

CRITICAL ANALYSIS ON CORPORATE SOCIAL RESPONSIBILITY

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Abstract

Corporate social responsibility (CSR) is a self-adjusting business model that helps a company be socially responsible and liable to itself, stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be aware of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that encourages society and the environment, instead of contributing negatively to it. Consumers consider more than quality goods and services when choosing a brand. Many are prioritizing corporate social responsibility (CSR), and holding company liable for effecting social change with their corporate beliefs, practices and profits. In fact, some will even turn their back on their favorite companies if they believe they're not taking a stand for societal and environmental issues. But consumers are not the only ones who are drawn to businesses that give back. A company's CSR strategy is a big factor. Maintenance is another major part of CSR. You must actively and continuously work on your process; it is not a one-time process.

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1. INTRODUCTION:

Corporate Social Responsibility (CSR) is also called corporate conscience, corporate citizenship or responsible business. CSR is form of corporate self – regulation integrated into a business model. CSR policy functions as a self – regulatory mechanism whereby a business monitors ensures its active compliance with the spirit of the law, ethical standards and national and international norms. With some models, a firm’s implementation of CSR goes beyond compliance and statutory requirements, which engages in “actions that appear to further some social good, beyond the interests of the firm and that which is required by law”. The binary choice between ‘complying’ with the law and ‘going beyond’ the law must be qualified with some variation. In many areas such as environmental or labour regulations, employers can choose to comply with the law, to go beyond the law, but they can also choose to not comply with the law, such as when they deliberately ignore gender equality or the mandate to hire disabled workers. There must be recognition that many so called ‘hard’ laws are also ‘weak’ laws, weak in the sense that they are poorly enforced, with no or little control and/or no or few sanctions in case of non-compliance. ‘Weak’ law must not be confused with soft law. The aim is to increase long-term profits and shareholder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. CSR strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities and others.

2. STATEMENT OF PROBLEM:

Whether CSR strategy as a huddle in the growth of the company, or it can fulfil without any obstrucater?

3. RESEARCH HYPOTHESIS:

CSR for the social welfare has positive correlation with company financial performance and corporate value.

4. RESEARCH QUESTION:

Is there any need to investigate effect of CSR strategies on acquiring competitive edge?

5. RESEARCH OBJECTIVE:

Investigate effect of CSR strategies on acquiring competitive edge.

6. RESEARCH METHODOLOGY:

This research paper is based on the doctrinal method in which data is collected from the secondary resources. In the secondary resource some books, e-books, articles etc. have been referred. After collecting data from these resources the materials were filtered and included in the research paper.

7. LITERATURE REVIEW:

According to Douglas and Emily (2011), business environment has changed significantly recently. To survive in this dynamic business environment, businesses have been forced to adapt various strategies, among them being the integration of corporate social responsibility (CSR) into their business models. Bendell (2005) argues that, there is no single definite definition of what CSR is, as various organizations define this concept in different ways. However, most of these definitions are closely related in the sense that they relate CSR with how organizations manage their business process to create a general positive impact on the society. Thus, CSR is universally defined as the ongoing dedication by organizations to act in an ethical manner as well as to contribute to economic development, at the same time enhancing the quality of life of their employees, their families, and the local community and society entirely. From this definition, it is evident that CSR is all about how organizations relate to the external and internal environment, in the course of pursuing its business motives. Blowfield (2005) argues that, due to its recent popularity, CSR has attracted research interests lately. Particularly, there is wide literature on CSR in relation to sustainability, profitability, and ethical issues.

In relation to profitability, different scholars have given varying views on how CSR affects profitability. For instance, Berkhout (2005) argues that CSR is a crucial element in enhancing profitability, especially in current dynamic business environment. Lately, most companies have embraced CSR in their business model because it is perceived that it is an impetus of increasing profits. According to Bendell (2005), CSR contribute to increasing profits through various ways. For instance, by embracing CSR, an organization earns respect in the marketplace, which is likely to attract higher sales. Specifically, it is easy for an organizations engaging in CSR activities to earn customer loyalty in the market. Campbell (2007) asserts that, through embracing the spirit of CSR, consumers tends to believe that a

company has is concerned with their needs, and is ready to modify its business motives to cater for these needs. Consequently, consumers will always identify with the company, consuming their products and services from time to time; hence contributing to the company's profitability. In yet another study, Blowfield (2005) observed that in consumer industries, CSR is linked with better corporate financial performance; however, this is not the case when it comes to industrial industries. In addition to enhancing profitability through improving the image or brand of a company, profits are also enhanced to an organization's ability to attract qualified personnel through its CSR activities. It has been observed that firms that engage in CSR activities, especially on issues affecting their workforce, have a better chance of attracting more qualified personnel. As Robbins (2011) argued, qualified personnel increase the overall effectiveness and efficiency in a firm's performance entirely, and this translates to high profitability.¹

8. CORPORATE SOCIAL RESPONSIBILITY:

8.1 GENERAL HISTORY:

Increasingly, local communities, the media, NGOs, consumers, and civil society in general are demanding that business be carried out in an ethical and socially responsible manner.

Though great progress has been made by many companies operating responsibly in highly regulated countries, there remains challenge in less developed regions.²

A number of guidelines have emerged to help companies shape their CSR practices, and the International Organization for Standardization³ (ISO) is looking to build standards around CSR.

By and large, many companies are recognizing the need to balance environmental, social, and governmental issues (ESG). Most have willingly begun to implement practices in their day to

¹ Bendell, J., 2005, in whose name the Accountability of Corporate Social Responsibility Development in Practice, Vol. 15, No.4, 362-374.

Berkhout, T., 2005, corporate gains: Corporate social responsibility can be the strategic engine for long-term corporate profits and responsible social development. *Alternatives Journal*, 31(1), 15–18.

Blowfield, M., 2005, corporate social responsibility: Reinventing the meaning of development. *International Affairs*, 81, 515–524.

² <http://www.cim.org>

³ <https://www.iso.org/home.html>

day operations, demonstrating how CSR should be a core value. And a wealth of civil society organizations (CSOs) and other bodies are available, both to ensure companies work towards CSR objectives, and to help them meet those goals.

The '60s & '70s

Examples of corporate social responsibility began to emerge, and the civil rights movement, consumerism, and environmentalism greatly changed the way society expected the business world to behave.

In 1960, the Organization for Economic Co-operation and Development (OECD) convention was created to promote policies aimed at achieving "highly sustainable economic growth and employment, and a high standard of living in Member countries, all while maintaining financial stability."

The convention also sought to "contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations."

With the '70s came the common use of the term CSR, along with many attempts to officially define the phrase.

The UN conference of 1972 in Stockholm considered the ever-growing need to find a common ground between both communities and businesses across the globe to preserve the human environment.

This conference led to the establishment of the United Nations Environment Programme⁴ (UNEP), amongst many other national environmental protection agencies.

The mid 1970s gave birth to "Impact and Benefit Agreements"⁵ (IBAs) between Canadian Aboriginal groups and extractive sector companies. These agreements outlined commitments by the company for re-location, employment, and training on projects constructed near Aboriginal communities.

The '80s & '90s

⁴ <http://www.unep.org/>

⁵ <http://www.impactandbenefit.com/>

In 1980, the International Union for Conservation of Nature⁶ (IUCN) released The World Conservation Strategy. It identified the main culprits of habitat destruction as "poverty, population pressure, social inequity, and the terms of trade."

The new International Development Strategy focused on achieving a more stable world economy, stimulating economic growth, evening out social inequities and countering the worst impacts of poverty.

In '87 the concept of sustainable development was introduced and finally defined in the groundbreaking report Our Common Future. The World Commission on the Environment and Development, under Chair Gro Harlem Brundtland, delivered the report to the United Nations.

Former Canadian Ambassador Jim MacNeil served as Secretary General to the commission. In response to the Brundtland Report, then Prime Minister Brian Mulroney announced Canada's intention to establish an international institute devoted to sustainable development to the UN in 1988. Thus the International Institute for Sustainable Development⁷ (IISD) and the National Round Table on the Environment and the Economy were created in the '89-'90 time period.

In 1992, the UN Earth Summit was held in Rio de Janeiro. The summit introduced the "triple bottom line" business model, as well as the idea of using sustainable development to a company's competitive advantage.

The New Millennium

The year 2000 saw more mergers and acquisitions than any other year in history. In November, the international "Partners for Progress" conference was held in Paris. It stressed the importance for businesses to adopt socially responsible behaviour, in an effort to move forward towards sustainable local development.

The results of the conference were published in Corporate Social Responsibility: Partners for Progress, OECD, in 2001.

⁶ <https://www.iucn.org/>

⁷ <http://www.iisd.org/>

8.2 AN AMWAY CASE STUDY:

Amway is a global direct selling organisation. It has to deal with many different stakeholders with different objectives. These stakeholders may be internal or external to the company and can affect or be affected by Amway in different ways.

Its organisational structure is based on a network of Amway Business Owners (ABO's) who work independently. Therefore, it is important that Amway sets the standards of ethical business behaviour for the people who work with, and for, the company. It demonstrates these standards by setting rules of conduct and codes of ethics. In addition, it puts its ethics into practice through its various CSR programmes of activity, supporting the environment, its employees and disadvantaged children across the world.⁸

8.3 INDIAN COMPANIES ACT, 2013:

India's new Companies Act 2013 (Companies Act) has introduced several new provisions which change the face of Indian corporate business" Companies Act 2013 (Companies Act) has introduced several new provisions which change the face of Indian corporate business. One of such new provisions is Corporate Social Responsibility (CSR). The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc from the society. By performing the task of CSR activities, the companies are giving something back to the society.

Ministry of Corporate Affairs has recently notified Section 135 and Schedule VII of the Companies Act as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CRS Rules) which has come into effect from 1 April 2014.⁹

Applicability: Section 135 of the Companies Act provides the threshold limit for applicability of the CSR to a Company i.e. (a) net worth of the company to be Rs 500 crore or more; (b) turnover of the company to be Rs 1000 crore or more; (c) net profit of the company to be Rs 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.

CSR Committee and Policy: Every qualifying company requires spending of at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities. Further, the qualifying company will be required to constitute a committee (CSR Committee) of the

⁸ <http://businesscasestudies.co.uk>

⁹ <http://www.mondaq.com>

Board of Directors (Board) consisting of 3 or more directors. The CSR Committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken (CSR Policy); recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company. The Board shall take into account the recommendations made by the CSR Committee and approve the CSR Policy of the company.

Definition of the term CSR: The term CSR has been defined under the CSR Rules which includes but is not limited to:

- Projects or programs relating to activities specified in the Schedule; or
- Projects or programs relating to activities undertaken by the Board in pursuance of recommendations of the CSR Committee as per the declared CSR policy subject to the condition that such policy covers subjects enumerated in the Schedule.

This definition of CSR assumes significance as it allows companies to engage in projects or programs relating to activities enlisted under the Schedule. Flexibility is also permitted to the companies by allowing them to choose their preferred CSR engagements that are in conformity with the CSR policy.

Activities under CSR: The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women and such other matters as may be prescribed.

Local Area: Under the Companies Act, preference should be given to local areas and the areas where the company operates. Company may also choose to associate with 2 or more companies for fulfilling the CSR activities provided that they are able to report individually. The CSR Committee shall also prepare the CSR Policy in which it includes the projects and programmes which is to be undertaken, prepare a list of projects and programmes which a company plans to undertake during the implementation year and also focus on integrating

business models with social and environmental priorities and process in order to create share value.

The company can also make the annual report of CSR activities in which they mention the average net profit for the 3 financial years and also prescribed CSR expenditure but if the company is unable to spend the minimum required expenditure the company has to give the reasons in the Board Report for non compliance so that there are no penal provisions are attracted by it.¹⁰

8.4 Corporate social responsibility and financial performance relationship:

The relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) has been subject to extensive empirical enquiry. Yet the body of evidence that has accumulated about the nature of the relationship is equivocal. A commonly identified reason for the diverse and contradictory results is measurement issues pertaining to both concepts of interest. This article aims to review alternative operationalisations and measurement approaches for the CSR and CFP concepts that have been deployed in empirical literature concerned with the CSR–CFP relationship. Several findings emanate from our study. First, CSR operationalisations in empirical literature range from multidimensional to one-dimensional. Second, CSR measurement approaches include reputation indices, content analyses, questionnaire-based surveys and one-dimensional measures, whereas CFP measurement approaches include accounting-based measures, market-based measures and combined measures. Third, no CSR measurement approach is without drawbacks. In addition to approach specific drawbacks, two problems inherent in most approaches are researcher subjectivity and selection bias that may influence the nature of CSR–CFP relationship detected.¹¹

8.5 Investigate effect of CSR strategies on acquiring competitive edge:

Corporate social responsibility (CSR) is an upcoming phenomenon in industries, but also in academic literature. CSR definitions are scattered and differ from each other. Therefore it is important to define one good, complete and understandable definition. The research about CSR is scattered and is therefore difficult to understand. Central in this thesis is the influence of CSR on competitive advantage. The direct influence is examined and also the influence of CSR on a firm's reputation and the effect that reputation has on competitive advantage.¹² The

¹⁰ The companies Act, 2013

¹¹ <http://www.tandfonline.com>

¹² Company Law by Dr. N.V. Paranjape

primary goal of this thesis is to understand CSR and by gathering scattered information. As mentioned CSR is a scattered phenomenon. In this thesis the definition of CSR is formulated after a time study over the last few decades. CSR contains of three dimensions (economic, social and environmental) which a firm should take into account. A company must always evaluate all of their decisions; they need to reconsider the impact the decisions might have on the social system. A firm can show its commitment to improve community and its well being by engaging CSR.¹³ The impact of CSR on the firm's reputation can be described in either a positive or even a negative way. What impact it might have depends on the perception of the customers towards the firm. The public will look at the behaviour, the intention and the expenditures of the firm. If the customers accept a firm and the CSR activity, than there will be a positive impact on the reputation. A firm with a positive image among its stakeholders is seen as a more favourable firm. Reputation is an intangible resource for a firm and thus it can affect the competitive advantage. So in this way, CSR can have a positive effect on the firm's reputation: by engaging in CSR activities, a firm can improve its reputation which leads to better relations with stakeholder, the ability to attract better employees and the possibility to charge higher prices because the customers are willing to pay them. Reputation is, as mentioned above, an intangible resource. If it fulfils the requirements of a resource and a firm has the capabilities to control and manipulate these resources, a firm is able to gain competitive advantage out of this resource. Reputation can have a positive effect on the firm's reputations. A firm can build a good reputation by stable investments over time. But CSR does not only influence reputation but also other resources. CSR can lead to competitive advantage if a firm makes good use of CSR to improve the corporate reputation. CSR can also be seen as a resource on its own, if it is used to influence business operations in a strategic way. If CSR is seen as a resource and if it meets all conditions in the resource-based theory, a company is able to gain competitive advantage. Because CSR has short-term costs and the benefit of the CSR activities is long-term, sometimes CSR is not mentioned as source of competitive advantage. But eventually CSR has an influence on the competitive advantage.¹⁴

¹³ CSR by Godera

¹⁴ <http://arno.uvt.nl>

9. CONCLUSION:

The study and overall analysis reveals that concept of corporate social responsibility is gaining prominence from all avenues in India. Contrary to the general awareness of the term, many of the managers and executives of services/enterprises in India are not fully aware of CSR. Not only the less educated and less informed managers of micro industries, as well as many of the executives of high profile enterprises are not fully aware of CSR practice. Organizations must realize that government alone will not be able to get success in its endeavour to uplift the downtrodden of society. Many of the leading corporations across the world had realized the importance of being associated with socially relevant causes as a means of promoting their brands. It stems from the desire to do well and get self-satisfaction in return as well as societal obligation of business.

10. SUGGESTION:

1. Identification of reasons and benefits of practicing Corporate Social Responsibility in different sectors of business can have a scope for further research along with development of company ethics programme, integration of business ethics and ethics training to the staff.
2. A study involving other independent variables such as Corporate Reputation, Organizational Climate, and Sustainability can be undertaken to find out its effect on Corporate Social Responsibility.

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