

RESEARCH PERSPECTIVES ON CORPORATE SOCIAL RESPONSIBILITY - A REVIEW OF LITERATURE

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Abstract

Corporate Social Responsibility (CSR) has gained prominence among corporates and has delved interest among academicians in the recent times. CSR can be defined as the "economic, legal, ethical, and discretionary expectations that society has of organizations at a given point of time". In the scenario of growing business and competitive environment, corporates in India have started understanding the importance of the concept of CSR in building trust and sustainable relationship with customers, employees, shareholders, communities, environment and society at large and as a result, companies now have started behaving ethically and responsibly towards the holistic welfare of the society.

The present paper is based on the in-depth review of some literatures on CSR so as to understand the research gap i.e. the scope for future research area.

Keywords: *Corporate Social Responsibility, Companies Act 2013, Environment, Guidelines.*

I. Theoretical Background

The 21st century is featured by unparalleled opportunities and challenges due to globalization, global warming and need for inclusive growth and development. Businesses play a vital role in the society. It is their responsibility to uphold the imperatives of ethical practices and good governance and create healthy environment, all-round growth and development of the society. In recent times, it is also found that companies are not only being judged on the basis of their economic success but also on non-economic criteria.(Carroll, 1979). This change in people's perspectives was first mentioned in Howard Rothmann Bowen's book "Social Responsibilities of the Businessman" (1953). Since then, there have been lots of views and arguments on the concept and its implementation. Although the idea of social responsibility has been around more than half a century, there is still no consensus over its definition. To some, the term Corporate

Social Responsibility (CSR) conveys the idea of legal responsibilities and liability towards the society; to others it means socially responsible behaviour in an ethical sense, to some others, it refers to that of 'responsible for' in the causal mode; many simply equate it with charitable contribution (Votaw, 1973). Though, over some decades, the perception about CSR has changed a lot. It has gone much beyond charity and philanthropy and is viewed as an avenue for helping in sustainable development of business of corporates. [Dari, 2012]. CSR has been perceived as "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"¹. According to Carroll and Buchholtz (2003), the stakeholders can be sub-categorized into primary stakeholders, consisting of shareholders(owners),employees, customers, business partners, communities, future generations and the natural environment; and secondary stakeholders, made up of the local, state and federal government, regulatory bodies, civic institutions and groups, special interest groups, trade and industry groups, media and competitors. However, in 2011, the European Commission changed the definition of CSR to have parity with internationally recognized CSR principles and guidelines and stated CSR as "the responsibility of enterprises for their impacts on society and outlines what an enterprise should do to meet that responsibility."In other words, CSR is the responsibility of corporate citizens towards holistically addressing the various issues of "People and Planet" besides taking care of the "profit" element for sustainable development of business as well as for the better future of all living beings. In 2009, the Ministry of Corporate Affairs prepared a set of voluntary guidelines- "Corporate Social Responsibility Voluntary Guidelines 2009" which stated about formulation of CSR policy, proper planning of CSR initiatives involving various levels of executives and with proper approval of the Board. In the scenario of growing business and competitive environment, corporates in India have started understanding the importance of the concept of CSR in building trust and sustainable relationship with customers, employees, communities, stakeholders and society at large and as a result, companies now have started behaving ethically and responsibly towards the holistic welfare of the society. In view of the changing environment and to address India's various social issues more seriously, Companies Bill, 2012 was passed and on 29th August, 2013 the Companies Act,2013 was enacted which incorporated mandate provision for CSR under Sec 135. Against this backdrop,

¹ As cited by The European Commission(2006)

the main focus of this study is to undergo an in-depth analysis of some notable literatures on corporate social responsibility across the globe. Moreover, through this comprehensive analysis, an attempt has also been made to identify the area or areas for further analysis.

II. Objectives of the Study

To conduct an in-depth analysis of some notable literatures on corporate social responsibility across the globe and to identify the scope for future research.

III. Methodology

This is a descriptive study based on the secondary data obtained from various books, journals, articles, websites, magazines and newspapers.

IV. Review of Previous Studies

The available literature on different concepts of CSR and studies relating to varied approaches towards CSR has been reviewed. The essence of such literature reviewed is given below.

Different types of perception regarding the basic concept of CSR

Farache et al. (2009) rightly have pointed out that corporate social responsibility is a form of management that is defined by the ethical relationship and transparency of the company with all the stakeholders with whom it has a relationship as well as with the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social problems.

CSR acts as a conflict-resolution device between stakeholders and shareholders (Jo H. et al., 2012).

Importance of CSR in business

Kiran and Sharma (2011) while trying to act as a messenger about the importance of CSR have opined that the main motivating factors behind taking up CSR initiatives are new business opportunities, enhanced brand image in society, more association with business partners and stakeholders, enhanced consumer satisfaction, reduction of costs and risks and lastly, minimized regulatory interventions. On the basis of case study of Nestle, the authors recommended CSR as a new avenue for businesses to sustain in society.

Another point to note that, if the CSR interventions of a company are not aligned to its business goals or not related to particular traits the company has, then such initiatives provide corporate

with lesser competitive advantage since those initiatives are not unique and can be practiced by other corporates too. The competitiveness enjoyed by corporates through social responsibility helps them to build image and reputation, to come up with unconventional projects, to motivate employees thereby retaining efficient resources, leading to improved social, economic and environmental performance and better corporate governance (Farache F. et al., 2009). On the basis of literature survey and a case study of Carrefour – a supermarket company, the authors have also opined that there is a strong bonding between social responsibility, corporate strategy and competitive advantage.

Linkages between CSR and varied concepts

Gill (2008) has observed that both corporate governance and corporate social responsibility is evolving together hand on hand since on one side, while CSR initiatives are emphasizing more on corporate governance principles i.e. transparency, accountability, by trying to align the social strategy with business strategy and on the other side, corporate governance is focusing more on stakeholder-friendly business practices.

Another literature at later stage, while talking of the emerging practices of CSR and green marketing, have stated that there is a new approach among the stakeholders and the society as a whole, of accepting those companies which behave ethically and more responsibly towards the society. (John et al., 2013)

While trying to analyse any relationship between CSR and the elements of business growth, Ghose (2012) have observed that a significant positive correlation exists between CSR investment and annual sales while surveying companies from different sectors over the period ranging from 2007-2010.

Another similar type of study has been found in international perspective where in pursuit of getting an answer to a question - Can CSR have influence on the business performance of an organization - Kaufmann M. n et al. (2012) employs EFQM (European Foundation of Quality Management) model and, on the basis of a questionnaire survey among different groups of stakeholders, opined that CSR do influence business performance.

Varied areas of study related to CSR

Arevalo and Aravind (2011) have stated that among the four well-known approaches to CSR, stakeholder approach or Freeman model has been the most approved one among corporates on

the basis of their survey of top management of leading Indian firms from various industries and of varied sizes participating in the UN Global Compact (GC). It has also been found that the liberal approach i.e. the Friedman Model, which states that corporate responsibilities are only towards private owners, is the least favoured one by corporations. The analysis also finds that the most important motivators behind CSR are related to ethical, moral values. However, Indian managers also think that profit enhancing factors also work behind CSR initiatives undertaken by corporates. Further, the analysed results indicate that the most significant obstacles that Indian firms face when implementing CSR are those related to lack of sufficient resources – training-related, financial-related i.e., lack of sufficient financial resources for CSR implementation, lack of knowledge about how to implement CSR and difficulty in obtaining information about CSR practices and implementation, followed by those hindrances related to the complexity and difficulty of implementing CSR initiatives highlighting factors like time-consuming, costly, unproductive initiative. However, management support at both top and middle levels is found to be the least significant hindrance towards initiating CSR practice.

In an endeavor to explore the contribution of corporates towards the socio-economic developments of rural India, Mal D. and Chauhan K.(2014) have surveyed ten public and private companies and have stated that education sector for rural development gets the top attention of these corporates followed by health and livelihood. In infrastructure and environment areas, 30% and 40% of the sampled organizations took initiatives for progress of the rural areas.

In an analysis about examining the understanding, awareness and support of Millennials about CSR activities implemented by FMCG companies of Pune city, Singh & Vanarse (2014) have observed that most of the Millennials seem to be well aware of what CSR is and have opined that CSR is a mixture of all the responsibilities pointed out by Carroll (1979). The study also finds that the Millennials are positive about the role of CSR activities by FMCG companies to play a fillipping factor in the inclusive development of the society. They also feel that FMCG companies must put more emphasis on philanthropic responsibilities than economic responsibilities because of so many existing social issues in India and urge that the Government should help the FMCGs in solving such issues. It is also observed that there is no gender-wise difference in the insight, awareness and support among millennials about FMCG Companies' CSR interventions. At the end, the authors, while assessing the practical implications of CSR interventions made by FMCG

companies in developing countries, have opined that in developing countries since most people struggle to get the basic necessities, they are more concerned with the affordability of products than the involvement of companies in societal obligations. So there is a huge responsibility on the FMCG companies to communicate their CSR activities to the masses.

On international frontiers, special emphasis can be made on observation made by Adeyeye (2012) where she has mainly placed much importance on anti-corruption as a CSR issue to be practiced by MNCs in developing countries since such issue has rarely been considered as CSR obligation. While analyzing the effect of companies' CSR scores on the preferences of the investors investing in different companies and analysts, Ioannou I. and Serafeim G.(2014), have found that during early 1990s investment analysts prefer firms with low CSR ratings hoping that high CSR costs slow down revenue growth of the business. However, in subsequent years till 2007, there was an optimistic change in those perceptions in assessing the CSR ratings of companies while investing in them and favoured the companies with high CSR ratings. Also, experience and status do play a role in the preference of analysts analyzing the firms on the basis of their CSR scores and more experience and higher status do help to adapt quickly to the change in assessment of firms on basis of CSR ratings. The authors have also explored the factors behind the shift of the preference which includes mandatory and voluntary reporting, NGO activity, academic research, increasing consumer awareness, proactive corporate leadership, and socially responsible investments. On basis of empirical data, the authors have found that there is no significant relationship between the investors' forecast errors and the CSR scores of companies thus obviating the fact that this is not accounting for the observed shifts in recommendation on investment.

While studying the varied studies on CSR, some studies have been found to be discussing some negative aspects of such CSR investment as depicted below.

On the basis of content analysis of sustainability reports of the largest 50 companies as classified by Global Fortune (2009) and usage of statistical tools, Lunga C. n et al.(2009) have posited that for large companies already known for their goodwill, added disclosures like socio-environmental reporting may not have much impact on their already possessed credibility, thereby proving the fact that there is no relationship between the characteristics of the surveyed companies in terms of size and revenue and their socio-environmental reporting. However,

remarkably, there is negative correlation between their corporate social responsibility reporting and profitability in terms of return on assets (ROA) and return on equity (ROE). Thus, it may so happen that companies with higher change in ROA or higher ROE in a particular year may give less importance to add-on disclosure like CSR reporting. Heugens P. & Dentchev N.(2006) have also analysed the negativities posed by social responsibility related activities of the corporates besides increasing the competitiveness of the corporates. They have stated that the CSR activities act as Trojan horses and put corporates into different types of risks. The authors have suggested that before reaping any benefits of investment, managers need to harness such risks and should keep in mind that experimenting with CSR activities hoping to contribute something positive to the society or to gain can pose serious threat to the competitive and strategic position of the organizations.

In an unique bid to identify evolution of universal standards in CSR, Adeyeye A. (2011), have analysed selected non-binding non-mandatory legal initiatives like Shell Group's General Business Principles, Voluntary Principles on Security and Human Rights, Equator Principles (EP), Transparency International Business Principles (TI Principles), the Basel Institute on Governance, the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Global Compact. The author is of the opinion that though the "soft law initiatives" are important CSR tools for creating awareness of different CSR issues, these lack adequate transparency, monitoring and compliance mechanisms. Mandate "hard" law initiatives like Partnering Against Corruption Initiative (PACI) do play important roles for spreading CSR awareness along with discretionary initiatives for effective implementation and compliance of CSR related issues. Also, NGOs and society as a whole have an indispensable role in this aspect. It has also been posited that CSR standards across the globe are evolving in areas like sustainable development, human rights, environment and anti-bribery, anti-corruption issues.

In relation to the mandate clauses in Companies Act, 2013 there have been few studies which have been illustrated below.

While analysing the environmental disasters made by industries i.e. corporates and their responsibilities towards the environment and society as a whole, Dari (2012) has suggested making CSR compulsory in India through legal norms like in Saudi Arabia, to incorporate

environment-friendly techniques in product and services offered by corporates, to continuously work towards increased satisfaction of stakeholders, to ensure that while satisfying the present generation, resources for future are not at all hampered. As a whole, the government and the whole society-- people, NGOs, etc. all should have a hand-in-hand motive to spread awareness about CSR, its new aspects about environment—the most popular are Design For Environment (DFE) and Green Engineering.

Athma P. and Yarragorla N. (2014) have stated that Section 135 of new Companies Act, 2013 provides much flexibility than the pre-2013 Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises issued by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises, which CPSEs used to follow since 2010. The reason for such statement is due to the finding that this new regulation defers the 'to be spent' CSR amount for those companies who have high profits during the immediately preceding financial year and losses or less profits during the other two preceding financial years since the regulation states CSR 'must spent' to be calculated as 2% of the average profits of the immediately preceding three financial years' profits which results in nullifying the impact of the corporates' high or low profit of the immediately preceding year. Also, considering previous three financial years' average profits will give a true picture of the profitability of a Company. Likewise, the CSR liability of those companies has been found to be more under Section 135 of Companies Act, 2013, which have low profits during the immediately preceding financial year and high profits in the other two preceding years. However, it has been observed through the study both theoretically and statistically, that if all the surveyed companies are taken together, then the difference between the CSR liability for CPSEs as per pre-2013 CPSE guidelines and Section 135 of Companies Act 2013 is not at all significant. Gupta & Arora(2014) have reviewed the CSR activities of four Maharatna companies(BHEL,ONGC,SAIL and NTPC) and three Navratna companies(Oil India Ltd., Rashtriya Ispat Nigam Limited, Power Grid Corporation of India) and points out that all companies participated in promoting education as CSR initiative. Out of the seven surveyed Companies, 16% were found to be taking environment sustainability and employment generation as CSR core thrust areas whereas 14% were engaged in women empowerment and healthcare. The least initiative has been taken in child welfare.

In the pursuit of examining the various methods of implementation of CSR initiatives by corporates in India, Bala M. (2015) have observed that implementation of CSR activities through formation of “Separate CSR Project Management Department” i.e. CSR committee as mandated by Companies Act 2013, is the most proposed and popular method among Private Indian Companies (PICs), Multinational Companies (MNCs) and Public Sector Companies (PSCs) which have been comparatively surveyed for the said purpose. This may be due to compliance to the mandate CSR clause as per the new Companies Act 2013 and preference of companies towards effective control and monitoring of activities under direct supervision of companies’ own personnel. The CSR implementation method through “Partner NGOs” is found to be the preferred method among MNCs followed by PSCs and PICs. The reason behind this may be cited that MNCs prefer to use expertise of NGOs for a specific social cause in order to save time and resources of company. The method of executing CSR interventions through setting up “Trust/Foundation/Society” is seen to be practiced more by PICs followed by PSCs and MNCs.

The method “Through collaboration with other companies” has been found to be mostly used for execution of bigger projects like construction of orphanage, schools, hospitals, etc. so that potential financial benefits are achieved and cost is minimized. It is observed that MNCs mostly use this method for CSR implementation for some initiatives followed by PSCs and PICs.

While analyzing the last method as formulated by the author as “Funding to Government”, the author have pointed out that this method comprising of initiatives like “Contribution to PM’s national relief funds and such other funds established by central or state government for socio-economic development and relief and welfare of scheduled castes and scheduled tribes and other backwards classes, minorities and women” is implemented more by MNCs than PICs. However, as per norms, PSCs cannot contribute to Prime Minister’s National Relief Fund.

It has also been concluded that there is no difference in choice of selection of method of implementation; however the involvement in a particular method varies among groups of companies and within the group also.

While analysing the pros and cons of the CSR mandate, Jain (2014), have observed that the opinion against the CSR mandate came from the viewpoint framed by Milton Friedman or the classical or shareholder’s perspective. According to this, CSR is just wastage of resources and does not benefit the society at all; instead it diverts the business from its profit-making motive to

society welfare that, doing good for the society is beneficial for the business which is a deceptive concept and thereby decreases the efficiency of the business to make profit. On the other hand, there are also opinions favouring the CSR mandate saying that, contributing positively to the society will result in effective utilisation of resources, enhancing the brand image of the corporates thereby benefitting them in the long run and it is an appropriate step towards removing all the issues in the Indian economy like poverty, illiteracy, lack of awareness about hygiene and sanitation, health-related problems, pollution, environment degradation, etc.

V. Epilogue

From the above literature review, it has been found that studies have been made on varied views regarding concepts of CSR, its importance, different approaches to CSR, motivators and obstacles behind CSR implementation, various methods of implementing CSR initiatives, relationship between social responsibility, corporate strategy and governance and competitive advantage, relationship between CSR and the elements of business growth or business performance, millennials' awareness and understanding about CSR activities, change in investors' preference towards CSR over years, risks that may stem out of CSR initiatives taken, comparison between the CSR liability for CPSEs as per pre-2013 CPSE guidelines and Section 135 of Companies Act 2013 and lastly pros and cons of the CSR mandate.

It is a known fact that CPSEs are established for serving the society, specifically if history is delved into, we will find those were set up with the main objective to accelerate the growth of core sectors of the economy; to serve the equipment needs of strategically important sectors, and to generate employment and income. However, in view of the mandate clause and revised DPE guidelines, they are provided with a framework of serving the society in a more holistic way. However, it has been observed that the area on comparative study of corporate social responsibility practices and compliances by CPSEs pre and post Companies Act 2013 with reference to the revised DPE guidelines is yet to be studied.

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