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MANDATORY CSR AND ITS IMPLICATIONS FOR THE BUSINESS AND SOCIAL SECTOR IN KERALA

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ABSTRACT

Corporate social responsibility (CSR) can be an effective platform for engaging with the society meaningfully for corporate houses. Growing disparities in economic growth among different strata of the society is a matter of widespread concern in India and this has important ramifications for the country's corporate sector as well. Mandatory CSR spending as stipulated in the Indian Companies Act, 2013 has also contributed to the growing interest in the role of corporate sector in social development among practitioners and researchers in the area of CSR. Companies based in Kerala, despite having a long record of social involvement, have not been able to extend their sphere of influence beyond the local community and therefore the CSR initiatives do not lead to commercial benefits through enhanced brand reputation and public visibility for these companies. However, this situation is slated for change following the mandatory CSR clause in Companies Act as many companies are likely to seek more professional ways of managing CSR programmes because of the considerable size of mandatory CSR spend. This can definitely help the social sector in the state in several ways. Increased infusion of corporate funds will definitely be a boost to the sector. But this increased participation by corporate sector can also bring with it increased commercialisation and shifting of priorities in social sector. The present paper is an attempt to present a conceptual analysis of the role of corporate sector in the social development sector in Kerala in the present scenario. The analysis, which is based on extensive literature review of the relevant concepts, hopes to make significant contribution to the understanding of CSR by Kerala based companies and corporate participation in social sector in the state of Kerala.

KEYWORDS

corporate social responsibility (csr), mandatory csr, cross sector partnership, csr in kerala, corporate philanthropy.

INTRODUCTION

Business organizations are no longer evaluated by financial performance or legal compliance alone. Traditional bottom line has been replaced by triple bottom line and therefore, companies are expected to be accountable for social, economic and environmental impacts of their operations. Rising concern for sustainable development has led to higher standards in social responsibility and performance on the part of business. Civil society and governments have become extra vigilant in matters of business-impact on environment and society all over the world. Corporate social responsibility (CSR) of business assumes higher significance in countries like India given the poor state of socio-economic development and rising inequities in growth and development. Despite the high rate of growth in the economy and the rise in the fortunes of the private business sector, precious little has changed for those at the lower sections of the society. Against this backdrop, it is only natural that the society demands performance on social responsibility front from companies in India. In India corporate sector is not believed to have done enough on this count. As a percentage of GDP, corporate responsibility share of Indian corporate sector is low compared to other countries (Sundaram, 2011).

In the wake of the recently implemented Companies Act, 2013 provisions on CSR, debate on social responsibility of business and the impact of mandatory CSR on social sector and the business sector is a hotly contested one among academicians and business professionals. The present article is an analysis on the implications of mandatory CSR on the business and social sector in Kerala.

REVIEW OF LITERATURE

THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility of business as a concept has evolved a lot in literature from its early days. CSR is generally regarded as the moral obligation of business organisations towards society. Keith Davis defined CSR very broadly as "business decisions and actions beyond economic considerations". (Davis, 1973). Some scholars consider CSR as social concerns firms should have in addition to the primary concern of economic interests. Carroll (1979) puts forward four categories of social responsibilities of business, namely economic, legal, and ethical and discretionary responsibilities. CSR is generally understood as voluntary activities undertaken by corporate entities for the betterment of the society which includes environmental protection, community development, public health, and primary education etc. One can see a discussion on how responsibility is different from responsiveness where the latter indicates a deeper level of engagement than the former (Sethi, 1975; Ackerman & Baver, 1976).

Even though the term social responsibility appeared in literature only in 1950, the concept was practiced much earlier by firms in many parts of the world, including India. The concept has its origins the realisation by firms that they are part of the society, drawing valuable resources from it for the firm's existence. CSR can be defensive or proactive. Defensive CSR is taken up mainly as a protective measure against possible negative image due to adverse impact on environment or society, associated with one's business operations. Proactive CSR arises from the need to meet the expectations of stakeholder groups.

Social responsibilities as perceived by society have evolved over time. Changes can be seen in all categories of responsibilities. As society progresses, expectations undergo changes in economic, legal, ethical and discretionary fronts resulting from changes on competitive dynamics, legal requirements, social-cultural shifts, developments in technology etc. According to him, CSR was a process rather than an outcome (Jones, 1980). Companies are under pressure to demonstrate their social commitment in emerging economies because of the rapid economic growth in some of those countries has led to a widening gap in economic and social progress. Alignment of private and public interest is what is sought by integrating CSR into the very conduct of business.

However, there are scholars who argue against the concept of social responsibility of business in the sector. Among the voices of dissent, Friedman (1962) was the most prominent critic of the idea, who opposed the idea on the basis of the possibility of social concerns undermining the economic performance by diverting the focus of the firm from the core business. This line of argument is consistent with the conceptual ground that the primary responsibility of the firm is towards the shareholders i,e., to maximise profits. Pursuing social objectives may lead to less than optimal performance in making profit which is akin to lapse in fiduciary duties of the firm. However as the concept evolved and more companies started following CSR, the early apprehensions against the social responsibility idea slowly waned. Drucker (1984) dismissed the misgivings about CSR as being at odds with profit goals of the firm by pointing out the possibility of leveraging CSR for deriving economic benefits.

WHY CSR?

It is clear that CSR is basically approached by business as a tool to manage the existential concerns of their organisations for. Davis (1960) proposes that withdrawal from social engagement can lead to reduction in power of the firm. Thus enhancing social power is a strong incentive for active CSR initiatives by firms. Thus companies are expected to engage meaningfully in society so that they meet the expectations of the society in which they exist and thus protect their power and legitimacy. The primary reason for firms' interest in CSR seems to the operational legitimacy concerns whereby firms seek to bridge the gap between own performance and societal expectations (Sethi, 1979). Firms attempt to legitimise its existence by 'giving back' to the society in the form of taking up responsibility for performance outside of legal requirements and economic functions

The ‘business case’ for CSR is also equally strong, given the literature support for this concept in varied sectors and settings. Impact of CSR on different facets of firm’s performance has been the topic of research in management literature for years. The general results present a robust support for positive impact of CSR on performance of organisations. It is reported that corporate social responsibility leads to enhanced corporate reputation for the firm as general public and stakeholder groups are likely to have positive image of the firm due to its social performance(Brammer & Milington, 2005; Brammer & Pavelin, 2006; Hansen, 2004). Corporate reputation is regarded as ‘publics’ cumulative judgements of firms over time’ (Fombrun & Shanley, 1990,p-235). Corporate reputation is an important success factor for firms as it indicates the effectiveness of the firm in meeting the expectations of the stakeholders (Freeman, 1984). Brammer (2005) argues that social expenditure of the firm helps the firm in stakeholder management, even protecting the firm against negative perceptions in the case of adverse impact of operations on society.

Corporate social responsibility is an effective tool in human resource management too. CSR has been positively associated with employee engagement and talent attraction (Mirvis, 2012). CSR is projected as an effective internal marketing tool whose power depends on its ability to satisfy the higher order psychological needs of the employees (Bhattacharya, Sen, & Kurschun, 2008). It is also believed that customers, one of the most important stakeholder groups for the company, also respond positively to the company’s performance on the social front. Some regard CSR spend as good money that will come back as “goodwill refund” (Grow, Hamm,& Lee, 2005). Contention that CSR can be visibly rewarding to the companies is supported by research evidence on the link between perceived corporate social responsibility and consumer behaviour, especially when there is a “fit” between the business and the social initiatives (Becker-Oslen, Cudmore,& Hill, 2006). Close integration of social responsibility initiative into the core business operations of the firm is widely acknowledged to be an essential ingredient of a successful CSR strategy for any firm (Porter & Kramer, 2006). Strategic fit between the CSR initiatives and the core business of the firm is often emphasised as important for sustainability and success of CSR programmes. The ‘fit’ refers to the “consistency with prevailing business routines and resulting contribution to business performance” (Yuan, Bao, Verbeke, 2011, p.76). Fit with the business can be analysed in terms of consistency with other CSR projects, how it suits the business operations and how consistent CSR initiatives are with stakeholder expectations (Yuan, 2011).

AN OVERVIEW OF THE NEW CSR POLICY IN INDIA

The recent companies Act, 2013 is a game changer for CSR field in the country. As per the relevant sections of the Act, companies having net -worth of INR 500Cr or more or a turnover of INR1000 Cr or a net operating profit of INR 5Cr are required to spend 2% of their three year average net operating profit on CSR. The act provides for the setting up of a CSR committee which is entrusted with the overall management of the CSR activities of the firm including planning, budgeting and monitoring. The act also gives in Schedule VI a list of activities that may be considered as CSR activities. The activities are wide ranging starting from poverty eradication to contribution to Prime Minister’s Relief Fund. Education, public health, gender equality, environmental sustainability etc come under the term corporate social responsibility.

An interesting observation in view of the mandatory CSR in India, is that legally enforced CSR obligations is not considered in literature as real corporate social responsibility initiative. Only voluntary acts of business to contribute to social betterment can be regarded as CSR (Jones, 1980). E&Y estimates that 3000 companies in India will be required to participate in the mandatory CSR spending which will amount to s whopping Two billion dollar in CSR activities in India. Many look at it as a step in the right direction towards ensuring sustainable and equitable growth. Even though fully convinced of the need for corporate social responsibility, a common problem for most companies is that they have not figured out how to translate this into action (Porter & Kramer, 2002).

CSR PRACTICES IN KERALA

CSR practices of companies is an under-researched area in India in general and Kerala in particular. Only one major study is available in the specific context of Kerala-based companies which is a descriptive analysis of the social responsibility practices in Kerala (CII, 2012). Corporate social responsibility in Kerala can be termed as mostly philanthropic in nature. Strategic angle seems to be missing in CSR initiatives of most of these companies. A content analysis of the report on CSR practices of Kerala-based companies by Confederation of Indian Industry (CII) reveals that most of the social programmes taken up by the companies are stand-alone philanthropic pay-outs to local government bodies or nonprofit organisations for social causes in the local communities (CII, 2012). Health care and education are the two most important area of CSR spending for the companies. All the companies covered by the study reported major part of CSR as healthcare – related. Financing medical camps, financial aid for medical expenses for the local community are the activities taken up by the firms in this regard. CSR activities in education also follow a similar path of granting financial aid. Local schools and individuals from local communities are the major beneficiaries of the above programmes.

Analysis of the CSR activities of selected companied in Kerala as per the above mentioned study reveals the following characteristics. One, corporate social responsibility is still at a philanthropic level in Kerala and is yet to reach a strategic plane. Therefore, we are still far from CSR as a contributor to competitive advantage as theorised in CSR literature. The strategic ‘fit’ between CSR and the firm’s operations does not seem to be consideration in social initiatives of companies here. But CSR programmes are mostly local-area specific, concentrated around the location of the manufacturing facility of the firms. It can be considered as defensive as per the classification used in UN (2007).

Two, CSR initiatives are focussed on public health and education. These two sectors are attractive targets for the visibility they provide for the programmes. However, from a societal point of view, these two sectors are already priority areas for government action. Kerala is known to have made creditable progress on both fronts, at least by Indian standards. Therefore meaningful contribution to development by corporate sector is only a distant possibility through philanthropy or charity in these areas.

IMPACT ON BUSINESS AND SOCIAL SECTOR IN KERALA

Mandatory CSR or legally-enforced CSR is often based on governments desire to promote participation by private sector in social and development arena. However a thorough analysis of costs and benefits of greater involvement of corporate sector in social sector is necessary for predicting the effectiveness of this step. With greater budget allocation for social activities, corporate sector will become a significant player in the social sector. Traditionally, state and nonprofit sector are considered the principal actors in the field. Many societies still consider the government as the principal agent of change and development due to its pervasive presence in the society as an allocator of resources and controller of implementation. However, there are certain inherent problems that come in the way of government as an effective and efficient mechanism for dealing with social problems. Government agencies often lack the experience or grass root level existence to handle social issues which often need deep understanding of the requirements of the beneficiaries (Salamon et al., 1999). Lack of decentralised planning and design of social programmes only exacerbate the problem. In social services, service design is an important factor impacting the effectiveness which in turn depends on proper identification of beneficiaries’ needs and service-related behaviours. Government agencies are likely to be found wanting in this respect. This has prompted some scholars to insist on active government support to the nonprofit sector for enabling the sector for better social service design and delivery (Ryan, 1999).

Nonprofit sector is widely regarded as the ideal sector in not-for profit services. The sector’s advantages come from its characteristics such as social-nature of mission, autonomy, grass root level existence etc. Organisational objectives of nonprofit organisations are social in nature and not profit-related. Hence these organisations can seek and serve those sections of society not attended by for-profit organisations in certain services. Government agencies may also not reach all pockets of population in a country as government action is guided by political process shaped by majority needs. Thus nonprofit organisations emerge as a result of the gap created by the missing government and for-profit corporate sector in public and/or social service.

In the wake of the new policies in CSR, nonprofit sector is likely to see a substantial growth in corporate funds reaching the sector. Business sector, aware of its own limitation in managing social programmes, may look at nonprofit organisations for partnership for any stage in the CSR programme design and delivery. Growth in cross sector partnership may be one of the most important characteristics of the post-mandatory CSR scene in social sector. This can contribute to the growth of the nonprofit sector in the state through capacity building, professionalising social services etc.

Mandatory CSR initiative has implications for the state's business sector too. The business sector in Kerala will definitely see bigger budgets for CSR activities for companies. Though an estimate on the likely total CSR spend in the state or the total number of companies covered by the CSR provisions is not yet available, some initial forecasts puts the figure at INR 350-400 Cr and 135 companies. Therefore, in the days to come CSR will move from the margins to the centre in business policy in the state. Companies head-quartered in Kerala, especially the banks may try to leverage the CSR activities as a differentiator in the market. If that happens, sustainability of CSR campaigns for the companies will improve and the corporate sector in Kerala can make meaningful contribution to development of the state.

CONCLUSION

The new CSR policies will make a huge impact on the conduct of the business in social responsibility related matters. Social responsibility initiatives of firms are likely to come under more public scrutiny and therefore companies are likely to look for innovative ways of discharging their duties in this regard. The new policy, as discussed earlier in the paper is likely to lead to a substantial rise in the CSR spend of the companies in Kerala. Education and health, being the present focus of most of the companies in Kerala can be expected to get a large proportion of the funds. However, the analysis shows that companies will have to progress from the philanthropy approach to a more proactive approach in order to make real change in the society and to derive long term commercial benefits for business. The implications for the nonprofit sector are a mixed bag, consisting of positive outcomes such as access to funds and capacity building on one side and probable long term adverse effect on operational autonomy and resource dependence.

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