

# Corporate Social Responsibility is NOT Charity!

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## 1.1 Abstract

CSR is NOT charity! This myopic approach undermines the importance of CSR as a **key differentiator and investment opportunity** for business growth. This paper intends to change the mindset while thinking of CSR, unveil myths surrounding a CSR initiative and attempts to maximize 'returns for CSR' while positively impacting society.

Today few corporates agree with Nobel laureate Milton Friedman's statement that high returns should be a corporation's sole focus! While this is good news for the society, there is lack of clarity in 'tying' benefits of socially responsible behaviour to the corporate balance sheet. The assumption seems to be – if people love us they will buy our products and services! But there are ways to demonstrating this 'traceability'. For instance, CSR can be proved to be a cost effective differentiator <versus other options> and thereby positively impact profitability!

Demonstrating CSR's benefit is as important as the CSR initiative itself. The 'perception' created by CSR is critical. Managing this perception requires a well thought out strategy taking into account motivations of various stakeholders as well as psychology of the masses!

Various Indian and global organizations have reaped benefits of CSR <in monetary terms>. The time is ripe to leverage CSR for business growth.

Key Words: Corporate Social Responsibility, Social Balance, Environment

## 1.2 Introduction & Objective

CSR is the inclusion of social values in business.

This paper intends to break the myth that CSR is NOT profitable! When aligned well with an organizations products and service offerings, socially responsible initiatives can provide an opportunity for increased profitability and a sustainable competitive advantage.

CSR is not purely a philanthropic exercise, but also a strategic business opportunity, like any other, whose Return on investment can be measured. The returns in the short term may be a new window of opportunity for products/ services, increased margins and so on. But in the long term socially responsible decisions would provide a sustainable competitive advantage <at the least> and may actually become a 'required for survival' factor soon!

A key aspect in ensuring returns for CSR is managing the perception of the CSR activities. Media and Employees play a key role in this 'perception'.

This paper intends to equip thought leaders of organizations to understand CSR and motivate them to include this in their list of strategic goals for their business- thereby positively impacting the bottom lines and society at large!

## 1.3 What is CSR

Corporate Social Responsibility is the way companies manage their businesses to produce an overall positive impact on society through economic, environmental and social actions. Or simply CSR is the **alignment of business goals with social values**

Social values could be varied. A few examples:

- ◆ Tata Steel has created cities like Jamshedpur around its industrial facility and has taken care of roads, sanitation, water, electricity supply, healthcare and street lights. It has a separate environment management section that includes reduction of emission, energy use, regeneration of forests, road cover, recycling of wastes.
- ◆ HDFC has consistently maintained its focus on enabling the lower and middle income groups to access affordable housing. HDFC has a clearly defined CSR philosophy and uses its core competence in the housing sector for projects in micro-finance and low-income housing.
- ◆ Union Bank Ltd. has been working on 100% financial inclusion of villages and creating financial awareness by providing financial education services and debt counselling to all strata of the society

There is considerable interest in CSR across industries today.


Various organization view CSR differently. These could be classified into three types

Type 1: Charity- Organization commits to 'donate' a fraction of their profits to charitable causes.

Type 2: Outsourced - Contribution to an NGO/ organization that minimizes negative impact of business operations

Type 3: Business Goal - Creatively align products and services for positive societal impact

Type	Name	Brief Description	Effectiveness
1	Charity	Organization commit to 'donate' a fraction of their profits to charitable causes	LOW
2	Outsourced	Contribution to an NGO/ organization that minimizes negative impact of business operations	MEDIUM
3	Business Goal	Creatively align products and services for positive societal impact	HIGH



Type 1: This approach is certainly laudable but is fundamentally flawed. The year that the margins get squeezed the charity tap would dry up. It is obvious that this would be one of the first cash outflows to be cut. Why? Since business leaders exist to create shareholder value through profits.

Type 2: If the contribution is made towards purposes that do NOT directly tie in with the business operation and goals this would still classify as Charity <type 1>. But if the contribution is utilized to clearly demonstrate mitigation of the 'damage' caused to society, environment, then this would classify as 'Outsourced CSR'. For instance, a leather factory that releases harmful effluents in a river, funds a research project by an NGO to 'clean up' the river. Since here the charity can still be tied in with the business positive image and growth. Another example could be an organization that is building a dam, dislocating villages in the area, contributing to an NGO that helps in re-settling the displaced villagers/ tribes.

Type 3: These are the organizations that fulfil social obligations by incorporating them in their business strategy and thereby improving margins/ profitability and developing competitive advantage.

In my opinion Type 3 and 2 are far more effective and sustainable than type 1. Simply because the business exist to create shareholder value and establishing co-relation to shareholder value in case of 1 is extremely difficult.

The focus of this paper would be Type 2 and Type 3 organizations.

## 1.4 Why CSR

It is worth re-visiting why CSR is percolating so rapidly through the industry across the globe.

CSR is not a new concept. For centuries, businesses have intuitively known the importance of being positively viewed by the society. For instance many organizations consciously decided not to enter fields such as cigarettes or alcohol, irrespective of the margins they could make. Such 'business' decisions could be classified as the inception of socially responsible behaviour.

Government regulations have always been enforcing socially responsible behaviour. So for most organizations CSR developed into a 'must do' compliance requirement. Failure to abide by regulations could destroy business reputations and brands. Many companies have clung to this narrow compliance-based view of CSR for decades.

Quite recently, however, companies have started shifting their thinking about what it means to be socially and environmentally responsible.

Today, a surprising number of companies already regard corporate social responsibility as a platform for growth and differentiation.

### **CSR is a business decision with a return on investment (ROI)!**

A creative way of answering the question 'Why CSR' is to first understand the arguments of 'why not'.

1. One argument against CSR has been that socially responsible decisions are always in conflict with the goals of profit. This is just not true!

- ◆ General Electric's eco imagination line topped more than \$18B in revenues in 2009 and is a growing profit centre.
- ◆ Indian Example: Sustainable cocoa farming by Cadbury. Cadbury is driving Use of cocoa as an intercrop between coconut or areca nut in otherwise-unused land, thereby benefiting Coconut farmers
- ◆ Indian Example: Mighty Light (Cosmos Ignite) is driving Solar LED lighting and micro-energy for domestic use among the poor in rural and urban areas

Socially responsible products and services are required here and now, and it just makes business sense to satisfy this need. The need arises out of the realisation that our planets resources are limited and there is a need for social balance in society!

A simple example could be the rapidly growing 'organically grown food' market. Consumers perceived a gap here and businesses are fulfilling this need and growing

2. Another argument is that percolation of CSR is a result of herd mentality and would thereby soon die a natural death.  
Why are than 85 percent of the Fortune 50 companies' now publishing corporate citizenship and/or sustainability reports?  
Deep down every business leader intuitively accepts the importance of socially responsible behaviour.
3. CSR is an in-necessary overhead.  
CSR may be viewed as an additional burden (time, effort and money) by business. But the cost of NOT being socially responsible is much higher. If BP had placed more of its focus on safety and contingency measures, it might have saved itself billions in hard costs, irreparable damage to its corporate brand and prevented the epic harm caused to the Gulf region.
4. Isn't it the government's job?  
Considering the general apathy and in-efficiencies of governments in developing countries, this expectation is inherently flawed. Also this argument treats CSR as Charity <type 1>, completely ignoring the profit potential of socially responsible offerings. The growth of private – public partnerships that has already started in the area of infrastructure strikes a middle ground between government and private enterprise. It would not be surprising to see this concept enter the field of social initiatives.
5. What is in it for the business?  
CSR is a vital component of brand value. Often listed as the largest intangible asset on the balance sheet, brand reputation can make or break a business. The Reputation Institute and others estimate that about **40% of brand reputation is manifest through CSR.**

"If trade and commerce - and by extension, business and industry - is not sensitive to its social and environmental contexts, it will not be sustainable. And if it is not sustainable, it will collapse." - Kamal Nath, Union Minister (commerce and industry), in May 2005.



## 1.5 How to develop a CSR strategy

### 1. Top Down

As with any other project, sponsor ship is key. If the CSR does not have CEOs support, it is bound to be in-effective at the least or worse- be counter productive.

#### **A prematurely closed CSR effort may be worse than no CSR effort!**

The best way to convince executives to get on board is to show ROI in terms of financial savings, improved brand loyalty and recognition.

Align and incorporate CSR with business strategy and integrate it across all operational functions, thus making it easy to invest (not spend) the funds necessary to achieve its objectives.

### 2. Ask difficult questions during the planning of CSR.

- ◆ Is the organization prepared to invest in CSR even when the profitability targets are not met? How would the CSR initiative re-aligned in such cases
- ◆ Is the projected ROI of the initiative exceeding the internal ROI threshold set by the organization?
- ◆ Is the impact on the balance sheet clear and explicit?

### 3. Customer First

The motivations should be in line with customer requirements.

Green projects can help achieve customer satisfaction and loyalty by cutting long-term costs.

- ◆ Toyota's hybrid Prius has in its fifth year retained value projections 5 to 10 percent better than similar gas vehicles, reports consumer group IntelliChoice.
- ◆ BT (British Telecom), now the world's largest consumer of green energy, has also been able to pass the financial savings from its green projects to consumers and stakeholders.

Cliché d as it sounds, if the customers expectations are not met by the products and services arising from socially responsible initiatives, the business would not be able to sustain.


### 4. Engage Employees & Public Media

Employees are the first and best advocates in helping to develop internal and external communications.

Project leaders should find innovative, positive ways to encourage team members. An informal survey of staff asking how and where they'd like to see growth in terms of sustainability would obtain buy-in and also boost employee morale.

A well thought out public media strategy that emphasizes the positive impact on society is critical to reap the benefits of the investment. The investment required to





reach out to the public should be included in the costs while planning the CSR initiative.

## 5. Long Term perspective

Sustainability isn't always easy, but it's worth the effort. It requires long-range vision, and sometimes, a complete overhaul of company processes. The benefits of "eco-efficiency" are not easy to quantify. Although installing new equipment and implementing new procedures can involve added costs, organizations can reap financial rewards from green projects ultimately.

## 1.6 Returns on CSR

### Type 1: Cost Saving

This is direct and simple: show cost saving with environmentally responsible behaviour. Companies are finding that many CSR initiatives, including those that reduce energy consumption or benefit the environment, help reduce overall cost structures or increase productivity.

### CASE STUDY

Catalyst Paper Corporation, a Canadian pulp and paper company, uses its own by-products (biomass) to power its operations. It also regains heat from effluents to warm process water and thereby further reduces its carbon emissions.

Together with efficiency gains and a switch to natural gas, the company has lowered its Greenhouse gas emissions by 70 percent and its energy use by 21 percent since 1990.

In 2005 and 2006 alone, the company saved US\$4.4 million through a 2 percent reduction in fuel consumption.

This cost saving returns while laudable has two drawbacks:

- ◆ may not be applicable to a large variety of modern industries
- ◆ as the potential margin to save dwindles, this does not remain a sustainable option to justify CSR

### Type 2: Higher margins and profitability

This IS the big question.

Would people actually pay more for socially responsible products and services?

Sloan institute conducted a series of experiments that proved three things.

- ◆ Consumers are in fact willing to pay more for ethically produced goods.
- ◆ Consumers will demand a substantial discount from companies that produce goods in an unethical manner.

This is the first study to find that consumers use price to punish unethical companies more than they use price to reward ethical companies, and that the ethicalness of a



company's behaviour is, indeed, an important consideration for consumers (as demonstrated in their willingness-to-pay decisions).

The conclusion is inescapable:

Doing good will lead to doing well, and to ultimate profitability.

### **Why Would Consumers Be Willing to Pay More?**

It is generally accepted that people help others because ultimately it benefits them in some way. Research has shown two main classes of egoistic behaviour for helping: reward-seeking (such as gaining social approval) and punishment-avoiding (we don't want to feel guilty or generate negative feeling in others).

With respect to consumer response to corporate social responsibility, people will reward ethical behaviour and punish those who act unethically. The most obvious way to reward a company is by buying its products at a premium price; punishing a company can be similarly accomplished by discounting the value of its product (reducing the price one is willing to pay).

Behaviour Type	Motivation	Implication on a business focused on CSR	Implication on a business NOT focused on CSR
Reward Seeking	Gain Social Approval	Consumers are prepared to pay a premium	
Punishment Avoiding	Don't want to feel guilty or generate negative feeling in others		Consumers would demand a discount <vs. responsible products/ services> Worse: consumers may try to 'manage' without relying on the products/ services

### **Asymmetry of positive and negative influences**

One of the most generally accepted and a far-reaching phenomenon in psychology is the asymmetry in the way people react to positive and negative information.

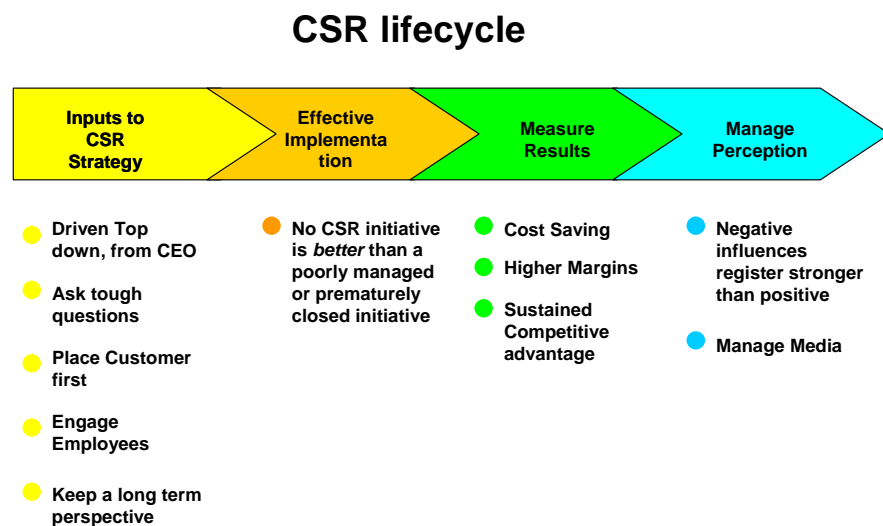
Consumers treat negative and positive information differently: Individuals react more strongly to negative information than to positive information, and negatively inputs have a greater impact on individuals than positively inputs.

Information Type	Strength of reaction	Implication on CSR perception
Positive	Medium	
Negative	Very High	A minor negative perception can overshadow the positive perception created with considerable effort

Based on this large body of knowledge, Sloan researchers

- ✦ expect these positive-negative asymmetries to play a predictable role in people's willingness to pay for ethically produced goods
- ✦ Expect the impact of negative (unethical) product information to have a greater impact on consumers than positive (ethical) product information.
- ✦ Expect consumers would discount the price of unethically produced goods by more than the premium they would pay for the same goods produced ethically.

## 1.7 CSR Life cycle



## 1.8 Making CSR happen in India

***It took Britain half the resources of the planet to achieve (their) prosperity. How many planets will a country like India require?***


M.K. Gandhi

India faces a population explosion. The current population of India is now over 1.1 billion. Demographers now tell us that India will overtake China by 2026 as the world's most populous nation with almost 1.5 billion people. Between now and 2026, India will add almost as many people as there were in the entire nation in 1947. The implications of this are staggering. Will the additional demands for food, water, housing, education, and health care overwhelm the existing infrastructure? Or can all stakeholders work together to build a literate, healthy, capable society with enough jobs to meaningfully employ all those seeking work?

### **We have a Choice**

We are now at a juncture on the road to growth where we face two choices.

The first is unconstrained economic growth with a focus on profitability, ignoring significant downsides such as weakened long-term economic security and well-being



due to non-renewable resource constraints, climate change and environmental damage.

The other path is sustainable growth, which is the use of sustainability-based innovations to develop products and services, socially responsible business models and goals.

The choice is obvious.

**Corporate Social Responsibility (CSR) is not only a good idea but – like breathing – somewhat necessary. -Tim Mohin, AMD**

### **So how is CSR doing in India?**

CSR has always existed in India. Almost all reputed business houses such as Tata and Birla has started publishing details of their CSR activities on their websites.


Times Foundation recently undertook a methodical study of CSR in the India. Business leaders, Global Social Thought leaders, Government officials, all came together to defining how CSR was approached in India. The CSR survey revealed, not surprisingly, that organisations targeted most of their activities close to home — providing services for people who live in villages, towns, and districts near where the organisation operates.

Education, health, and the environment are the top priorities.

## **1.9 CSR is happening> Global perspective**

Considerable action is seen on the global arena on the increasing relevance of CSR. Some interesting facts emphasizing the importance of responsible behaviour for Indian 'global' companies

- ◆ Bond rating agencies and investment funds are demanding an accounting for non-financial measures of value creation as they seek to determine risk premiums. These include an assessment of CSR activities, as well as governance practices, management of intellectual capital, and transparency in reporting. CSR is becoming a mandate for attracting funds! There are now multiple CSR rating agencies in North America and Europe. Such as:
  - ◆ New York City-based Innovest Strategic Value Advisors
  - ◆ Boston-based KLD Research & Analytics
  - ◆ Munich-based Oekom Research
- ◆ Socially Responsible Investment Funds (SRI's) now consider CSR activity when deciding whether to invest in public traded companies. The Principles for Responsible Investing (PRI) Group was started in conjunction with the UN in 2005. This now includes over 170 institutions representing 15 trillion US dollars in assets. The member institutions take into account key principles in the area of environmental, social, and corporate governance when making investment decisions.
- ◆ Socially responsible investing (SRI) is thriving in the United States, growing at a faster pace than the broader universe of all investment assets under professional



management. SRI assets rose more than 324 percent from \$639 billion in 1995 (the year of the first Report on Socially Responsible Investing Trends in the United States) to \$2.71 trillion in 2007. During the same period, the broader universe of assets under professional management increased less than 260 percent from \$7 trillion to \$25.1 trillion. From 2005-2007 alone, SRI assets increased more than 18 percent while the broader universe of professionally managed assets increased less than 3 percent.

**About one out of every nine dollars under professional management in the United States today is involved in socially responsible investing.”**

## 1.10 Conclusion

Any socially responsible initiative is a tightrope walk balancing the needs of the society, impact on the environment and making a profit! The increasing debate around this is motivating companies to be responsible for their actions. The consumers and shareholders would, and in certain cases are already demanding innovation towards sustainability and socio-economic balance.

Every business executive and leader ‘deep down’ realises the importance of social balance and sustainability. Attempts should be made to help business tie in benefits of CSRs with profitability. Thereby equipping the business executives with tools to develop strong ROI based business cases for

- ◆ obtaining funding for their CSR initiatives
- ◆ ensuring responsible behaviour is integrated in business goals

CSR can become a dimension of a company’s successful competitive strategy.

Done right, it offers a company one or more of the following: improved relationships with all of its key stakeholder, loyal customers, lower costs, motivated employees, improved brand value, higher revenues and an overall improvement of the business’ standing in society

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## 1.12 Authors profile



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