

Corporate Social Responsibility – a Necessity for Sustainability

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Abstract:

A chain of developments in last more than a century have considerably affected the nature of relationships of Entrepreneurs with the state and various other stake holders including workforce and consumers. A series of statutory provisions and social pressures had emerged which had articulated corporate thinking towards their social responsibilities. These new measures later proved a great boon to entrepreneurs by way of improved productivity and market acceptability. Every one was happy with the gain flowing to all the stake holders and none ever bothered about long term sustainability of their financial activities. Every one had taken for granted various gifts of nature. This resulted in over-exploitation of the environment and various other natural resources. Sometime during end of 20th Century, Corporates had the realization that their very survival would be at stake if they failed to take note of various signals of natural imbalances being created due to their growing greed to earn more and more profits. These signals warranted that the Corporates transform their strategies and procedures into new concepts of ethical behavior which was necessary for sustainability of Corporates and society in general. It was this thinking out of necessity that gave birth to the concept of 'Corporate Social responsibility (CSR).'

Key words : stake holders, environment, society, philanthropy, disclosures, voluntary.

I. INTRODUCTION

Many consider Corporate Social Responsibility (CSR) synonymous with voluntary & philanthropic acts of Corporates which are designed to benefit society in general. They consider CSR as a concept of business paying back to the society.[1] While others believe that CSR refers to the Corporate responsibilities above and beyond the economic and legal obligations of the corporates. In general, CSR puts on Corporates the responsibility for environmental and social implications of their financial activities.[3] CSR has been a very dynamic phenomena. It started as a part of philanthropic act and soon got developed into a corporate tool for building corporate image. Various historical events which occurred in last about half a century have greatly increased the scope and spirit of Corporate Social Responsibility.

II. EVOLUTION OF SOCIAL WELFARE COMMITMENTS

Discovery of some revolutionary tools like wheel, steam Engines etc had led to industrial revolution in some parts of Europe. At this stage, entrepreneurs were interested in themselves only. They were exploiting their workforce in their greed to earn more and more profits and to ensure speedy growth of their business. This is the time when various labour laws took birth. In addition, exploited labour force, then formed unions and forced erring Entrepreneurs to implement various labour laws for improved working conditions in Industry. This was the first phase of Corporate social commitments, a phase of **non-voluntary** social commitments.

Simultaneously, another front was evolving when the hold of colonial powers was weakening and various countries were getting freedom one after the other. These newly formed Governments, having great spirits of nationalism, enacted various laws for further welfare of Labour force and the consumers. These laws included employees provident fund, Employees state insurance, consumer protection act etc.

As the time passed, the Entrepreneurs discovered that improved working conditions were in their own interest since these had considerably improved their productivity and market acceptability. This led to the phase of **voluntary** corporate social commitments. They started adopting various labour laws and other social welfare measures as a corporate strategy to improve productivity and market acceptability.[2]

III. BIRTH OF C S R CONCEPT

Large Corporates from developed countries, which were eager to find foothold in newly formed democratic countries like India, faced resistance to their marketing efforts from Patriotic local population & local Governments. They devised new Corporate strategy to win-over local population. They developed various philanthropic and social Welfare plans to appease local consumers so as push forward their marketing plans. Some established and reputed Indian business houses, like TATA and BIRLA, have been adopting, for a long time, some measures for their genuine contribution to Welfare of Indian Society. In addition, these houses always tried to serve Indian community by charging reasonable rates for their quality products. These practices have paid rich dividends to these houses by way of high brand Image.

Through above case studies, many leading corporates across the world realized that the gains achievable through social activities are much higher than the expenses which might be incurred on these activities.[3] The gains were through increased visibility, enhanced corporate image along-with positive media coverage. [4]

During last few decades there has been great damage to our environment and there has been unsustainable depletion of our natural resources. It was realized that our economic activities need immediate regulation in the interest of very survival of our humanity.

These developments gave birth to a new concept called 'Corporate Social Responsibility (CSR)'. CSR is thus a product of certain historical developments and started purely as a voluntary Corporate responsibility above and beyond the Economic and legal obligations of the Corporates

IV. CHANGING CONCEPTS OF CSR

In the beginning, the broad rationale for corporate social responsibility had arisen from the fact that a business enterprise derives several benefits from the society and, therefore, it must pay back reasonably to the society.[4] It was also felt that a business can succeed only if the society on which it depends is in a healthy state. With time, concept of CSR has undergone a drastic change. Now, CSR is considered essential for the long term sustainability of the corporate themselves and the society in general.[3] CSR is no longer an optional responsibility. It is now the most important and mandatory activity of any organization. CSR has thus evolved from a narrow view of voluntary philanthropy to a broad concept that mandates upon corporate to address various specified activities. Following are some of the developments in last few decades which have brought this change.

1. Evolving globalization process, development of advanced means of communication, unprecedented mobility of workforce and reduction in artificial barriers to International trade had thrown open unprecedented business opportunities for the world. Different countries built large industries to cater to global demand. This created a new set of challenge before the humanity. Environment was getting polluted beyond reasonable limits and there was dangerously over exploitation of natural resources.[3] Scientists came out with data which clearly depicted fast approaching doomsday unless Government and the Corporates behaved in a responsible way. It posed a threat to very survival of the humanity and a threat to corporate sustainability. This awakening has widened the scope and importance of CSR.
2. Scandals /Scams discovered in business houses like UTI, Enron, World Com the Bhopal disaster etc had shaken the faith of society in functioning of big corporates.[4] To restore their image and to ensure their very survival, transparent reporting of Corporate functions was adopted by law and was readily accepted by corporates .
3. A mind blowing financial scandal in SATYAM in Hyderabad by the promoter himself invited a very strong reaction from Public, Corporate houses and the Government. To avoid similar scandal in future, India Government made some mandatory provisions regarding enhanced disclosures in annual reports and also provided for some contribution by corporates for voluntary social welfare activities.
- 4 Only this week (on 27-02-2014) government of India has notified the rules for new 'corporate social responsibility' regime. As per these rules, companies above a certain threshold have to spend 2% of average profit of previous three years on specified CSR activities. Areas that have been identified in this CSR policy include eradicating hunger, poverty and malnutrition, promoting health care and sanitation, contribution to Prime minister relief fund etc. These rules would be applicable from 1st April ,2014.[5] With this starts a fully regulated and statutory concept for CSR.

V. CSR CONCEPT STILL DEBATABLE

Even today there are differing but strong views regarding efficacy of present scope and concept of CSR which suggests that CSR has still to take a generally acceptable shape. Some such views are:-

Commenting on new CSR regime (as notified on 27-02-2014), Mr Charanjit Banerjee, Dy director general of 'confederation of Indian industry lobby group' has said 'precluding the corporate boards from determining what would constitute CSR goes against the very premise of the act, which is built on self governance and enhanced disclosures.'[5] Some others have commented that 'Companies, by virtue of being profitable, already fulfill their essential corporate social responsibility. They convert pooled savings into productive investment and generate returns for savers. They pay taxes and create jobs. Then why burden them further while allowing inefficient firms to go free despite their failure to safe guard public interest'

Author of this paper is of the view that CSR contributions should not be restricted to high net-worth or high profit earning companies alone. CSR contribution may be charged from all companies as a surcharge on Excise duty and collections there-from be utilized only on identified social welfare activities. Secondly, all firms be mandated to avoid environment pollution and over-exploitation of natural resources to ensure long-term sustainability of corporates and the humanity in general.

Business Tycon & Chairman of M/s. Wipro Ltd, Mr. Azim Premji, contends that CSR spending does not need any law. He adds that large corporates should have social consciousness to accept responsibility without being forced to do so.

Another Business Tycon, Adi Godrej from Godrej Group, says that philanthropy should be reasonably free and not under threat of law. He states that things don't work well when Governments start controlling things. He believes that Corporates/People be motivated rather than forced to discharge CSR.

Mr. Murthy of Infosys has said that fairness, transparency and accountability are the three pillars of Corporate ethics which companies should adhere to. One author writes that success of CSR is based on the power of conviction and should remain voluntary. He has given examples of countries like Denmark, UK & France to stress that reporting on CSR practices may be mandatory but investing in CSR should not be mandatory. Still another author states that by asking Corporates to invest certain amount in CSR would dilute their responsibility and would give them license to move away from their social and environmental accountability. Some say that CSR should be promoted and not imposed so as to ensure that corporates work as per definite social values. Rules can never be made foolproof to ensure what society needs.

VI. CONCLUSION

Corporate social responsibility recognizes the social and environmental implications of financial activities of the corporates. Underlying force is the fear of sustainability. Scientific data is giving sufficient signals that present system of Corporates going for more and more profits by neglecting our environment and by over exploiting our natural resources is not sustainable in the long run. Everyone is now satisfied that Corporates need to understand their responsibilities in their own interest. Though the system and style for discharging this responsibility is still being debated, but there is no dispute as to the need for Corporate social responsibility for the sake of their long term sustainability.

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