

Does CSR make a Business Sense?

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Sustainability and CSR

Corporate Social Responsibility (CSR) and 'Sustainability' are two terms that serve as a catch-all for everything noble and prosocial in the Corporate world today.

There are many definitions of these two terms and the interpretation is still hazy. Sometimes CSR as understood in western world includes sustainability and corporate governance & citizenship, whereas CSR and Sustainability is understood differently in India. The guidance provided in Schedule 7 of the Section 135 of the Company's Act of 2013 states that projects that ensure environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining of quality of soil, air and water are eligible for CSR spend. In Section 135 however, importance of linkages between CSR, Corporate governance and citizenship are not explicitly stated. The department of Trade and Industry in the United Kingdom, for instance states that the CSR represents "the integrity with which a company govern itself, fulfils its mission, lives by its value, engages with its stakeholders, measures its impact and reports on its activities"

Businesses depend on natural resources (e.g., energy, materials, water, etc.) as the inputs. In making their living, people extract various kinds of resources from the environment (e.g., oil, iron ore, timber, etc.). These resources when processed lead to various kinds of wastes that are released to the environment (e.g., sulphur dioxide and carbon dioxide from combustion processes etc.). Therefore, economic viability of the business is dependent on the ecological health. There must be a balance between the two to have a sustainable society where people and the business enterprise can thrive.

The economy, society and the environment are interdependent. What happens in the economy affects the environment which affects the economy. And what happens in the environment and economy affects the society. Hence, it is important for the businesses to be socially responsible. So sustainability considerations should form the foundation of CSR.

Sustainability and CSR are thus interrelated and are not to be looked into isolation. As rightly said by the former President of the World Business Council for Sustainable Development, Bjorn Stigson, "Business cannot succeed in societies that fail." His statement clarifies that the sustainability of any business depends on the good health of the social system in which the business has its stake. And for the good health of the social system, business needs to be sensitive of the impacts it makes to both the environment and its stakeholders.

CSR and Profits

According to a study conducted by MIT Sloan School and Boston Consulting group in 2013, which involved survey of 2,600 executives and managers from companies around the world, 37 percent of companies surveyed reported profits from their sustainability efforts. Nearly half, or 48 percent, of companies surveyed have changed their business models as a result of sustainability opportunities!

It is generally believed that being socially responsible could increase company profits. There have been evidences that CSR can promote respect for the company in the marketplace that can result in higher sales, enhance employee loyalty and attract better personnel to the firm. CSR activities may help companies to gain a possible listing in the FTSE4Good or Dow Jones Sustainability Indices, or other similar indices. This may enhance the company's stock price, making executives' stock and stock options more profitable and shareholders happier (Robins Ron, 2011). CSR can thus make a material sense riding on the sustainability.

There have been mixed arguments when CSR is viewed from the perspective of company's profitability. Study conducted by the Economist Intelligence Unit (EIU) published in November 2008, states that "corporate citizenship [CC] is becoming increasingly important for the long-term health of companies even though most struggle to show a return on their investment from socially responsible activities... 74 percent of respondents to the survey say corporate citizenship can help increase profits at their company." In another study by Cristiana Manescu, on "Economic Implications of Corporate Social Responsibility and Responsible Investments", at the University of Gothenburg's School of Business, Economics and Law, wrote that, "the results [of her thesis] reveal that CSR activities do not generally have a negative effect on profitability, but that in the few cases where they have a positive effect, this effect is rather small."

In his speech at the First National CSR Conclave Dr.M. Veerappa Moily, then Union Minister for Corporate Affairs stated that Corporate Social Responsibility is an opportunity for the Business to be profitable and at the same time being responsible.

Milton Friedman has however doubted whether CSR is socially desirable at all. He maintains that the only social responsibility of a business is to maximize profits (conducting business in open and free competition without fraud or deception). He has argued that the corporate executive is the agent of the owners of the firm. Any action by the executive toward a general social purpose amounts to spending someone else's money, be it reducing returns to the stockholders, increasing the price to consumers or



lowering the wages of some employees. Friedman points out that the stockholders, the customers or the employees could separately spend their own money on social activities if they wished to do so.

In 2011, Harvard Business School Professor Michael Porter – the business guru – put forward a radical proposition to global corporations. “Businesses must reconnect company success with social progress,” he wrote in the Harvard Business Review. “Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the centre.” He believed that CSR can give rise to the next major transformation of business thinking.

There is thus a wide gap between those who believe that CSR and sustainability are integral to company profits and growth, and those who believe such efforts are public relations at best and a distraction from core activities at worst.

President of the Center for Policy on Emerging Technologies (C-PET), a Washington D.C. based think tank, Nigel Cameron once said “These conversations about corporate social responsibility and profits are held in silos. The CSR people talk to the CSR people and the corporate people talk to corporate people. There isn’t a connected discussion going on at a high level”.

Surveys, think tanks and the research literature suggest that CSR can improve profits. And almost no large public company today would want to be seen unengaged in CSR. That is clear admission of how important CSR might be to their bottom line, no matter how difficult it may be to define CSR and link it to profits.

The question of whether corporate social responsibility is profitable and adds value to a company is important to the development community because the private sector has far greater resources than government aid programs. If the game-changing resources of the world’s largest corporations are put toward the tasks of poverty, climate change and other global challenges, the results could be dramatic.

CSR Attracts Investors!

According to Peter Gampel, the director of business valuation at the accounting firm Fiske & Company in Florida believes that a company’s value is based on its tangible assets – such as its cash holdings, property and buildings – as well as its intangible assets. If there are mergers, they are brought in to put value to intangibles, say customer relationships and company’s social responsibility. Companies that are socially responsible make their brands more attractive to consumers and are more appealing to high quality potential employees. Such elements are considered while putting a value to the company.

However, the investors in the developing countries are of the opinion that the relationship between value and social responsibility is a more pressing issue in the United States, where companies place a premium on corporate social responsibility. Many large companies in other parts of the world, including Asia, need to focus on running their operations with more transparency before they try to improve the world around them. It is important to get corporate governance right, before they address sustainability and social issues.

The research on the relationship between investor intent and social responsibility is still inconclusive. It indicates that large scale investors and the stock market do not clearly reward or punish a company based on its CSR or sustainability efforts. There are indicators however that there could be slight benefits of doing social good.

The proponents and opponents agree that more definitive data is needed in linking CSR to profits. A key problem is how to gauge CSR value created. Companies often have an inflated view of their CSR efforts.

A 2009 working paper by the Bank of Finland looked at companies that were included or excluded in a key social responsibility ranking between 1990 and 2004, and the impact that it had on the value of their stock. The study found that stocks dropped an average 3 percent when a company was removed from the list of socially responsible companies. When a company was added to the list, its stock enjoyed a market value boost of about 2 percent (Whaley, 2013).

In one of the most definitive studies on the topic of CSR and profitability, researchers from Harvard Business School, University of California and the University of Michigan reviewed 167 scholarly studies. According to a summary of their work in the report “Measuring the Value of Corporate Philanthropy: Social Impact, Business Benefits, And Investor Returns,” the study concluded that “after thirty-five years of research, majority of scholarly evidence suggests a mildly positive relationship between corporate social performance and corporate financial performance and finds no indication that corporate social investments systematically decrease shareholder value.” (Whaley, 2013).

CSR appeals Consumers

Undertaking socially responsible initiatives is truly a win-win situation. The companies not only appeal to socially conscious consumers and employees, but also make a real difference in the world. CSR, transparency and honesty about what a company is doing are paramount to earning the public’s trust. Thus companies that are socially responsible make their brands more attractive to consumers and are more appealing to high quality potential employees.

For example, Starbucks has created its C.A.F.E. Practices guidelines, which are designed to ensure the company sources sustainably grown and processed coffee by evaluating the economic, social and environmental aspects of coffee production. Starbucks’ markets its coffee as beneficial to the growers who produce it. Its social responsibility in part justifies the fact that its prices are higher than a generic cup of coffee at the convenience store. Tom’s Shoes, another notable example of a company with CSR at its core, donates one pair of shoes to a child in need for every pair a customer purchases. The growth of these companies speaks volumes of the attraction of their consumers.

On the other hand, the situation of Foxconn, the Taiwan-based electronics manufacturer best known for making Apple products in China, is one of the examples of the conflict between social responsibility and consumer preferences. Foxconn has been implicated in using underage workers and poor conditions at its factories and have been linked to a series of employee suicides. Despite the scandal, however, the sales of Iphone, Ipad and other Apple products produced in China have soared. If conditions were very dire and deplorable for the workers, consumers at



some point would say maybe we shouldn't buy this product, but it will take a lot to get consumers to switch brand loyalty over social issues (Whaley 2013).

CSR to create Internal Environment that attracts and retains employees

Sustainability-engaged employees have been found to be more satisfied. Studies have shown that some of today's youngest workers are interested to make a big impact on the people and environments around them -- and they're willing to take a pay cut that will let them do that.

The findings of the report, "Talent Report: What Workers Want in 2012," are interesting. Here the employees are motivated by their company's CSR program. Based on survey of 1,726 respondents via an independent research organization with the demographics skewed heavy toward millennials, following conclusions were drawn.

- 35 percent of the students said they would take a 15 percent pay cut to work for a company committed to CSR
- 45 percent would take that pay cut for a job that makes a social and environmental impact
- 58 percent would take a pay cut in order to work for an organization whose values are shared with their own.

"The next generation of employees do not want to leave their values at the door when they go off to work on a Monday morning," says Liz Maw, CEO of Net Impact. "Gone are 'weekend environmentalists.'" The survey found that "impact" jobs have a direct correlation with overall job satisfaction. Clearly the business needs to mainstream the CSR programs (not limiting to CSR department!) to attract the best talent from the market -- and retaining the top performers of the workforce.

Google, for example, is famous for allowing its engineers to apply 20 percent of their work-time to passion projects -- and many of these projects have a social focus. Employees who are allowed to happily pursue areas of interest will be more balanced, happy and productive employees. Those employees who care about global sustainability issues, this policy allows for alignment between work and passion.

CSR towards Risk Mitigation!

Good social practices can help mitigate risks. A chemical company might have little public profile or apparent need to address social issues, but if its waste fouls its surrounding community then it is likely to pay a price in litigation and government sanctions that could affect its profits. Here its social involvement may give it the levee, especially from the risks involved.

To reduce the risks, companies respond to CSR in a different fashion. A greater proportion of goods-producing firms (manufacturing firms) invest in the environment issue areas. It is not surprising as the stakeholders in service firms (banking, hospitality etc.) are not likely to value CSR efforts related to the environment, since services probably have lower perceived environmental impact than manufacturing firms do. The service oriented firms are generally seen to be more involved in the community issues, volunteer programs and extend support to local organizations. In the human rights area, manufacturing firms are more

concerned and involved. This is also understandable, as these firms face higher pressures from activists concerned about the working conditions of unskilled labour employed (usually in developing countries) in the production process.

United Nations studies on trade and investment (2009) identified that many businesses realize that local environmental degradation, global climate change, poor labour standards, inadequate health and education systems, and many other social ills can add directly to the costs and risks of doing business domestically or globally. Slippages in these areas can increase operating costs, raw material costs, hiring, training and other personnel costs, security costs, insurance costs and the cost of capital. They can create both short-term and long-term financial risks, market risks, litigation risks and reputation risks. Companies that understand and address these challenges can improve their risk and reputation management, reduce their costs, improve their resource efficiency and enhance their productivity which can make the highest impact to society and business's future. These can be done by integrating CSR into companies' core business. Strategic CSR accomplishes strategic business goals, as well as social goals -- it benefits both the business and society (United Nations. 2009).

CSR to promote Social Entrepreneurship and Innovation

CSR and Innovation are the foundation of business competencies. CSR if strategized can lead to 'social innovation'. Companies of the future will be the ones that see CSR as an opportunity for innovation, rather than risks to be alleviated. Corporate Social Innovation for instance refers to a product innovation with a social purpose. The Corporate Social Innovation should focus on the low-income market - Base of the Pyramid (BOP). The CSR should promote Social Entrepreneurship and thus catalyse innovation as the social entrepreneurs act as the change agents for society, inventing new approaches, and creating solutions to change society for the better. Eco-Innovation should form one of the drivers of the CSR to influence the business.

Salesforce has been a leader in social responsibility, creating Salesforce.com Foundation in its growth years just after going public. The concept revolves around "giving back 1 percent product, 1 percent time and 1 percent in equity". The company in 2011 put over \$24 million into community and global impact projects, ranging from non-profit philanthropy to for-profit social businesses. eBay invested significantly in CSR with the acquisition of WorldOfGood in 2010. The Founder/Chairman of eBay, Pierre Omidyar, has used his personal wealth to fund Omidyar Network, which has given billions to social responsibility and sustainability programs. Since 2006, Google China has sponsored the Social Innovation Cup, which is a national "competition aimed at empowering China's youth to address pressing social issues through grassroots, innovative solutions." Google's social venture and philanthropy organization was funded with \$1 billion and has engaged employees in hundreds of engineering projects aimed at social innovation since 2004.

Many start-ups practice social responsibility as a core component of their competitive strategy. For example, Twitter and Facebook have all had early efforts involving their employees involved in community-based responsibility programs. Three years after its founding, Twitter

partnered with non-profit Room to Read, as an example of social responsibility in a program called The Fledgling Initiative. The trend is likely to continue in this direction. In the future, expect to see an emerging class of Social and/or Impact investors who will be looking to invest in companies that view social responsibility as a building block for their success.

Much of Indian CSR manifests as philanthropic efforts that target the well-being of employees and local communities. While these efforts have had important results, they are rarely able to achieve a sustained impact on a national scale in the long run. The CSR interventions touch only a fraction of a company's financial resources in a silo and rely on limited opportunities rather than capitalizing on the most valuable assets that businesses can bring to make full use of their core competencies while in pursuit of profit. As a result, India's CSR efforts reach hundreds of thousands of recipients, while the need is in the millions.

As stated in the report by FSG (Borgonovi, 2011) Creating Shared Value (CSV) offers an alternative path. Rather than viewing social needs as the prerogative of solely CSR and philanthropy, CSV focuses on finding the business opportunities hidden in social problems. Issues like poverty, pollution, and poor health are not externalities to be dismissed, but rather core business concerns that have a substantial impact on growth and operational efficiency. When businesses tackle social problems as a central part of their competitive strategy, they achieve large-scale and fundamentally sustainable changes in society.

Schedule VII of Companies Act, 2013, India guides that CSR could include

- Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
- Rural development projects

Both these interventions could potentially catalyse social entrepreneurship and eco-innovation. This will however require more guidance and clarity on how to strategize the CSR in this direction. Right now, the concept of CSV and its mainstreaming in the CSR seems to have taken a back seat. Leveraging on the CSV has been omitted in the updated rules.

Is Strategic CSR the solution?

Earlier CSR was considered as corporate philanthropy which means donations given by the organization to the public for their betterment but now the scenario has changed CSR has become the hottest and most talked about issue all over the world. It first emerged in USA in the arena of 1950 as philanthropy donation but now the concept of CSR has changed; its focus has shifted from obligation to a strategy.

Traditional CSR (Charity or philanthropic) - where the firm's objective is to produce a desired level of CSR with no regard for maximizing its social profits.

Strategic CSR - where the firm identifies social activities that consumers, employees or investors value and integrates those activities into its profit-maximizing objectives

Definitions sourced from:

<https://www.stlouisdjfed.org/publications/re/articles/?id=125837>

Traditional CSR fails to deliver, for both companies and society as it does not involve engagement with external environment; or does not guide in reshaping business to address the requirements and expectations of its stakeholders.

Traditional CSR activities that encompass community development and philanthropy are usually seen as distinct and unrelated to core business operations. Business could have a CSR programme of education and healthcare while polluting the environment and treating workers poorly. Strategic CSR is meant to address this problem by addressing any negative value-chain impacts while supporting the business strategy and the needs of the community. Thus traditional CSR is differentiated in motivation, implementation, and impact from Strategic CSR.

Porter and Kramer observed in a recent Harvard Business Review article that though organizations have increased their emphasis on CSR, these activities are usually not connected to the organization's business strategy. When conducted with no clear strategic framework, CSR practice often results suboptimal economic or social impact and does not contribute to the firm's long-term competitiveness.

Porter and Kramer make a bold claim in their study: "The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value—that is, a meaningful benefit for society that is also valuable to the business". As a result, they show how a company can create a corporate social agenda, composed of "strategic CSR." They also claim that "the more closely tied a social issue is to a company's business, the greater the opportunity to leverage the firm's resources, and benefit society."

Another aspect to strategic CSR is engaging with external environment. This relationship can and should include a wide variety of activities: not just corporate philanthropy, community programs, and political lobbying, but also aspects of product design, recruiting policy, and project execution.

CSR and External Environment

Although, Companies consider the external environment more carefully than they did in the past, but in majority of cases, CSR has failed to fulfil its core purpose—to build stronger relationships with the external world. Even firms with the glossiest CSR reports have found themselves cast as public enemies. Take major Wall Street firms in the aftermath of the financial crisis or BP after the Gulf of Mexico spill: their relationships with the external world have been shattered, and they have lost billions of dollars of value as a result.

Even the expectations of citizens and governments have become higher. Companies are expected not only to obey the law or meet certain standards within their own businesses but also to ensure high standards across their supply chains. Large companies are expected to go further still, helping to solve major economic, environmental, and social problems—even those unrelated to their businesses. Moreover, as the expectations of citizens have increased, so has their power to scrutinize. Digital communication has enabled individuals and nongovernmental



organizations (NGOs) to observe almost every activity of a business, to rally support against it, and to launch powerful global campaigns very quickly at almost zero cost. High expectations and scrutiny are here to stay. Successful companies must be equipped to deal with them.

The success of a business depends on its relationships with the external world—regulators, potential customers and staff, activists, and legislators. Decisions made at all levels of the business, from the boardroom to the shop floor, affect that relationship. For the business to be successful, decision making in every division and at every level must take account of those effects. External engagement cannot be separated from everyday business; it must be part and parcel of everyday business.

Conclusions

CSR as defined and understood today, especially in India has not yet evolved to reap economic benefits to the company. In its present form, it has limited the companies to CSR activities guided and defined in Schedule VII of the Act. Strategic thinking and the CSV route has taken a back seat. This is restricting the innovation and opportunities, as well as making the companies to treat CSR in a silo. It can be termed neither as 'Traditional' nor 'Strategic', but rather termed as *egoistic*, where the firms are coerced into CSR by outside entities, expenditures to be reported and the social impact to be scrutinized. On impact reporting, linkages between CSR reporting, BRR, GRI and NVG are also necessary.

Strategic CSR, if integrated into core business operations while engaging with both internal and external environment and into every part of the business can add a value. If properly designed and implemented to fit the needs of the community and the business, CSR can become source of opportunity, innovation, and lead to competitive advantage. Those that have acted already on these lines are now reaping the rewards. We however need more clarity and guidance in this direction, especially on the positioning of the CSV. Based on the experience of implementation of the rules, CSR Version 2.0 may emerge to address these issues. ■

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1

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5

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