

## Invited Article

# CSR- A Business Opportunity

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*CSR is not a cost centre but an effective management tool with multi-dimensional benefits. CSR offers a new way to look at the relationship between business and society that does not treat corporate growth and social welfare as a zero-sum game. Grounding CSR in the values, purpose and strategy of the business and treating it in entrepreneurial fashion is the way forward. CSR is an opportunity in the offering, argues the authors.*

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### CSR- Heightened Status

Corporate social responsibility (CSR) has recently taken flight into board/conference rooms and has emerged a topic of concern in corporate, government and international business forums. The reasons are varied: global warming pressures, wide divide of wealth, customer preferences of ethical business practices etc. Media support has further fueled this fire. In this global age social, economic and political problems merge into one another – as do the solutions. In response, CSR has emerged as an inescapable priority for business leaders and a response to new conditions, new challenges, and new opportunities. CSR in near future will play a key role in sustainable business.

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Corporate social responsibility (CSR) has been around in various guises for quarter of a century or perhaps longer. It has evolved to the status of a profession and is being debated on the world stage, advanced by globalization

and technology. There are CSR consultancies and think tanks in most developed and developing countries around the world. Social (e.g. 9-11, HIV Aids), environmental (e.g. climate change) and economic (e.g. Enron) shocks are elevating issues to the international arena.

Companies which aspire to be, or are, leaders in corporate social responsibility are challenged by rising public expectations, increasing innovation, continuous quality improvement and heightened social and environmental problems. They are forced to chart their CSR course within a very complex and dynamic environment.

In India, CSR has been seen as philanthropy, charity, social-giving in the past. Most business families have been taking up topics of their respective interests and investing in them. With globalization, the demands are changing the definitions, it is not only about how you spend the money but customers are also demanding information on all the business processes in how the company makes money and treats its various stakeholders.

It is increasingly being appreciated that the success of a business is inextricably tied to the welfare and stability of the community. "People" and "planet" have a part to play alongside "profit". This calls for a new corporate logic, in which caring for employees, communities and environment is not only seen as morally correct, but also the best approach for continuity and profit-

ability. Governments, activists, and the media have become adept at holding companies accountable for the consequences of their actions.

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CSR is generally understood to be the way a company achieves a balance or integration of economic, environmental and social imperatives while at the same time addressing shareholder and stakeholder expectations. It is about meeting the current needs and ensuring the future generation's needs are not compromised upon. Good CSR goes a step further, increased belongingness in employees, enhanced skills and better motivation brings better productivity, lower rate of attrition, fair practices in supply chain will add to transparency in the organization, public image, efficiency and effectiveness. Responsibility towards the environment and community will improve the conditions around work space in many dimensions.

### **CSR – The Hidden Opportunity**

Why be good? Why do the right thing, especially when so many around you can profit by doing the wrong thing? How much am I willing to pay to be good?

Tough questions indeed. People who do charitable work often talk about how rewarding it is. Call it the next gene-

ration of corporate philanthropy, from writing cheques, companies are more closely integrating their cause agendas into their business strategies. And it's paying off in many ways. Companies recognize CSR's dividends. Log on to the web site of any Fortune 500 company and you are likely find a prominent link to its CSR efforts, with some even launching massive media campaigns promoting their CSR endeavors. According to a World Economic Forum survey of CEOs and leaders (Voice of the Leaders Survey), corporate brand reputation outranks financial performance as the most important measure of success. Companies with a public commitment to ethics perform better on 3 out of 4 financial measures. On average, CSR-oriented companies also have 18% higher profits.

### **CSR- a Tool for Competitive Advantage**

A number of factors are driving the increased adoption of CSR practices in the corporate sector. Regulation obviously provides the baseline for corporate action, notably for employment practices and the environment. Beyond this, for many companies, being a good corporate citizen is a vital aspect of their identity, values, and vision.

Far-sighted business leaders recognize that it is unsustainable for their companies to exist as 'islands of prosperity' in a sea of poverty. Market forces are also propelling many firms to go 'beyond compliance', notably for those selling into international supply

chains. No longer a legal necessity and a nice thing to do, CSR is emerging as a 'hard' commercial factor, linked directly to profits and brand value. If corporations were to analyze their opportunities for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR returns can be a potent source of innovation and competitive advantage.

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The corporate sector is replete with examples of companies where CSR practices have not only established them as credible enterprises but also brought them business benefits:

- Cost savings
- Reducing risk
- Increasing revenue
- Building reputation
- Developing human capital
- Improving access to capital

### **CSR as an Opportunity**

The underlying challenge for CSR in India is how to demonstrate a clear link between a company's own commercial objectives and the wider goals of society.

We are familiar with the outlines of a successful company: one that is profitable, productive, with a strong

reputation and efficient in the use of natural resources. Yet, simply achieving these goals may not be enough to be a responsible company if profits do not lead to per capita income growth, if employee well-being does not improve, if community programmes do not raise social welfare, and if the company's eco-efficiency fails to sustain the underlying natural resource base.

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Sufficient progress has now been achieved to demonstrate the case for CSR in India. The task is now to apply fundamental business principles to make CSR sharper, smarter, and focused on what really matters. This means rigorously focusing on priorities, allocating finance for treating CSR as an investment from which returns are expected, monitoring activities to ensure initiatives really deliver outputs, and reporting performance in an open and transparent way so that all can celebrate progress and identify areas for further action.

### **Making Priorities**

Building on the existing good practices, four inter-locking priorities for action emerge.

*I From Philanthropy to Social Investment:* India's inadequate social infrastructure means that corporate

funding of community initiatives will remain a critical contribution to the national development for years to come. However, better understanding is needed of the performance of these programmes to enable companies to allocate their funding appropriately and for their stakeholders – notably affected communities – to be able to have a real influence on decision-making. In addition, there is a real opportunity for corporate action in this area to move upstream into core operations to make underlying business models 'pro-poor'.

*II Sustaining Critical Natural Capital:* India's natural resource base continues to be depleted through a range of pressures—technological, economic, social, and demographic. The result is often an acute 'resource crunch' leading to conflicts between companies and communities over scarce water or biomass resources, for example. A vital area of corporate commitment – particularly in resource-intensive sectors, such as metals and mining, power, and oil – is to develop clear programmes first to assess and then reduce the corporate footprint so that it rests within the available carrying capacity, thus ensuring equitable access, particularly for low-income groups.

*III Ensuring Transparency:* Without disclosure of performance, there is no basis for evaluating corporate movement towards responsible business practice. Good practice does exist in India, but it is limited. Working with leading international institutions, such as the Global Reporting Initiative, there is a

powerful opportunity to develop a core set of common CSR indicators that leading companies can use to communicate their performance, both internally and externally.

*IV Linking CSR & Financial Performance:* In North America and Europe, socially responsible investment has become an important complement to CSR. In the words of the Association of British Investors, ‘incorporating social responsibility can reduce portfolio volatility and increase returns’. If CSR is to be pursued on a truly sustainable basis by India Inc. then investors will need to appreciate the linkages with financial performance and understand the challenges of delivering long-term social returns in the context of the ever-shrinking financial horizons. Opening a dialogue between the business and financial communities on social responsibility is therefore essential, and should help to provide a stronger analytical case for CSR.

### The Way Forward

There is a need to develop a more coherent and ethically-driven discourse on corporate social responsibility. CSR is still sometimes seen as “green wash” to clean the sins of pollution, or “white wash” to provide a facelift to the company’s public image. It is often seen as old wine in a new bottle — just another trendy name for good old philanthropic initiatives by the companies. There is need to move beyond such transitory illusions about corporate social responsibility. In the decade to

come, CSR progress will become increasingly mainstreamed by business. The continuum seen today - of companies’ differing commitment to significant CSR - will be evident in the future. More strategic, integrated and ‘deep’ CSR adherents will emerge over the decade.

One of the most significant trends will be the increasing influence of stakeholders, whether through more engaging stakeholder dialogue or through stakeholder campaigns. Stakeholders will become more strategic and more coordinated, increasingly working together on issues of common concern. Consumers and employees will become more demanding as and when they perceive the connections between corporate behaviour and their quality of life. Suppliers will increasingly be pulled into CSR practice as companies through coercion or choice integrate CSR throughout their supply chains.

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CSR issues are expected to remain the same, though the performance bar will continuously be raised. The environment, poverty and social exclusion and governance, ethics, transparency and accountability are expected to be the dominant future CSR issues.

Most governments will be requiring mandatory disclosure of corporate social and environmental performance, and

encouraging different CSR approaches to flourish through voluntary compliance on CSR standards and codes. Business schools will increasingly jump on the CSR bandwagon, integrating CSR curriculum within their business programs. CSR will be promoted as a means of fostering creativity and innovation.

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The future of CSR lies in the hands of the public and civil society organizations and their changing expectations, and the vision and leadership of the private sector.

Perceiving social responsibility as an opportunity rather than as damage control or a PR campaign requires dramatically different thinking—a mindset, which will become increasingly important to competitive success. The essential test that should guide CSR is whether it presents an opportunity to create shared value - that is, a meaningful benefit to society that is also valuable to the business.

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A lesser-known event of the epic, *The Ramayana*, relates to the common squirrel's contribution to making of the 'sethu' (bridge) across the sea for reaching Lanka. Being inspired by the noble purpose, the squirrel got wet in the seawater, rolled over the sand and then shook the sand off on the *sethu*. Impressed by this sincere, committed though small effort of the squirrel, *Lord Rama* patted on its back and touched it fondly with his fingers, which, according to the epic, gave squirrel its stripes. On similar lines, in case of the CSR interventions, the spirit of involvement and sharing the prevailing concerns of the society are of greater importance than the amount spent. It calls for the mass participation of each and every corporate operating in the society. Agenda for future of CSR in India to a great extent will lie in recognizing, understanding and appreciating the CSR efforts by the media, civil society and the Government, which will in turn promote it further in solving the national issues relating to unemployment and poverty and making the growth socially inclusive.

dimensional benefits. ISO certification experience has also proved the same. CSR offers a new way to look at the relationship between business and society that does not treat corporate growth and social welfare as a zero-sum game. Grounding CSR in the values, purpose and strategy of the business and treating it in entrepreneurial fashion is the way forward, CSR is an opportunity in the offering.