Role of Corporate Social Responsibility in Developing Economies

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Abstract

When India is making a transformational progress, GDP is growing at the rate of 8-8.5 percent per annum, sensex is reaching new heights every day, world is looking at us as one of fastest emerging economies of world. Shall we assume that our society is also progressing at the same rate as the economy is growing or there is a gap between economic vs social progress of the country. If society is progressing at the same pace as the economy is growing then it is a very healthy sign but if there is a mismatch between the two then it would be very grave situation since it may widen the gap between the different strata of society. When most societies are wrestling with an acceleration and intensification of social change, there is a revolution of rising expectations. But how this change will happen. There are various measures to bring about such changes in the form of war, revolution or planned way. But in India we believe in democracy, rationality and progress. But question arises whether the initiatives taken by government for social upliftment is sufficient or private players should also contribute or government, corporate and citizen's together act for this change. This paper is an attempt to answer such critical questions. An attempt would be made to find economic vs. social progress and will try to suggest how Corporate Social Responsibility can contribute. Paper would also try to highlight the existing examples of owning social responsibilities by corporate and how they have benefited through it.

Keywords: Corporate Social Responsibility, Economic Progress, Social Progress

Introduction

According to the report of Economic Advisory Council to Prime Minster (2006), the economy is witnessing an average growth of 8.1% since past three fiscal years. Growth during this period was driven largely due to the acceleration in industry and services sector. Economic gurus worldwide have predicted that India can surpass china as far as economy is concerned by year 2050 (Economic Outlook 2006-07). However, looking from the other aspect the most critical question ahead is whether our Social growth be able to sustain the challenges and impacts like inflation, uneven wealth distribution etc. posed by this aggressive economic growth?

India's development strategy, like that of most other developing countries, has evolved over successive Plan periods, reflecting the growing strength of our economy, structural transformations taking place in the domestic economy and also developments in the world economy. In the early stages of development planning, government was viewed as the principal actor in development exercising strict control over private investment, ensuring a dominant role for the public sector in all important industries. Trade policy tended to be inward oriented focusing on industrial development through import substitution which was encouraged through a tight control over imports and maintenance of high tariffs. The limitations of this strategy became evident by the end of the 1970s and early 1980s when it became clear that these policies reduced efficiency and competitiveness and growth was much lower than targeted. While government was over-active in industry, it was under-active in many areas, especially relating to social development and this was reflected in a very slow pace of improvement in critical social indicators (Ninth Five year Plan, 1997).

Large sections of planners and policy makers in the country have argued that there exists no serious problem of infrastructural deficiency that can not be tackled through management solutions (Amitabh Kundu, 2005). All that is needed is to restructure the system of governance, legal and administrative framework in a manner that the standard reform measures can be implemented equally in all sectors. Reduction of public sector intervention, ensuring appropriate prices for infrastructure and civic amenities through elimination or reduction of subsidies,

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development of capital market for resource mobilization, facilitating private and joint sector projects, simplification of legislative system to bring about appropriate land use changes and location of economic activities etc. are being advocated as the remedial package.(World Bank 1995, Expert Group on Commercialization of Infrastructure 1996, World Bank 1998).
According to planning commission report on 2020, India is likely to attain a stationary population of 1.7-1.8 billion. It may be a dream to reach the current prosperity of the United States or may be it can not be achieved with all its attendant extravagance. But can it reach at least the average level of world's prosperity with per capita incomes of about US $ 5-6000 per year? That much is indeed necessary as it is the minimum need to avoid being looked down in the comity of nations. More than that runs the risk of evoking jealousy and inviting unwanted migration too. The Planning Commission has targeted 8 per cent growth rate but agriculture (the mainstay of rural areas) cannot grow much faster than 2 per cent. So, either rural area recede 6 per cent a year relative to cities, or there is 6 per cent rural-urban migration or rural areas are empowered to grow at 8 per cent with non-agricultural development making rural-urban migration unnecessary. (P.V. Inderson, 2006)
Most reports (Planning commission report on 2020, Expert Group on Commercialization of Infrastructure 1996, Ninth Five year Plan, 1997, Economic Outlook 2006-07) emphasized economic growth and also highlighted the importance and means of social growth but still we could not been able to achieve that sustainable social growth when we can say India's overall development is satisfying. This paper is an attempt to find economic vs. social progress and will try to suggest how Corporate Social Responsibility can contribute. Paper would also try to highlight the existing examples of owning social responsibilities by corporate and how they have benefited through it.

Indicators of Social vs. Economic Growth
At National Level

Government has claimed that the level of living of country has mounted up after the implementation of reforms (Tenth Five year plan, 2002) but parameters which can actually judge the social growth is different. These parameters are actually never considered intensively before (K.G. Nair,2004*)* who clearly showed that social growth is not occurring at the same rate as compared to economic growth. The basic parameters which he studied in his research were NSDP (Net sales Domestic product) of states, Human Development index and People below poverty line. These parameters were compared on a relative basis taking one state as a base during pre-reforms and also during post-reforms. The graph which came out of the study gives a clear cut picture of whether we are moving towards convergence or divergence of social vs. economic growth. It can be easily seen that divergence during Pre-reforms period was less prominent compared to the divergence during post-reforms period.

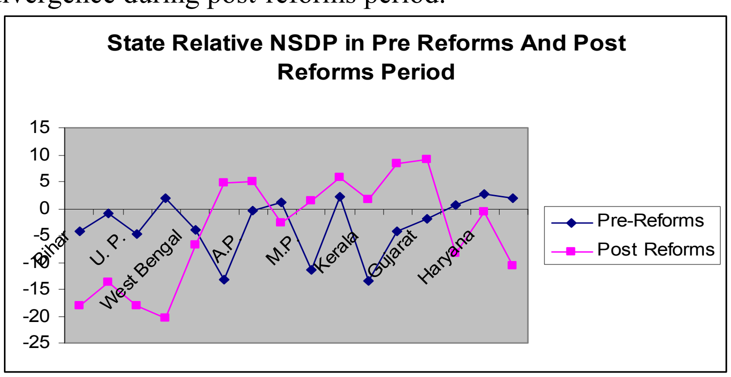


Figure 1

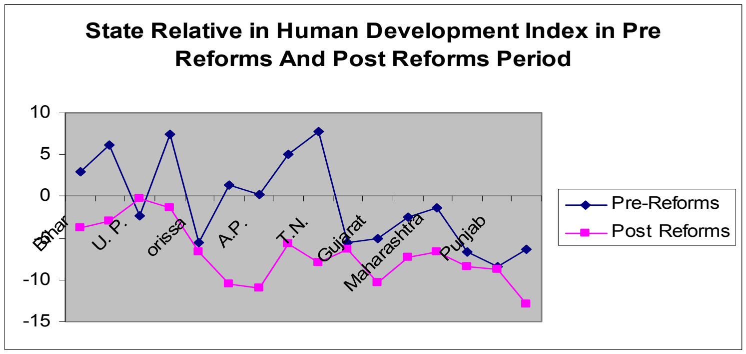


Figure 2

This graph analyzes the rate of growth in human development index at comparative scale between the states. Here also the inferences can be drawn that pace of improvement during the post reforms has considerably gone down.

At Global Level

If a comparative analysis is done on the basis of Human development index, as a key parameter for social growth and GDP per capita, as a key parameter for economic growth then we can get many interesting facts (Unite Nations Human Development Index Report, 2005-06). This analysis gives a clear scenario of how developed nation differs with India as far as Economic vs. Social growth is concerned.

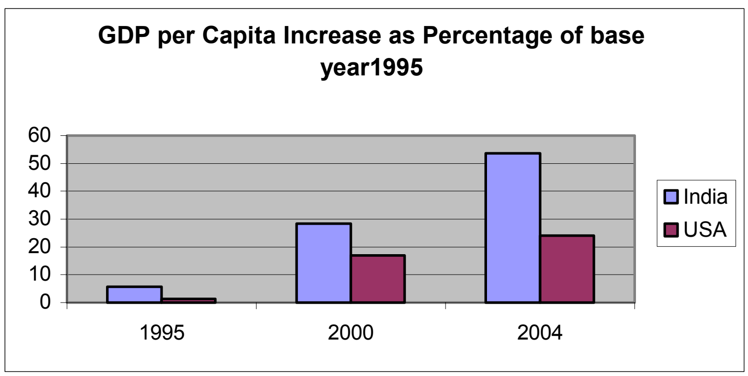


Figure 3

As can be seen from figure-3 India has been implementing aggressive economic growth that in terms of growth over the previous years India has surpassed U.S.A. India has shown a growth of over 50% in the last decade in GDP per capita. ON the other side U.S.A which is growing at a nominal rate has shown a growth if over 23%in the last decade. This is a good sign, as far as economy is concerned, for India. Now let's look at the comparative social indicator index of these economies.

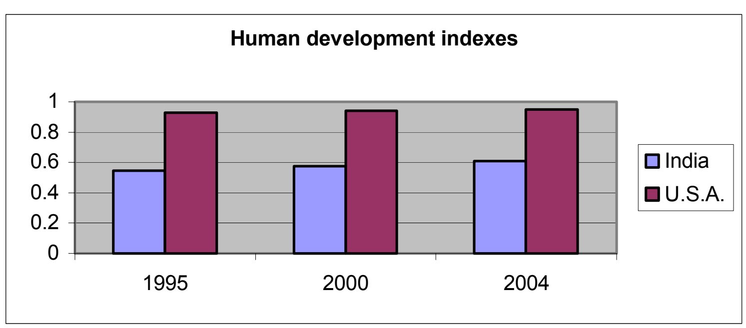


Figure 4

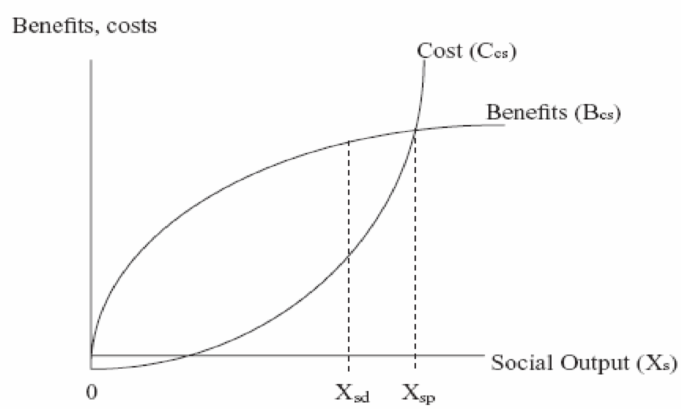
Now from figure-4 it is clearly visible that even though U.S. has higher HDI than India but the growth rate of HDI is almost consistent for both the economies. But in terms of GDP growth India is aggressive dominating U.S. growth. This shows the divergence of social vs. economic growth of India compared to developed economy like U.S. For this reason still we are dealing with many social problems like environment pollution, unemployment, Poverty and other social indicators. Also from this example it can be proved that developed economies always try to maintain balance between their social and economic growth (U.S. in this case).

CSR: Helping Society or Oneself

Corporate Social responsibility is best defined by the World Business Council as "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".

Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders (Commission of European Communities, 2004). Thus CSR exhorts firms to diverge from their sole aim of maximizing profits and to lay more importance on improving the economic and social standards of the community in their countries of operation. CSR can be thus be simply defined as the additional commitment by businesses to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. As Warhust (2001) points out, the three major elements of CSR are product use which focuses on contribution of industrial products which help in well being and quality of life of the society, business practice which focuses on good corporate governance and gives high impetus for the environmental well being and equity which tries for distribution of profits equitably across different societies especially the host community.

For many years, Milton Friedman (1962) has served as the villain in much of the Business and society literature. His adage that the social responsibility of business is to maximize profits within the bounds of the law goes against the inspiration of most business and society work that examines the impact of business power on society (Davis, 1983). His arguments have proven unconvincing to many scholars in the field, given that they seek to limit the negative impacts of business on society, while optimizing its social performance (Wood, 1991). CSR produces a range of benefits which companies get by producing some specific amount of social output (Bryan W. Husted and José de Jesus Salazar, 2006). Husted and Salazar (2006) have graphically proved how CSR would be beneficial to society as well as oneself.



In this case an example of a firm is taken which faces both a social cost curve and a social benefit curve. The corporate social cost curve (Ccs) represents the total amount spent by the firm at each level of social output. The social cost curve indicates the cost to the firm of providing additional units of social output to society. The vertical axis represents the firm's social investment – the value of resources expended by the firm to produce social outputs. It should be noted that this 'social benefit' curve is not the social benefit of welfare economics, but is the private benefit to the firm for its production of social goods. These benefits might include increased sales, the ability to extract a price premium, or reduced production costs, all of which are due to the firm's CSR projects. However, as the firm's social output increases, this output is less likely to produce the same kind of impact on its image, sales, etc. At some point, additional improvement in social output will provide no additional benefits for the firm. In fact, if the firm continues spending on the resolution of some social problem after that maximum potential output has been reached, it is likely to be viewed negatively and benefits for the firm will decrease. Given the high cost of reaching the maximum potential social output (Xsp), the optimal quantity of social output from the perspective of society is not necessarily that which eliminates all pollution, poverty, social instability, illiteracy, etc, but that which permits a society to maintain at least a minimal desirable state.

CSR Understanding in India

CSR is not a new concept in India. It has been well established in India bythe organizations having strong values for families. Historically also it CSR has been a strong influence on business, government and society (Sundar 2000, Srivastava and Venkateshwaran 2000).

Kumar et al. (2001) suggests that four models of CSR can be identified in India

- Voluntary commitment to public welfare based on ethical awareness of broad social needs: The Gandhian Model.
- State driven policies including state ownership and extensive corporate regulation and administration: the Nehru Model.
- Corporate responsibility primarily focused on owner objectives: Milton Friedman Model
- Stakeholder responsiveness which recognizes direct and indirect stakeholder interests: the Freeman model.

Though Nehru model and Gandhian model still tends to exist but due to continuous impact of western culture the Friedman model can be more influential compared to all previous models. Now the CSR activities by corporate are not limited to families it has become "Globally local". In a survey done by IIM Bangalore more than 70% participants believe that social responsibility is not only a government role but its also a corporate one and a very small proportion 17% agrees that its social obligations are responsibility of government, not corporations. This is a strong indication that social responsibility is an integrated process which has to be implemented by government and corporate as well. Nearly 80% suggests that codes of conduct are necessary to encourage accountability and transparency. Both these responses suggest a significant variation from the Friedmanite view of "business being in business for business"

Areas of CSR concern and Corporate Performance

Problem issue	% agree that it is a major concern	Extent of corporate assistance or support (%)		
		Large	Small	Total
Pollution	77	13	29	42
Roads	75	11	27	38
Power	60	14	30	44
Health	60	20	38	58
Water	59	11	24	35
Security	54	10	28	38
Education	48	22	44	66
Communication	47	29	31	60

Table 1. CSR Issue Properties

Also from the survey the resulting response (table 1) clearly tells the perception of respondents towards the corporate for fulfilling social needs. It's not surprising that still the major problems which are faced by urban population are pollution, roads and power as compared to least concern area which is communication and education. This survey text evidently proves that CSR is highest in India in the factors which is education and communication which is always identified as the most important development concern by the government.

In an survey conducted by CSM (2001), the perceptions of companies towards various parameters of CSR has been brought forward. The various dimensions of CSR valued by companies are national wealth, employment, environment and social programmes including health and literacy. The Green Paper (2001) identifies two main dimensions of companies implementing CSR, an internal dimension relating to practices internal to the company and an external dimension involving stakeholders. Dawar and Chattopadhay (2000) point out the instance of whirlpool. "Whirlpool discovered that it was unable to sell its high priced, fully automatic machines in the emerging markets. It was only after it introduced twin-tub machines that were cheaper and utilized the consumers' labor rather than electronics to complete the entire washing cycle that sales took off. Interestingly, due to the fact that these machines had long disappeared in the developed markets, Whirlpool had to acquire the 'obsolete' technology from Korea." According to Robbins (2000), "Companies operating in countries where human rights are regularly violated may experience a climate of civil instability and corruption that makes for uneasy relations with government officials, employees, local communities and shareholders." In the context of emerging markets, operations of companies should not impinge on the land rights of the local community. In particular, the company needs to make sure that people are not forcibly removed from their homes and their livelihoods are not endangered.

Existing Examples

There are many Companies which have been implementing CSR for the benefit of society and also for the benefit of their organization. In this context we will see the social activities which were performed by Ashok Leyland in terms of many factors like environment, Safety and health, life cycle assessment and society (Ashok Leyland Report on CSR, 2005-06).

Environment

As a practice, rainwater-harvesting projects have been implemented extensively to improve the ground water table in Bhandara and the saved water is used during summer to prevent depletion of ground water. Over the years, two artificial ponds with 40,000 KL and 10,000 KL capacities and a check dam of 30,000 KL capacity have been created at the Bhandara (Maharashtra) unit. As water is available round the year in these water bodies, a rich variety of flora and fauna flourish around these ponds. During the heavy downpours in end-2005, the ponds filled up and overflowed. After the rains, the living organisms in the ponds, including the fish, were found to be dying in large numbers. Extensive analysis of the reasons was carried out in coordination with a few Governmental agencies. The root cause was found to be an increase in the 'Biological Oxygen' demand due to sudden changes in atmospheric conditions accompanying the downpours - a serious threat to the living organisms in the water. As a solution, a chemical called Nualgi was used to increase the Oxygen content in the water and the problem was solved.

Safety and health

As the old adage goes "what is not identified is not controlled" and to ensure that as many unsafe conditions are identified, an extensive 'hazard mapping' exercise has been taken up and is nearing completion. The results of the mapping are being used to improve safety at all locations. As far as improving contractor safety is concerned, many new initiatives like auditing the usage of Personal Protective Equipments among the contract workmen, having a Safety Officer for large contractors and extensive training for all contract workmen have been put in place. To improve access to safety information and training, an IT portal on safety is under construction. This portal, to be accessible to all employees, will have modules for reporting of incidents and accidents, training modules and general information on safety issues. While isolated efforts to improve safety are effective in the short term, accident prevention demands a comprehensive system. Towards this, the implementation of an Occupational Health and Safety Management System on lines of the OHSAS 18001, is being accelerated and given impetus. Training programmes to all executives and associates have begun in right earnest and are nearing completion.

Society

Ashok Leyland has commissioned the Driver Training Institute (DTI), Burari, in partnership with the Government of National Capital Territory of Delhi. *"To ready a commercial vehicle driver for life on the road - and off the road"* is the mission of this first ever such public private partnership in North India. Operating on a revenue-neutral basis, the Institute runs under an apex governing body called FAITH (Foundation to Assist Inculcating Traffic Habits), constituted by the Government of Delhi. The DTI is built on 12 acres of land that houses classrooms, an auditorium, a library and a trainee's hostel. It has a 2.2 km driving track with various road configurations complete with electronic signals, signboards, road markings and streetlights for night driving. Trained instructors impart theoretical and practical training to the drivers. In line with the driving environment and current needs of drivers, practical training and tips on fuel efficiency and handling of hazardous goods are also provided.

Yoga and AIDS awareness are also part of the exhaustive curriculum. To start with, the institute provides a two-day refresher course for heavy vehicle drivers, evaluation of heavy vehicle drivers, PSV badge training programme and a programme on defensive driving and fuel saving. It hopes to add more courses in the future.

Conclusion

With increasing and widespread commitment of corporate resources to CSR, attention is now shifting to the strategic formulation, implementation, and measurement of the market returns to CSR initiatives. But still a concern to companies is whether their focus on "doing good," will provide positive returns to their CSR actions. This emphsize the need for better measurement models of CSR that capture and estimate clearly the effects of a company's CSR actions on its stakeholders as well as the nations in which they are operating. In this paper we have tried to highlight that developing economy like India is progressing at a growth which is much higher to its social growth. It is increasing the gap between the different strata of society in the country in terms of employment, human development, capital distribution and poverty. Public sectors companies and government are continuously introducing reforms to achieve the balance but it seems that it is not sufficient to bring revolutionary changes in the social progress. So there is urgent need that all stakeholders in national economic development put synergistic effort to create a impact. This balancing has to be achieved or growth has to be stabilized in respect to social growth else the divergence between them will cross a threshold and after that a downfall will come which will lead to a stagnancies in growth.

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