**International Journal of Management (IJM)**
Volume 7, Issue 3, March-April 2016, pp. 160–171, Article ID: IJM_07_03_015
Available online at
http://iaeme.com/Home/issue/IJM?Volume=7&Issue=3
Journal Impact Factor (2016): 8.1920 (Calculated by GISI) www.jifactor.com
ISSN Print: 0976-6502 and ISSN Online: 0976-6510


# CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPLICATION IN INDIA

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**ABSTRACT**

*Inclusion of socio-environmental concerns in business operations is the need of the hour. Corporate are no more judged on their financial parameters alone. Upgrading the triple bottom line is a must. The relationship of a corporate with stakeholders defines its sustainability and this is directly proportional to CSR initiatives of the firm. Although firms have devised diverse strategies to deal with the intersection of business essentials, environment and societal needs in terms of investing a specific portion in CSR, but still a huge gap exists. The paper talks about chronological development of the concept of CSR, the triple bottom line as tool to sustainability, the key stakeholders and major dimensions of CSR simple variance analysis is done to support the concept of lack of efforts on the part of firms. The firms under study are across 3 industries, oil& gas, steel and automobiles. The firms are also ranked on % basis.*

**Key words:** CSR, Triple Bottom Line, Six Key Dimensions

**Cite this Article:** Dr. Vidhi Bhargava and Dr. Nilmani Tripathi, Corporate Social Responsibility and its Implication In India. *International Journal of Management*, **7**(3), 2016, pp. 160–171
http://iaeme.com/Home/issue/IJM?Volume=7&Issue=3

## INTRODUCTION

The need of the hour across the globe is to meet the present generation needs while not tampering with the ability of future generations to meet their own needs. Corporations are being looked up to own up the responsibility of their deeds and the way in which they are handling their operations and its impact on the society and the environment. Corporations are expected to demonstrate inclusion of socio – environmental concerns in business operations and in interaction with society. Times are gone when corporate were judged on the basis of their financial statements. Financial prosperity in isolation from agents impacted by corporate action is no more acceptable. A firm has to pay attention paralleling on upgrading its bottom line and being a wonderful corporate citizen. The vision, mission, framework, policy structure all are to be designed keeping social commitments and global trends in mind. The most socially responsible corporate are only able to stay ahead of their counterparts/ competitors/ co- timers.

In addition, a paradigm shift has occurred in how corporate must present themselves in the eyes of the global stakeholders. The quality of relationship with the stakeholders in today's time largely defines the growth and sustainability of the firm and this is directly proportional to CSR activities. Firms have devised diverse strategies to deal with the intersection of business essentials, natural environment and the societal needs. Organizations can actually be placed on a developmental scale with respect to the extent to which they are blending/ clubbing social responsibility tactics into their strategy and operations worldwide. At one end of the scale are organizations that do not at all acknowledge the social needs. At the other end of the scale are those organizations that plan their operations as to significantly impact the eco-socio-ecological levels, hence resulting in a socially responsible organization beyond the traditional boundaries. Most firms lie in between.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

The concept of CSR has evolved gradually over the decades. Its meaning, concepts and functionality has changed over the time with the changes in politics, business and society. CSR may be regarded as 'the panacea which will solve the global poverty gap, social exclusion and environmental degradation' (Van Marrewijk 2003).

**During the 1950's** Peter Drucker was one of the first to explicitly talk about the social responsibility of business including public responsibility as one of the eight key areas for business objectives developed in his 1954 book, The Practice of Management. He believed that although the management's sole aim is to earn profits but it is also important that management considers the impact of every business policy on the society. In 1953, Bowen conceptualized CSR as a social obligation- the obligation 'to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society'. (Bowen in Maignan & Ferrell 2004, p4)

The **decade of 1960's** in a way made CSR a formal term for business. Most writers and researchers of this period asserted that socially responsible business decisions would bring back good chances of long run economic gain to the firm. In 1960, Fredrick wrote that 'Social responsibility in the final analysis implies a public postures toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms'. (Fredrick in Carroll 1999, p 271).

**During the 1970's** The US Committee for Economic Development (CED) 1971 described CSR as being related to products, jobs and economic growth; related to societal expectations; and related to activities aimed at improving the social environment of the firm. In Sethi's 1975 three level model, the concept of corporate social performance is discussed, and distinctions made between various corporate behaviors. Sethi's three tier were 'social obligation (a response to legal and market constraints); social responsibility (congruent with societal norms); and social responsiveness (adaptive, anticipatory and preventive)'. (Carroll 1999, p.279; Wheeler, Colbert & Freeman 2003, p.10.)

**During the 1980's** businesses became a little more responsible towards the society. The work of R Edward Freeman was very significant on the emerging Stake holder Theory (Lucas, wollin and Lafferty 2001; Post 2003; Windsor 2001). Freeman saw ' meeting shareholders 'needs as only one element in a value adding process' and identified a range of stakeholders ( including shareholders) who were relevant to the firm's operation. (Freeman in Lucas, Wollin & Laffert 2001, p150). Freeman's 1984 paper continues to be identified as a influential paper on stakeholder theory', and stakeholder theory as the 'dominant paradigm' in CSR. (McWilliams & Siegel 2001, p118). In this time the debate on sustainability development gained a lot of impetus. The world conservation strategy was also published. In 1987 the World commission on Environment and development (WCED) published the Brundtland Report,' Our Common Future' which stated that sustainable development seeks to meet the needs of the present without compromising the ability to meet future aspirations. The report actually linked sustainable development with economic growth.

**In 1990s** Corporate Social Performance (CSP), stakeholder theory, business ethics theory, and corporate citizenship were major themes that gained all the attention, (Carroll 1999, p.288), of course CSR being the basic building block.

Swanson (1995) suggested that there were three main types of motivation for CSR:

- The utilitarian perspective (an instrument to help achieve performance objectives);
- The negative duty approach (compulsion to adopt socially responsible initiatives to appease stakeholders); and
- The positive study view (businesses self-motivated regardless of social pressures) (Swanson in Maignan & Ralston 2002).

During this period concepts like environmental management and stakeholder management became very important. It is also worth mentioning that during this period a whole lot of concern and advocacy groups emerged to take care of shareholder and stakeholder concerns. In 1997, Solomon mentioned to the extent that 'now that businesses are often the most powerful institutions in the world, the expanse of social responsibility has enlarged to include areas formerly considered the domain of governments… The more powerful business become in the world, the more responsibility for the well-being of the world it will be expected to bear'. (Solomon in Joyner & Payne 2002,p.303).

## TRIPLE BOTTOM LINE FOR CORPORATE SUSTAINABILITY

Now in the 21st century, business, academia and research simultaneously talk about CSR and financial implications, CSR and ethics and morality, CSR as a social license, CSR and Sustainability, CSR a key to being a good corporate citizen. CSR a strategy, CSR a policy, CSR an employee retention tool and so on. The concept of CSR has been treated in a very broad perspective unlike the traditional narrow viewpoint. CSR is a win win process to enhance triple bottom line (TBL) benefits. TBL i.e., social environmental/ecological and financial; or 3Ps i.e., People, Planet and Profit; or three pillars of sustainability are the broad frameworks used these days to evaluate the performance of any organization.

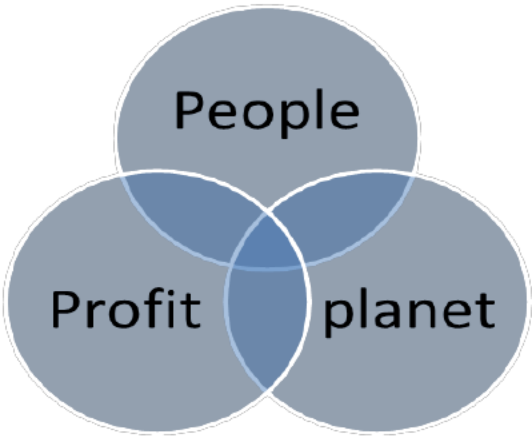


**Figure 1** 3 pillars of corporate sustainability

The term ‘triple bottom line’ was introduced by John Elkington in 1995 (Sarre & Treuren 2001) although it did not become so common until the circulation of his 1997 book, Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Traditionally businesses were acknowledged on a single bottom line “profit” or “loss” but now it’s the TBL, and CSR is at the centre stage of this TBL. TBL focuses on a whole set of values and processes that organisations have to address to for minimizing any damages resulting from their functioning and also to add social, environmental and economic value. The triple bottom line (TBL) thusscales corporations not just on the economic value they add, but also on the environmental and social value they add—and destroy. At its narrowest, the term ‘triple bottom line’ is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters.

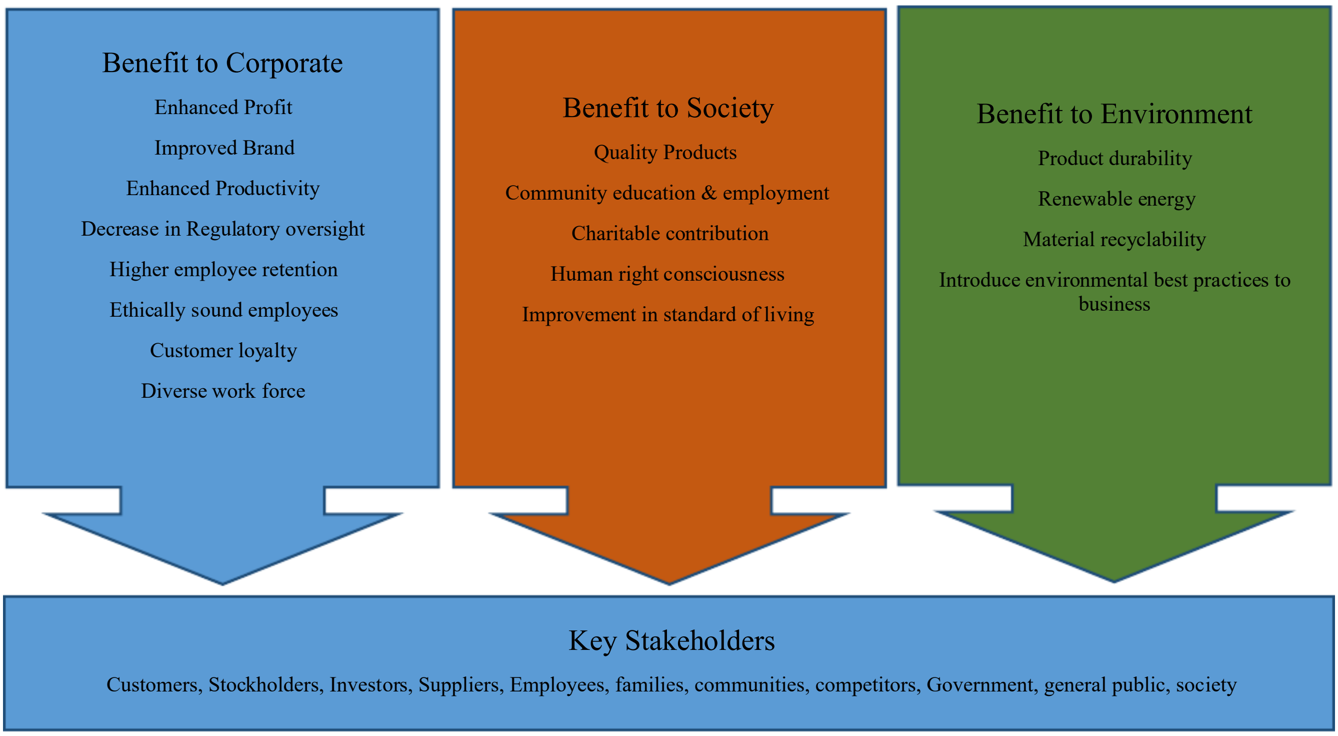


**Figure 2** Benefits of CSR

## SIX KEY DIMENSIONS OF CSR

There are six major heads or dimensions of corporate social responsibility.


**Figure 3** Six key dimensions of CSR

## CUSTOMERS

In market economies, the uniqueness that makes a business successful and gives an edge over others is to put the customers at the top. The companies that are at the top position are mostly because of their concern of understanding the requirements of their customers and focusing on long-lasting relationship by providing them with superior quality product and giving them good after sales services. Time demands that companies focus on quality management of their products so as to have fewer defects which mean less rework, lower wastage and high customer retention.

## EMPLOYEES

The environment in which an employee spend more than half of one's day, has significant repercussions on one's personality, attitude, way of thinking, living standard, life style etc. In order to make these working hours more meaningful, socially responsible businesses are trying to provide employees not only respectable wages and salary, but also a healthy, productive, positive work environment as a part of CSR activities to not only retain them but also to keep the morale and happiness quotient high.

## BUSINESS PARTNERS

In various sectors like consumer electronics and automobiles where the competition is very intense, association with business partners such as suppliers and in some cases competitors can be very useful for cut throat success. The relationship with the supplier needs to be long term as it helps in reducing complexities and costs and helps in maintaining the quality in all respects. The selection of the suppliers should not be just based on competitive bidding. A new division of labor between suppliers and customers is reinventing some industries.

## THE ENVIRONMENT

The environmental measurement of corporate social responsibility is basically the impact of business on environment. This is one of the elements of the triple bottom line, the planet. As a socially responsible organization the target is to use such processes and practices that have if not positive atleast no negative impact on the environment. Paul Hawken has defined sustainability as “an economic state where the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to provide for future generations… Leave the world a little better than you found it, take no more than you need, try not to harm life or the environment, make amends if you do.”

## COMMUNITIES

The prosperity and growth of any business is associated with the health, stability and progress of the society and of the community in which it works. The businesses like banks, retailers and newspapers cannot be successful in waning societies. The traditional set up of businesses considered that it is the sole responsibility of the government to take care of education, health, crime, unemployment etc. it is not so anymore.

## INVESTORS

Investors are changing their lookout regarding firms' performance, and are making decisions based on criteria that include social and ethical concerns. However, we would note that an increasing number of business leaders and investors recognize broader responsibilities than to those investors who seek the highest instant returns. For example Built to Last - This book is based on research carried out over a six year period by James Collins and Jerry Porras of 17 "visionary companies", those that have prospered throughout a long history and enjoy a wide reputation as leaders in their respective sectors. "Contrary to business school doctrine, we did not find maximizing shareholder wealth' or profit maximization' as the dominant driving force or primary objective through the history of most of the visionary companies.

## BENEFITS OF ROBUST CSR

As we know that in today’s environment businesses are getting more complex day by day thus good corporate social responsibility practices can make a change and can bring benefits to the entire organization. The benefits in this paper have been discussed taking small case studies and put under three heads. Community as a supplier, magnetize and maintain workforce and Enhancing Corporate Reputation.

**Communities as suppliers:** There are several modern Corporate Social Responsibility proposals up and coming, where the companies have endowed in ornamental community livelihood by integrating them into their supply chain. This has profited communities and added to their revenue levels, while offering these companies with an additional and secure supply chain.

**Magnetize and Maintain workers:** Quite a few human resource studies have linked an organizations capability to create a center of attraction, hold and encourage employees with their CSR commitments. Involvements that promote and facilitate employees to contribute are shown to increase employee morale and a sense of belonging to the company.

CSR in present scenario is a significant part of any organization’s long term strategy, not only for branding and promoting and sustaining but also for recruiting the right kind of people. The millenial are the most conscious resource these days not only as consumers but as employees too. They do not just want heavy pay cheques but also a pride in their employer's name. They want their organization to be ethically and socially robust too, apart from being financially sound. A research conducted by Cone Millenial Cause Group, discussed in The 2020 Workplace suggested that 80% of a sample of 1800 13-25 years old wished to work in an organization that worries about the social impact of its functioning. But as so much has been talked about CSR it is difficult to identify the true trendsetters.

**Enhancing Corporate Reputation:** The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programs. This allows companies to position themselves as responsible corporate citizen.

## COMPANIES ACT 2013 & CSR

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014

It says, "every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities."

The following section is an attempt to identify the preparedness of Indian industries.

## METHODOLOGY

The analysis in this paper is based on just two independent variables: Profits after tax and current expenditure on CSR. The study compares CSR expenditure with the mandatory requirement and then calculates variance. On the basis of this variance, firms are ranked. This section assumes that firms earn exorbitantly from the society and so need to reiterate some part of these Earnings to the society and hence no compromise should be made in meeting if not exceeding the mandatory requirements. The analysis is made across three industries i.e. Oil & Gas, Steel & Automobile.

**Table I** Profit after tax and CRS spending in Oil & Gas Industry

| Company | PAT | CSR Spending | 2% of PAT | Variance | %Variance | Ranking |
|---|---|---|---|---|---|---|
| GAIL (India) Ltd | 4,375.00 | 63 | 87.50 | -24.93 | -28% | 1 |
| Oil and Natural Gas Corporation Ltd | 22,094.80 | 314 | 441.90 | -127.60 | -29% | 2 |
| Hindustan Petroleum Corporation Ltd | 1,733.77 | 23.74 | 34.68 | -10.94 | -32% | 3 |
| Indian Oil Corporation Ltd | 7,019.00 | 81.94 | 140.38 | -58.44 | -42% | 4 |
| Bharat Petroleum Corporation Ltd | 3,611.25 | 34.38 | 72.23 | -37.85 | -52% | 5 |
| Petronet LNG Ltd | 712.00 | 3.17 | 14.24 | -11.07 | -78% | 6 |
| Cairn India Ltd | 12,431.80 | 47.6 | 248.64 | -201.04 | -81% | 7 |
| Mangalore Refinery and Petrochemicals Ltd | 6,011.82 | 3.47 | 120.24 | -116.77 | -97% | 8 |

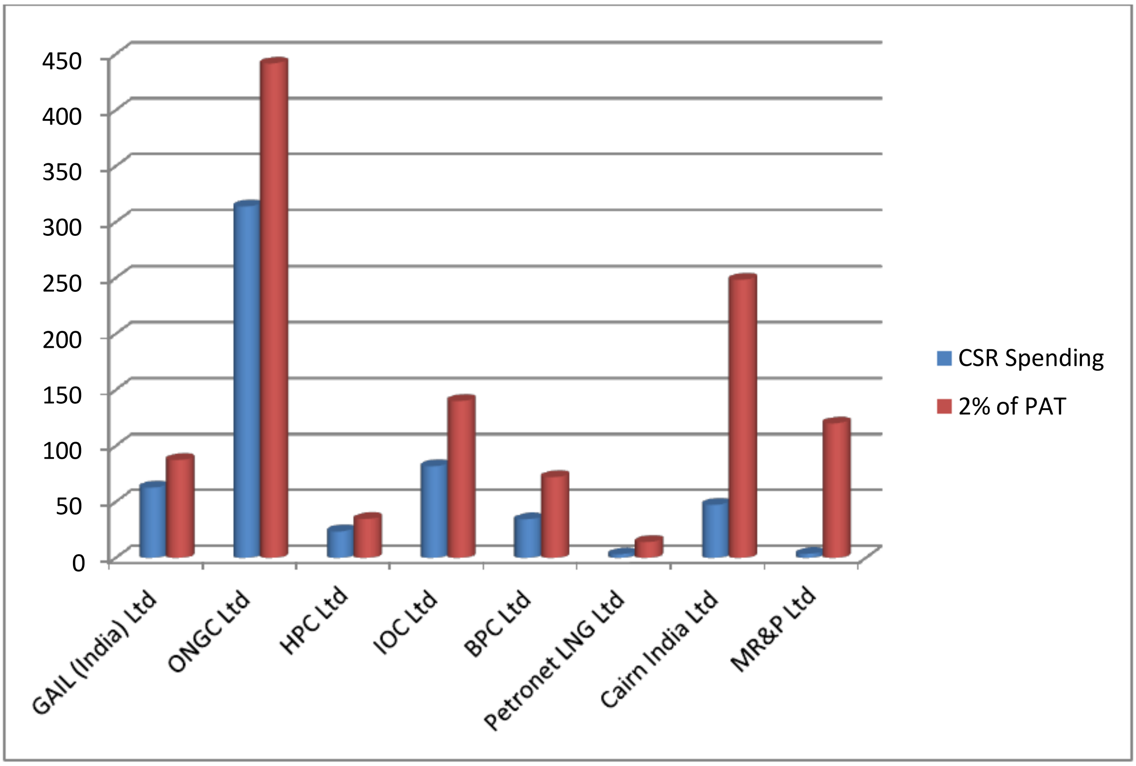


**Figure 4** CRS spending in Oil & Gas Industry

**Table II** Profit after tax and CRS spending in Steel Industry

| Company | PAT | CSR Spending | 2% of PAT | Variance | %Variance | Ranking |
|---|---|---|---|---|---|---|
| **Jindal Steel & Power Ltd** | 1,291.95 | 52.26 | 25.84 | 26.42 | 102% | 1 |
| **Tata Steel Ltd** | 6,412.19 | 212.00 | 128.24 | 83.76 | 65% | 2 |
| **JSW Steel Ltd** | 1,334.51 | 27.03 | 26.69 | 0.34 | 1% | 3 |
| **Steel Authority of India (SAIL) Ltd** | 2,616.48 | 44.87 | 52.33 | -7.46 | -14% | 4 |
| **Jindal Steel & Power Ltd** | 1,291.95 | 52.26 | 25.84 | 26.42 | 102% | 1 |

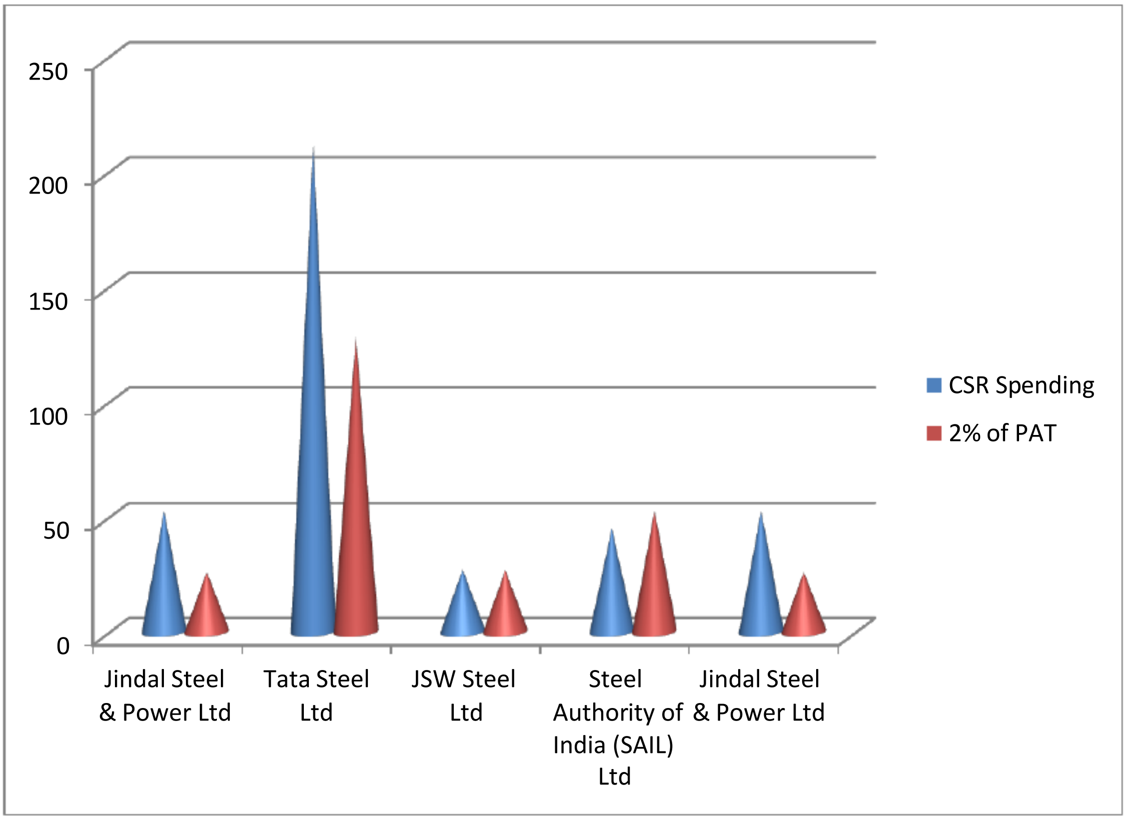


**Figure 5** CRS spending in Steel Industry

**Table III** Profit after tax and CRS spending in Automobile Industry

| Company | PAT | CSR Spending | 2% of PAT | Variance | %Variance | Ranking |
|---|---|---|---|---|---|---|
| Maruti Suzuki India Ltd | 278.3 | 23.28 | 5.57 | 17.71 | 318% | 1 |
| Tata Motors Ltd | 334.52 | 17.33 | 6.69 | 10.64 | 159% | 2 |
| Bajaj Auto Ltd | 3,243 | 12 | 64.86 | -52.86 | -81% | 3 |
| Hero MotoCorp Ltd | 2,109.08 | 1.38 | 42.18 | -40.80 | -97% | 4 |
| Maruti Suzuki India Ltd | 5,964.90 | 53.99 | 119.30 | -65.31 | -55% | |

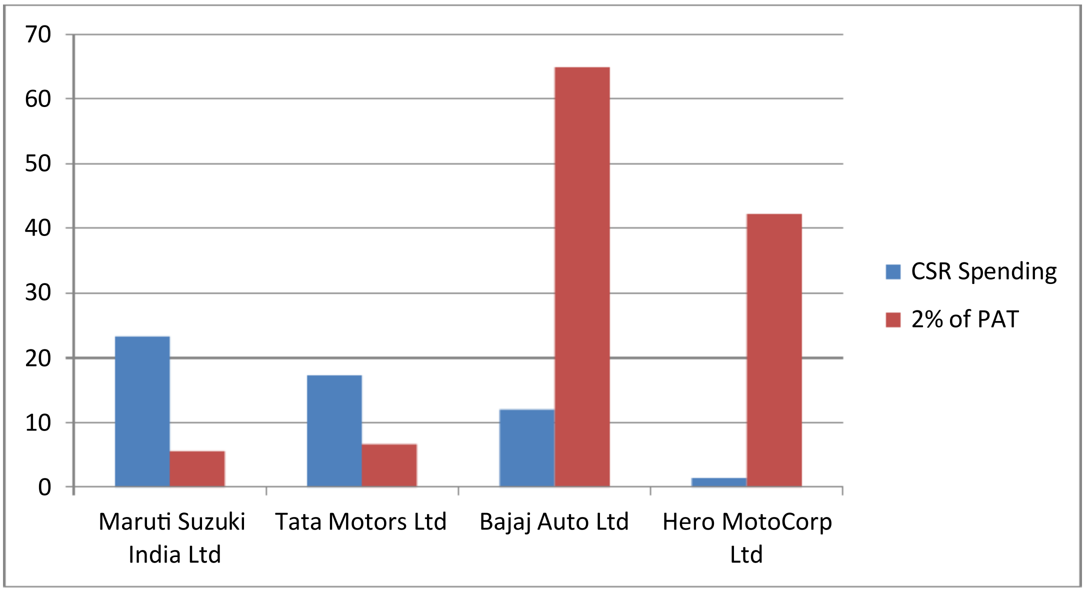


**Figure 6 CRS spending in Automobile Industry**

## KEY OBSERVATIONS

1. The overall Indian companies are far away of meeting the target of 2%.
2. The steel sector is outperforming with positive variance. (Table 2)
3. The oil & gas sector is lagging in all 3 sectors. The reason may be that most of the companies are PSU. (Table 1; Table 2 and Table 3)
4. We have observed some of the companies have provided budgets for CSR spending & maintaining a separate CSR fund.

## AREA OF FURTHER RESEARCH

1. Expansion of current studies horizontally & vertically i.e. more sector & increased companies.
2. Identification of KPI for reporting CSR.
3. Development of CSR Index.
4. Integration of CSR & sustainability in Balanced Score Card

## CONCLUSION

Corporate Social Responsibility is a set of internal and external activities of a business that directly or indirectly impact the stake holders. CSR practices are shaped by the strategy of business to develop a positive impact to the People , Planet and Profit.CSR initiatives do not just involve spending to be known in the society but it involves thoughtful and fruitful investment. This thoughtful investment helps the business to retain profits, consumers, suppliers, employees, sustainability and what not. We believe that CSR best practices lead to a wholesome act of benefits to all stakeholders.

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