companies which remain in the limelight for creating favourable business opportunities and simultaneously benefitting the society tend to benefit even more from the popularity attained. The documentation of Nestlé initiatives as case studies, articles in newspapers and reports of the company have spread the word far and wide. Using social media including networking sites and YouTube can also be an effective idea to publicise one's initiatives.

Three Pillars of CSR

Based on the above discussion, it can be concluded that the foundation of corporate social responsibility is to be supported by three pillars (see Figure 2). First is the commitment to ethical and legal compliance in an environment of weak enforcement mechanisms. Second is the implementation of business ideas which align interests of business and society. Third is a set of basic requirements for achieving the first two.

Figure 2 Corporate Social Responsibility: Three Pillars



However, this does not mean that the entire business environment and community will transform overnight. The idea is to look for opportunities and exploit them. Each initiative will be a step in the direction of sustainable development, with no stakeholder at a loss.

Conclusion

There is a lot of debate about mandatory CSR and the corporate world not fulfilling its social responsibility. With great power comes great responsibility; but how many of us fulfil our personal social responsibility? Be it business or an individual, we all are required to be socially responsible. Individual social responsibility is as important as corporate social responsibility. The very word business implies that these organisations are for profit and not for charity. Profit is not a bad word. Only if we call spade a spade, the potential inherent in the idea of integrating CSR into core business and viewing it as an opportunity and not as a burden can develop. This way the organisations will use CSR as a source of success, innovation and profitability.

This work is derived primarily from literature, observation and experience. It is hoped that after due empirical validation, business leaders will benefit from this stream of research. Studies, both quantitative and qualitative, to identify best practices in CSR keeping in view long term challenges of sustainability and to validate pre-requisites for implementation of these practices provide useful directions for future research.

Endnotes

[1]Source: moneycontrol.com, 17 October 2013.

[2]These examples have been taken from their respective websites (www.vatsalya.org, www.unilever.com, www.grameen-info.org, www.ge.com/about-us/ ecomagination, www.heinz.co.in, www.jains.com).

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