

UNDERSTANDING CORPORATE SOCIAL RESPONSIBILITY THROUGH SECTORAL INVESTMENTS

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ABSTRACT

Emerging markets have been identified as a source of immense talent with the rising levels of education. In order to draw from this vast talent pool coming up in developing countries, companies need to gain a foothold in these markets by establishing sound business practices addressing social and cultural concerns of the people. World Business Council for Sustainable Development defines Corporate Social Responsibility (CSR) as “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society.” This paper covers the aspects of CSR in the Indian perspective. I have studied the possible impact of CSR investment on Sales of 12 companies selected at random from the sectors, Cement, Iron and Steel, Chemicals, Oil and Natural Gas and Metals to see whether there is any significant correlation between the two. I have used Pearson’s Correlation Method to analyse the relation.

KEYWORD: Corporate Social Responsibility, Emerging Markets.

I.) INTRODUCTION: CSR can be thus be simply defined as the additional commitment by businesses to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. World Business Council for Sustainable Development defines Corporate Social Responsibility (CSR) as “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society.” Thus, CSR exhorts firms to diverge from their sole aim of maximizing profits and to lay more importance on improving the economic and social standards of the community in their countries of operation. As **Warhurst (2001)** points out, the three major elements of CSR are product use which focuses on contribution of industrial products which help in well being and quality of life of the society, business practices which focus on good corporate governance and gives high impetus for the environmental well being and equity which tries for distribution of profits equitably across different societies especially the host community.

The current trend of globalization has made the firms realize that to compete effectively in a competitive environment they need clearly defined business practises with a sound focus on the public interest in the markets (**Gray, 2001**). *There will be increased costs to implement CSR, but the benefits are likely to far outweigh the costs.*

II.) LITERATURE REVIEW: Friedman (1970); Carroll (1979); Swanson (1999); Whetten, Rands, and Godfrey (2002) emphasised that corporations should follow the rules of the game as established by the political system and the moral customs of a given community (e.g. Corporate legitimacy, understood as “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. Based on this, **DiMaggio and Powell (1983)** worked on the institutional isomorphistic approach, which is understanding responsibility as a kind of adaptation process in which the organization reacts to external expectations. This theory was further developed by **Strand (1983)** and **Palazzo and Scherer (2006)**. The evolution of CSR in the developing economies shows widely varying results. **Chambers, Chapple, Moon and Sullivan (2003)** evaluate the extent of CSR penetration in seven Asian countries (India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand). Many researchers have hypothesised that CSR in emerging economies is still in a very nascent stage and suitable mechanisms do not exist to ensure that companies practise CSR with anything other than a charitable outlook. Further studies on obstacles to achieving corporate responsibility in developing markets were done by **Kemp (2001)**. **Chambers, Chapple, Moon and Sullivan (2003)** measured the extent of CSR penetration in the seven Asian companies and show that the mean value for the seven countries (even including industrially advanced Japan) is just 41% compared to say a score of 98% for a developed nation like the United Kingdom. However, there are exceptions to the mean scores. India for example had an average CSR penetration of 72% compared to Indonesia’s 24%. The concept of CSR as visualized in the emerging markets and the developed countries have very different understanding.

III.) CSR - THE INDIAN SCENARIO: Associating CSR with sustainable development has become so common that CSR reporting is often called sustainability reporting. In India, until very recently, the focus was on charity, which is not really CSR. Sustainable CSR programmes mean a cohesive mix of economic, legal, ethical and philanthropic tenets. In today's changed business scenario, there is an increased focus on giving back to society and creating a model which works long term and is sustainable and it is imperative that the best practices for inclusive growth are shared with the stakeholders. Historically, Indian companies had always strong philanthropic activities mostly targeting their employees and their families. However, CSR has to break away from employee welfare mindset and encompass sustainable development. *Recent rash of scandals involving major corporate giants throughout the world have brought to the attention of public and academia the need to analyze these issues.*

IV.) OBJECTIVE and SCOPE of the STUDY: As on date it is not mandatory for all companies to invest in CSR and more so disclose their investment or budget details pertaining to CSR. Though few companies have taken up the Global Reporting Initiative, there is still a large gap between the recommended and the actual practice. It had been recommended by Karmayog, an NGO dedicated to CSR activities of companies, that at least 0.2% of the Annual Sales of a Company be invested in CSR related activities. There are some companies who do that and more and also disclose their initiatives. However there is a plethora of companies who still don't meet this requirement. In this context it becomes relevant to study and analyse whether there is any significant correlation between the CSR investment and sales of the companies I have studied. This study can be further taken up in details in sector specific companies and the impact of CSR

activities on sales and vice versa can help researchers understand the changing face of CSR in the society.

V.) RESEARCH METHODOLOGY: I have taken a sample of 12 companies at random from different sectors which are Cement, Iron and Steel, Chemicals, Oil and Natural Gas and Metals and collected the details of their annual sales figure. The companies are *Aarti Industries Ltd*, *ACC Ltd*, *GAIL (India) Ltd*, *Gujarat Flourochemicals Ltd*, *Hindustan Copper Ltd*, *Kansai Nerolac Paints Ltd*, *Madras Cements Ltd*, *Mahindra Ugine Steel Company Ltd*, *Mangalore Refinery And Petrochemicals Ltd*, *National Aluminium Company Ltd*, *OCL India Ltd*, *Oil & Natural Gas Corporation Ltd*. The actual investment that these companies have made in CSR activities in 2007-08 was considered as a benchmark. I have assumed that this investment remains constant over the study period of 2007-2010. Based on this I have tried to find a correlation between the annual sales and CSR investment of these companies. I have used Pearson's Correlation (2 Tailed) test to study the relationship between CSR investment and the Sales of sample. The alpha level was kept at 5%.

Null Hypothesis: H0: There is no correlation between Actual investment in CSR activities and Actual Sales figure of the companies.

Alternate Hypothesis: H1: There is a correlation between Actual investment in CSR activities and Actual Sales figure of the companies.

VI.) FINDINGS and INTERPRETATION: As per the results of the Pearson's Correlation Test performed on the sample the following interpretations can be arrived at:

1. There is a significant positive correlation between the Actual Amount of Investment in CSR activities made by the sample companies in 2007-08 and the Actual Annual Sales of these companies in 2007-08 and 2008-09. In the first case the Pearson's Correlation Coefficient is 0.861 and in the latter its 0.913, thus is significant at 0.01 level of confidence. Thus the null hypothesis was rejected as the p values in the cases were less than 0.05. Thus it can be said that there is a positive linear relationship between the sales in 2007-08 and 2008-09 with the CSR investment made in 2007-08 in the sense that as an increase in sales may lead to increase in CSR activities and vice-versa (Table I).
2. There is a positive correlation between the Actual Amount of Investment in CSR activities made by the sample companies in 2007-08 and the Actual Annual Sales of these companies in 2009-2010. In this case the Pearson's Correlation Coefficient is 0.614. Thus it can be interpreted that in the year 2009-10 the actual annual sales was not as strongly correlated to the CSR investment made in 2007-08 which has been considered as a constant benchmark as compared to the previous years. This may be due to the fact that the sales had actually declined in the year 2009-10 as compared to the previous years (Table II).

VII.) CONCLUSION: *It is clear from the above results that there is a correlation between Sales and CSR Investment. More companies need to start disclosing their CSR Investment to help us understand the impact better. As discussed in this paper, corporate leaders and their general counsels have to give compliance issues a higher priority as they recognize the risk of increased scrutiny on the legal angle of their global operations. Companies report legal compliance, making a stronger indicator of actual working conditions. Upper management must be persuaded to support not only CSR goals, but regulatory recommendations as well especially*

regarding disclosure of CSR investment. Every company (especially MNCs) needs to emphasize on CSR activities to strengthen their market position, improve goodwill and thereby profitability and last but not the least to give back something positive to the society and environment. *“The world cannot get out of its current state of crisis with the same thinking that got it there in the first place.” ALBERT EINSTEIN.*

TABLES and FIGURES

Table I: Correlations for 2007-08 and 2008-09.

	Actual amount spent on CSR in crores (Rs.)	Sales ('07-'08) in Rs. crores	Sales ('08-'09) in Rs. crores
Actual amount spent on CSR in crores (Rs.)	1	.861	.913
Pearson Correlation		.000	.000
Sig. (2-tailed)			
N	12	12	12
Sales ('07-'08) in Rs. crores	.861	1	.988
Pearson Correlation			.000
Sig. (2-tailed)			
N	12	12	12
Sales ('08-'09) in Rs. Crores	.913	.988	1
Pearson Correlation			.000
Sig. (2-tailed)			
N	12	12	12
Sales ('09-'10) in Rs. Crores	.614	.448	.497
Pearson Correlation			.034
Sig. (2-tailed)			.144
N	12	12	12

Table II: Correlations for 2009-10.

	Sales ('09-'10) in Rs. Crores
Actual amount spent on CSR in crores (Rs.)	.614
Pearson Correlation	.034
Sig. (2-tailed)	
N	12
Sales ('07-'08) in Rs. crores	.448
Pearson Correlation	.144
Sig. (2-tailed)	
N	12
Sales ('08-'09) in Rs. Crores	.497
Pearson Correlation	.100
Sig. (2-tailed)	
N	12
Sales ('09-'10) in Rs. Crores	1
Pearson Correlation	
Sig. (2-tailed)	
N	12

Table III: Details of CSR Investment and Annual Sales of Companies.

Company	Actual amount spent on CSR in crores (Rs.)	Sales ('07-'08) in Rs. crores	Sales ('08-'09) in Rs. crores	Sales ('09-'10) in Rs. crores	Industry
<u>Aarti Industries Ltd</u>	0.3	960	1535	1350	Chemicals
<u>ACC Ltd</u>	12.2	9640	8597	3359	Cement
<u>GAIL (India) Ltd</u>	26.0	18000	25495	1650	Oil & Gas
<u>Gujarat Flourochemicals Ltd</u>	0.6	720	1302	1007	Oil & Gas
<u>Hindustan Copper Ltd</u>	1.3	1800	1349	1076	Metal
<u>Kansai Nerolac Paints Ltd</u>	0.5	1300	1590	3952	Chemicals
<u>Madras Cements Ltd</u>	1.7	2000	2703	3475	Cement
<u>Mahindra Ugine Steel Company Ltd</u>	0.2	920	1136	1691	Iron&Steel
<u>Mangalore Refinery And Petrochemicals Ltd.</u>	1.5	32500	42719	1076	Oil & Gas
<u>National Aluminium Company Ltd.</u>	23.8	5500	5531	2009	Metal
<u>OCL India Ltd.</u>	0.3	890	1276	1214	Cement
<u>Oil & Natural Gas Corporation Ltd.</u>	120.0	60000	109660	4832	Oil & Gas

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