

Corporate Social Responsibility for Inclusive Growth

Mrityunjay Athreya

This introductory article deals with the role that Corporate Social Responsibility (CSR) can play for inclusive growth. From the euphoria of a “high growth path”, both globally as well as domestically, in all the national and regional economies, the debate has shifted to one on “inclusive growth” (IG). The paper deals with the need for inclusiveness; and the challenges posed by it. It goes on to examine the role that CSR can play in IG. There is a significant potential. CSR programmes need to be reoriented and managed to realise such a potential.

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Inclusive Growth

Till the dissolution of the Soviet Union, formally in 1989, in academic and popular discussions, the world used to be divided into three parts — the First; Second; and Third worlds. From an economic structure point of view, the First world economies consisted of the market economies, with freedom for entrepreneurs domestically, and relatively free trade in exports and imports. The US, EU and Japan were the main constituents.

The Second world was made up of centrally planned and administered economies, with state ownership of enterprises, and limited exports and imports; mainly through bilateral relations. Russia, the East European and Central Asian countries, were the main parts. The Third world consisted of all other countries, mostly in Asia, Africa and Latin America.

Some countries of the third world adopted an export-led growth model in the 1960s and 70s. They achieved high economic growth, and got new labels such as the Newly Industrialized Countries (NIC); and the Asian Tigers.

After the death of Mao in 1976, Deng began economic reforms in China in 1979, based on Special Economic Zones (SEZ), dedicated to exports. China has been growing at more than 10% per annum since then. In the Soviet Union, Gorbachev implemented Glasnost and Perestroika. Russia and the ex-CIS countries have also implemented changes towards a market economy.

India began with a mixed economy consisting of a state-owned public sector, and a private sector subject to industrial licensing and many administrative controls on imports; exports; foreign exchange etc. Between 1950 and 1990, the economy grew at only 3.5% per annum. In 1991, India also was forced to reform her economy. The reform has had three main strands – LGP – Liberalisation; Globalisation; and Privatisation. The first reform has helped the rapid expansion of the existing and new private enterprises. The second has led to a sustained growth of exports, both in services like IT, and in manufactures like drugs and engineering goods. The third reform of privatisation has faced more social and political resistance. However, it has benefitted the consumer and job seeker in telecom; banking; airlines; electricity etc. The resistance has been more to the selling of the government stake in state owned enterprises, SoE.

All the above reforms have taken the Indian economy to a high growth path of 8%. In the peak year of 2007-08, it exceeded 9%. But questions have arisen

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on the quality and contents of the growth in India. Inflation rose above 12%. It hurts the poor more. Disparities of income and wealth have widened. The better performing companies have raised their market share and profits. Under liberalisation, corporate survival is not guaranteed, resulting in some closures and job losses. In the competition for talent, companies have raised the total managerial compensation, consisting of salaries, allowances, bonuses, benefits, stock options etc. The outcome of the 2004 parliamentary elections was partly influenced by the argument that the benefits of high growth had not reached the common man. Even within the ruling UPA Coalition, the debate favoured growth not for its own sake. Industry Chambers and Professional Associations have been holding Conferences on Inclusive Growth; its challenges; and action needs.

Global Concern

This concern for Inclusive Growth has now become global. It has been a

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major issue in the 2008 US presidential campaign. Against a mood of despair and hopelessness, Obama has won by offering hope of change for the better. The US economy is reeling under recession, hit by three main problems – the home mortgage defaults; bank losses; and considerable credit card dues. Some fear even a Depression 2, revisiting the horrors of Depression 1 of the 1930s.

In the early stages of the 2008 US financial crisis, there was a perception in the EU that it was more of an American problem. But, it is now clear that Europe is also in recession. Its strongest economic member, Germany, is experiencing a fall in GDP. In Japan, there has been talk of the “lost decade” of the 1990s. After long stagnation, Japan was showing some signs of revival. But, it has been nipped in the bud by the recessions in the US and the EU.

In the BRIC countries of Brazil, Russia, India and China and the NICs, there was an argument in 2008 about whether they were sufficiently “decoupled” from the US economy, to be able not only to sustain their own growth, but also to act as “locomotives”, to some extent, helping even the developed economies to recover faster from their recession. Evidence is clear that they are very much coupled. Exports’ share and other asset prices have fallen. While not in recession, they are in a “Downturn” with lower GDP growth.

Government Action

Many national governments are wrestling with this huge global economic crisis. The aim is not only to revive growth, but go for Inclusive Growth, which is more sustainable. The mood at the World Economic Forum, WEF, in Davos, in January 2009, was sombre, compared to the optimism of earlier years. The shoe has been on the other foot. Just as in the last two to three decades, the state fundamentalists have accepted the role and value of the Market in the current crisis, the Market fundamentalists have realised the role that only a state can play.

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Governments are responding, at varying speeds. In the US, while the Bush administration was perceived to have been complacent, in the initial stages, it got Congress approval for a revival package of 700 billion USDs. The Obama administration has proposed another one trillion dollars. While the EU, France and Britain acted fast Germany has been slower. The Chinese government has also come up with an infusion of 500 billion dollars. The government of India has proposed 50 billion dollars; cuts in excise, customs, fuel prices etc. The RBI has been re-

ducing the CRR, to infuse liquidity; and the interest rate, to stimulate borrowing.

Not by Government Alone

Revival and inclusive growth cannot be achieved by government alone. The government is only one of the three pillars of the Governance Model in our post-Reform world.

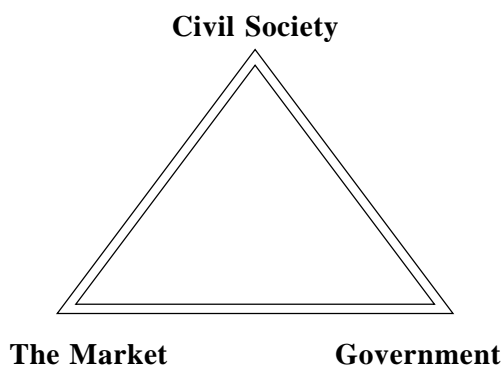
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human resources and provide the needed goods and services. It has to practice Good Corporate Governance. In the long run, normal Inclusive Growth will depend on the vigilance and initiative of the Civil Society, through its power for voting; spending; mobilising; activism, etc. The Citizen and NGOs should practice Good Self-governance.

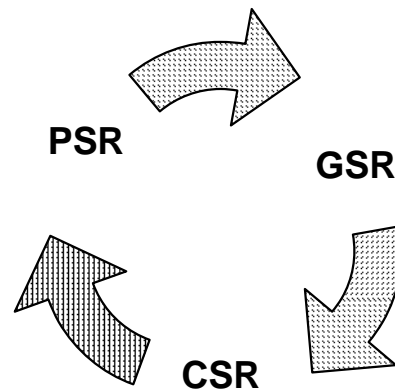
Three Responsibilities

Sustained Inclusive Growth requires an optimal blend of three sets of Actors and their respective responsibilities.

Governance Model



3 R Model



Under “normal, Inclusive Growth” times, Government will be the relatively less active element of the triangle. In periods of recession and downturn, the government has to step in and play a more active role, to revive confidence and provide stimulus. But, at all times, it should demonstrate Good Governance. In normal Inclusive Growth times, the Market will raise the funds, mobilise the

There are many Government Responsibilities (GR), which include law and order; defence; foreign relations etc. But, for Inclusive Growth, it must pay special attention to GSR, Government Social Responsibility. Similarly, there are many Corporate Responsibilities (CR) which include providing customer value; shareholder returns; and employee satisfaction. For

Inclusive Growth, the enterprise must discharge its CSR. Finally, the Citizen has many Personal Responsibilities, including looking after the spouse, children, other dependents, etc. But Inclusive Growth requires that every citizen above the Poverty Line must take her/his Personal Social Responsibility (PSR) seriously, to help a few below the Poverty Line.

Corporate Social Responsibility (CSR)

CSR has come to stay. There are very few takers for Milton Friedman's stance in the 1950s that CSR is a dangerous concept. The business of business is not just business. The articles in this special issue deal with various facets; issues; and examples of CSR.

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CSR Reporting

C.V. Baxi and Rupamanjari Sinha Roy take up the developments in reporting and further scope for disclosures in their CSR activities by corporates. Their finding is that in India, currently, the reporting deals more with the activities than with the results. They emphasise the need for CSR reporting standards. Global warming has brought up the urgency of corporate sustainability. The Global Reporting Initiative

(GRI) provides useful guidelines. Eight Indian companies have given GRI-based disclosures in 2008. The older, established companies first engage in CSR. Data of good practices are building up. Creating a structure and budget for CSR helps. A few examples have been given, including the Triple Bottom Line reporting of ITC; CSR of L&T; Bharti Airtel; Continental Devices; IOC; and SAIL. About a hundred Indian companies have signed the UN Global Compact.

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CSR & ROE

V. K Vassal has made an interesting attempt to examine the impact of CSR on shareholder returns. He has used the data of the ESG index (Environmental, Social and Governance) and the stock market data. There are signs of higher return for CSR companies, although, not yet, statistically significant. There is a broader acceptance now of "Stakeholder Returns", rather the narrower "Shareholder Value". In addition to the customer; shareholder; and employee, the society is also a stakeholder in business. CSR is related to and consistent with the PRI, Principles of Responsible Investment, enunciated by the UN in 2005. It also meets the expectations of SRI, Socially Responsible Investment, which guides some

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investment funds. Vassal has used three measures – Alpha; Volatility; and Variability. As more companies adopt CSR; and improve their management of CSR, the higher returns are likely to be significant, as well as meet the needs of Inclusive Growth.

CSR as an Opportunity

Sanjeev Gupta and Nidhi Sharma look at CSR as a business opportunity. Most companies tend to treat it as just a cost. Some may even look at it as an unavoidable nuisance or distraction from their core business. On the other hand, it can give benefits to the company. These benefits need not be confined to just a better image. They can be more tangible and financial. It is not a zero-sum game. CSR may begin as “charity”, which has an element of condescension. Philanthropy, the next stage, accepts some moral responsibility, for sharing wealth. More companies are now linking CSR to their business strategies. CSR can give competitive advantage. It can give a number of business benefits, including lower costs; reduced risk; higher revenue; better reputation; access to talent and capital etc. According to the Association of British investors, CSR can help reduce portfolio volatility and increase returns.

CSR Swot

N. K. Choudhary writes with a different and interesting perspective; a blend of industrial and NGO vantage points. He is a CEO of a rug Company, as well as the Managing Trustee of a rugs Foundation. He notes the benefits of collaboration between Corporates, NGOs and Government to improve the Quality of Life (QL) of the workers; their families; the local community; and society at large. The enterprise also benefits in its brand image, costs, loyalty, retention and regulatory compliances. He notes the example of Coca Cola in India. On the downside, it has faced charges on pesticide residues. On the upside, it has won Corporate Governance awards, including CSR, for

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water conservation and management. It has installed Rain Water Harvesting (RWH) structures in many states. It has restored several traditional water bodies and check dams. Being a big user of water in its products and processes, it aims to reach ‘net zero water’ usage. It also has a program to provide clean drinking water in schools. The article also notes the contribution of ITC, through rural partnerships, touching the lives of three million villagers. The Jaipur Rugs Co. and its Foundation have helped over 35,000 artisans in ten states. They provide integrated rural develop-

ment and skills training in collaboration with government and NGOs. The Foundation works based on a concept of 3Es – Employability; Employment; and Entrepreneurship. The paper gives examples of government and NGO initiatives, which corporates can partner, for mutual benefit.

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More Examples

Amita Joseph adds to the growing list of CSR examples, such as the Tata Council for Community Initiatives; the K.C. Mahindra Foundation; GSK C. H. Partnerships; Reddy's Labs; the Byrraju Foundation; EMRI; HMRI; Eicher's Primary Education Project; Mindtree's support to Spastics Society; and the Janaki Bajaj Gram Vikas Sansthan. Engaging in CSR is not a guarantee for sustained future good corporate governance. A particular management may fail, as in the case of Satyam Computers, in early 2009. One hopes that a new professional management will not only revive the company, but also maintain, and expand the worthwhile CSR activities.

Social Projects

Asit Roy describes in detail the CSR related Social Projects of his company, Kanoria Chemicals. These are both internal and external. The company has a formal Policy on Social Responsibility.

It has also developed a CSR Mission statement. Being in the chemical industry with inherent pollution and safety hazards, the company has gone for ISO 9001; 14001; and OHSAS 18001 certification. It has run an award winning "Waste to Energy" programme at its factory. It also has a "Waste to Wealth" project. It supports a range of programmes for the local community, in Education; Watershed Management; Income Generation; Health & Family Welfare; and Housing.

The company has evolved a model of Social Project Management, based on '6E' – Evaluate; Enter; Engage; Empower; Ensure; and Exit. The approach can enable sustainable development, with the community taking charge and ownership. The above and

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similar initiatives have brought the company several awards.

Conclusion

The various articles in this Special Issue confirm that CSR is now owned by managements, and expected by the community. As companies gain experience in CSR, they are expanding the range of CSR programmes. They are not only doing it internally, but also in collaboration with the NGOs and government. CSR is moving beyond charity and philanthropy into a pro-

fessional phase. There are many areas for improvement. There is need for continuous evaluation; feedback; control; and learning. It will be useful to have comprehensive standards for reporting on CSR, with stress on the results; outputs; impacts; benefits.

CSR has become even more critical in the current context of global economic

crisis and domestic showdown. The macroeconomic goal has shifted from merely high growth, to Inclusive Growth. CSR has an important role to play, along with GSR and PSR. Let us conclude with hope that this Special Issue will stimulate further spread of CSR Action; Research; and Innovation.