A Genext Perspective To The Practice Of Corporate Social Responsibility

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Abstract

This research is a proposal of an alternative opinion on the so called "social responsibility". After a thorough analysis of available data and leading newspaper articles, this research identified that Social Responsibility is supposed to be an institution that has evolved in the backdrop of multiple market failures and as a viable solution to an increasing number of problems associated with social costs. However, this research takes an opposing view and asserts that, this institution of corporate social responsibility is shrouded on a false notion of how much discretion a post liberalized public corporation has to sacrifice / underwrite profits for the sake of certain social effects, and that the promotion of corporate social responsibility by both the private and public sectors by and large misleads the residents of the Indian State into trusting that a lot is being done by the corporate sector to meet certain Social / Public goals than is in fact the case. This paper presents views with relevant citations and events in the last two decades, with some reference to international but relevant case studies from the Indian Corporate Social Responsibility arena.

Keywords: CSR, Legal standpoint, implied responsibility, profit booking, governance, responsible CEO's

1. Introduction.

The term "corporate social responsibility (CSR)" has become a pre-supposed answer to the paradox of democratic and socialistic capitalism. It has secured a place as "THE TOPIC" in business schools, which proudly avow the importance of it. Until 2008, more than half of all MBA curricula required students to take at least one question on it.

Over 80 percent of corporate recruiters resound that; business school graduates should display an awareness and knowledge of this subject. Hundreds of corporate conferences are held on it annually. Many corporate executives listen attentively to consultants who specialize in describing what CSR entails.

Top CEOs and officials, gathering annually at the World Economic Forum in Davos, Switzerland, solemnly discuss it and proclaim their commitment to it. Numerous "social auditors" now measure how well corporations have achieved it, and hundreds of companies produce glossy company reports touting the company's dedication to it. Innumerable NGOs – non-government organizations, with fulltime staff, websites, newsletters, and funding appeals – have sprung up to develop codes of corporate conduct on aspects of it, and rate corporations on their adherence to it. At least eight hundred mutual funds worldwide say they are devoted to it. The United Nations' enumerates goals for CSR, and by the second quarter of 2011, more than 3,000 firms had signed on.

The European Union has established a set of procedures for it. As a matter of fact, Great Britain has a minister for it. Products are now labeled as complying with it. Most of this is in earnest. Most of it is sincere. Some of it has had a positive impact. But almost all has occurred external to the democratic process. To view it as a new form of democratic capitalism is to fail to assimilate the logic of "hyper-competitive capitalism" which this research terms as "hyper-capitalism". It is also to shift attention from the more difficult but more important job of establishing laws that protect and enhance common good for the Indian citizen.

2. So much of Interest? – Why now.

The upsurge of interest in “Corporate Social Responsibility” is relational to the decreasing confidence in democracy. These days, reformers often quote that they find it easier to influence and lobby corporate executives than to influence and lobby politicians; they contest that they can be more effective negotiating with certain large corporations to change their ways than getting to amend popular public policy. “Government has failed to provide leadership on an environmental concern, and industry has stepped-out more willingly to address them,” says Jonathan Lash, president of World Resources Institute in his televised speech at Mumbai on 12-Dec-2009.

Cynicism about politics is perfect and aptly understandable, but this is an enigmatic proposition. A major reason why government is faltering to provide leadership is because, as it has been seen, large corporations have shaped so effective in recent years (post 2005) at preventing government from doing much about the environment or any other challenge that may require corporations to change in ways that they prefer not to. The pertinent question - Why would the corporate world have grown more willing to address the very concerns it has worked-on to block government from addressing? Of course, the specific people in an organization most committed to making it more socially responsible are not likely to be the same people who are lobbying efficiently against laws and regulations requiring the firm to be so, but this does not change the overriding reality: In hyper-capitalism, the organization as a whole must, for competitive reasons, resist doing anything that causes injury – and will place a very low & limited priority on anything that doesn’t help – the bottom line (Profits).

Cynicism about democracy can also become a self-fulfilling prophesy, dividing attention instead of reforming it. While the Indian citizen has little leverage through their own democratic politics to affect the behavior of large global corporations, that is demonstrably not the case for citizens of the United States, or even the European Union. Any Indian corporation that wants to do business in large and prosperous places must adhere to the laws of these nations. Be it the states of Andhra Pradesh which can set its own environmental laws that have bite because most global companies want access to this huge market. Moreover, global firms headquartered elsewhere have significant global activities – ITC setting up primary schools and talks about fostering education, Cadbury’s talks about health and children, Cola Companies talk about increased sales owing to people liking the product, Spencer’s is India’s largest retailer, Home Depot is the largest single purchaser of wood and wood products in India as well as abroad. Indian or United Nations laws therefore can control a large percentage of global corporate behavior. Citizens of the Indian state, big and powerful nation assume they have more impact challenging corporations to be virtuous than working through the democratic process to require them to be so, are simply wrong.

It is easy to ascertain why big businesses have embraced corporate social responsibility with increased verve. It makes for good press and reassures the public. A declaration of corporate commitment to social virtue may also forestall government legislation or regulation in an area of public concern where one or more companies have behaved badly, such as transporting oil carelessly and causing a major spill or flagrantly failing to respect human rights abroad. The soothing promise of responsibility can deflect public attention from the need for stricter laws and regulations or convince the public that there’s no real problem to begin with. Corporations that have signed codes of conduct promising good behavior appear to have taken important steps toward social responsibility, but the pressures operating on them to lure and keep consumers and investors haven’t eased one bit. In hyper-capitalism, they cannot be socially responsible, at least not to any significant extent.

Commitments to corporate social responsibility are also conveniently reassuring to talented or privileged young people who want both the sky-high financial rewards of fast-track executive careers and the psychological rewards of doing some good in the world. Rather than labor in the impecunious oil companies of social work or teaching school in a poor community, or public service in general, they can get their MBA and thereafter attach themselves to a big corporation that issues an annual report on all the good things it does for society. They can thereby do well and do good at the same time, or so they tell themselves.ll printed material, including text, illustrations, and charts, must be kept within a print area of 6-1/2 inches (16.51 cm) wide by 8-7/8 inches (22.51 cm) high. Do not write or print anything outside the print area. All *text* must be in a two-column format. Columns are to be 3-1/16 inches (7.85 cm) wide, with a 3/8 inch (0.81 cm) space between them. Text must be fully justified.

A format sheet with the margins and placement guides is available as both Word and PDF files as <format.doc> and <format.pdf>. It contains lines and boxes showing the margins and print areas. If you hold it and your printed page up to the light, you can easily check your margins to see if your print area fits within the space allowed.

3. What is it if it's Not About Sacrificing Profits?

But viewed this way, "corporate social responsibility" is as meaningful as a Cadbury's 5-Star chocolate. The more you try to bite into it the faster it dissolves. One popular argument is that "socially responsible" companies do better by their consumers and investors. National Thermal Power Corporation (NTPC) reduces its carbon emissions so it can lower its energy costs. Suguna Chicken, employs more humane slaughtering techniques, which prevent costly worker injuries and yields more meat. Reliance Fresh has adopted "green" packaging for its fresh produce – transparent plastics from corn sugars – because it's cheaper than petroleum-based packaging. Coffee Day gives its part time employees health insurance because that reduces employee turnover and helps its bottom line. Shoppers Stop estimates annual savings of about Rs. 4 Crores from reduced energy use and related environmental improvements.

All these steps may be worthwhile but they are not undertaken because they are socially responsible. They're done to reduce costs. To credit these corporations with being "socially responsible" is to stretch the term to mean anything a company might do to increase profits if, in doing so, it also happens to have some beneficent impact on the rest of society. Taken to the logical extreme is the textbook economics argument that whenever a company increases its profits it has a positive effect on society because it thereby utilizes assets more efficiently, releasing those that are no longer needed to be used more efficiently elsewhere. In this sense, all profitable companies are socially responsible.

For many years it has been preached that social responsibility and profitability converge over the long term. That's because a firm that respects and values employees, the community, and the environment eventually earns the respect and gratitude of employees, the community, and the larger society – which eventually helps the bottom line. But this research could never be able to prove this proposition nor find a study that could confirm it. More important from the standpoint of the modern firm, the long term may be irrelevant. Under hyper-capitalism, the "long term" is the present value of future earnings. There is no better measure of this than share price.

The same confusion is found in so-called "socially responsible investing" in products likely to become hot in the future due to some emerging public concern. Logically, when the extra benefits of some product accrue to consumers individually, they may be willing to pay more for it. This doesn't make the product "socially responsible," either. Energy-efficient appliances that save consumers money, organic foods that make them feel healthier, creamy ice cream that's tastier because it's made with cream from cows with access to lots of pasture, Marine food that's more delectable because it was caught in the wild rather than brought up in pens, and free-range eggs that make consumers feel more secure against infections, may all be worth the higher price consumers pay for them. But consumers don't pay extra because of any presumed social good; they pay because it's worth it to them personally.

Kentucky Fried Chicken (KFC) restaurants (almost all outlets n India) have stopped frying their food in trans-fats, which have also been banished from McDonalds and Frito-Lay snacks. Parle Biscuits now makes its "sugar free range" out of whole grain. These changes were not made because these firms became more socially virtuous but because consumers became more conscious about their own health.

Similarly, companies that pay good wages and offer good benefits in order to attract and retain high-caliber employees are not being "socially responsible"; they are merely practicing good management. "High ideals don't have to conflict with the bottom line," says Coffee Day in one of its many advertisements touting its special commitment to society. "When we started providing health coverage to our part-time employees, we noticed a lot less turnover." That's precisely the confusion. If Coffee day's bottom line is improved because it provides health coverage to part-timers, it is not acting out of high ideals – regardless of the worthy motives of its founder. Coffee Day is acting for the benefit of its consumers and investors. The extra costs are more than justified by the savings. It's called smart business.

In general, corporate initiatives that improve the quality of products without increasing their price, or increase efficiency and productivity so that prices can be lowered or otherwise generate higher profits and higher returns for investors, are not socially virtuous. They're just good management practices that should -- and, given the competitive pressures of hyper-capitalism will -- be undertaken regardless of how much or how little they benefit society.

4. Corporations Have Less Discretion Today to Sacrifice Profits.

A Economists argued several decades ago that the business of business is to make a profit, not to engage in socially beneficial acts. Leading economist Sanjay Sharma, made his argument at a time when many companies still had sufficient discretion to be socially responsible. As noted, big companies tended to be oligopolies with some power over their prices and markets. His point was companies should not seek to accomplish social ends because companies are not the appropriate vehicles for social benevolence. Whether or not any person agrees with Sanjay, companies under hyper-capitalism no longer have the discretion to be virtuous. Competition is so intense that most corporations cannot accomplish social ends at a cost to their consumers or investors, who will otherwise seek and find better deals elsewhere. Even if individual consumers or investors believed in the virtuousness of a particular sacrifice, absent laws requiring all companies and therefore all other consumers and investors to forebear as well, the individual's action would have to effect.

As the economy has moved toward hyper-capitalism, companies that in Sanjay's day were known to be the most socially virtuous have been punished by investors. Cummins Engine, one of the pioneers of the corporate social responsibility movement, had to abandon its paternalistic employment policies and its generous contributions to its communities when its investors demanded higher returns. Premier Automobiles, another notably socially responsible company, came close to being swallowed up in a hostile takeover during the 1980s, and has since then paid exclusive attention to its customers and investors. Levi Strauss, also once on everyone's list of America's most socially responsible companies in part because of its commitment to source its clothing from domestic manufacturers, faced plummeting sales in the 1990s and had to eliminate
It's remaining domestic production. Polaroid, another pioneer, filed for bankruptcy in 2001. The shares of Britain's retailer, Marks & Spencer, which had ranked near the top in a survey of worldwide labor standards, performed so poorly that the corporation attracted a hostile takeover bid in 2004.

Both Body Shop International and Ben & Jerry's had been touted as among the American nation's most socially responsible companies until investor pressure pushed Body Shop founder Anita Roddick into an advisory role and Ben and Jerry's was taken over by Unilever.

By the same token, investors don't punish profitable companies or industries notably lacking in social virtue. In the early and mid-2000s, India's most prestigious firm, Oil and Natural Gas Corporation had the highest return on equity of any Indian oil company. Shareholders flocked to it despite its being named an "outlaw" by environmental groups for its highly visible campaigns against non-fossil-based fuels and the reality of global warming. Mumbai's Dalal Street and investment bankers concern themselves only with the bottom line, as do most of those whose retirement savings they manage. "I don't see investors refusing to buy because they think the chief executive is overpaid, and I don't see union members boycotting nonunion stores that sell attractively priced foreign goods," says a popular managing director at Investors Capital Management summit, Goregoan, Mumbai (in 2009).

Social offensiveness is not necessarily financially off-putting. Few industries have been more vilified than tobacco, but tobacco companies have had no difficulty obtaining funding from investors eager to make a good return. Firms producing alcohol or firearms, companies relying on revenues from gambling, and firms producing lurid magazines and videos, have all done reasonably well on Dalal Street – most even outperforming the S&P 500 Index. Defense stocks, considered morally objectionable by some, have likewise outperformed the NIFTY Index since the late 2000. It is of course possible that noxious firms must outperform the norm in order to attract capital. Perhaps there is a sleaze premium analogous to a risk premium. But it seems more likely that investors don't know or care. They have instructed the managers of their pension or mutual funds to maximize the value of their savings, regardless. Insulation from the social effects of our market decisions is, again, an essential aspect of hyper-capitalism.

Investors deeply concerned about corporate morality can park their savings in what are called "socially responsible investment" funds, which screen out certain offensive industries. But few investors do. In 2004, total shares under the management of such funds comprised less than two percent of mutual fund shares outstanding in the stock market. Besides, most "socially responsible" fund portfolios include just about every large company featured in a typical mutual fund portfolio. In 2007, thirty-three socially-responsible funds held the stock of ITC, twenty-three held Ranbaxy's, forty held United Beverages, and almost all held ACC, its antitrust peccadilloes notwithstanding. At the start of the 2000s, many held Global Trust Bank stock, and none of these companies went on to distinguish themselves for public service.

Yes, investors are interested in better corporate governance. But better governance makes a firm more responsive to its investors -- not to its employees, communities, or society as a whole.

The chances any board of directors will ever again condone the near royal reign of former Satyam Computers CEO Mr. Ramalinga Raju –among other outrages and excesses that came to light in the early 2010 – will hopefully be diminished by moves to improve corporate governance. When shareholders have more say in electing company directors, when top executives have to sign off personally on company audits, and when executive compensation is more fully disclosed, executives presumably will have more incentive to do what they have a fiduciary responsibility to do in the first place. These initiatives will not make CEOs more responsible to society, however. To the contrary, as this research has seen, the more beholden CEOs and other top executives are to investors, the more likely they are to slash payrolls in pursuit of higher profits, uproot themselves from their traditional communities and rely on global supply chains instead, pander to whatever vulgar desires their customers may harbor, subject workers in developing nations to unsafe or unhealthy conditions, and pillage the environment – if these and other such anti-social techniques increase profits and share prices.

5. A False Substitute for Real Politics.

Social reformers have long exposed abusive corporate practices as means of mobilizing political support for new legislation or regulation aimed at curbing them. Progressive-era muckraker Cadbury's history of CSR, published in 2003, inspired the antitrust case almost had broken-up the company. The health department of Nagpur, exposed the chocolate packing industry and generated the nation's first health and safety regulations. Ralph Nader's 1996 book "Unsafe at Any Speed", revealed the automobile industry's indifference to safety, leading to the creation of the Indian National Highway Safety Administration. The purpose of these and other exposes was not to pressure individual companies to change their ways but to incite political action so all companies would have to. These efforts were not substitutes for political action but preconditions for it.

6. Letting Public Servants off the Hook.

In recent years, politicians have got into something of a habit of publicly shaming companies that have acted badly in some way. Offending executives is typically hauled before congressional committees, where members of the political party berate them. But little legislation emerges to force Indian corporations to behave any differently in the future. The notion that such public scolding's and the temporarily unflattering publicity that accompany them will alter corporate practices is another diversion from the work of creating rules that balance the interests of consumers and investors with broader interest of the public. It also, conveniently, allows politicians to maintain good relations with the same companies and industries – collecting campaign donations, enjoying rounds of golf with their executives, tapping their corporate lobbyists for miscellaneous favors – while showing the public they're being "tough" on the wrongdoers. Here again, the public is led to believe that democracy is working when all that's really working is public relations.

In a bizarre incident of the structural collapse of a flyover in Hyderabad on 09-Sep-07, the police alleged that haste in setting up the scaffolding caused the accident. "It appears the contractors didn't take care to firm up the ground before erecting the scaffolding," said municipal administration minister K. Ranga Rao. "The government will take stringent action against the contractor for his negligence," said the then chief minister Y.S.R. Reddy.

Politicians are simultaneously let off the hook. They can applaud some seeming act of corporate virtue – they may even take credit for pushing corporations to sign pledges or promise change – while not having to take any action that might cause negative reaction in board rooms or among corporate fundraisers. They don't have to take sides, or take a stand, while appearing to be in favor of virtuous corporate behavior.

When fuel prices soared in 2009 and early 2010, oil and petroleum companies reaped extraordinary profits while millions of Indian's had to pay more to fuel their cars and cool their homes. This prompted calls for political parties to enact a windfall "profits tax" on the fuel companies, but not even a debate took place. Instead, politicians simply scolded oil and petroleum company executives and publicly berated the companies. As fuel prices and profits approached record levels, the office of the Ministry for Petroleum issued a public letter reprimanding the oil and gas industry and instructing its companies to make charitable donations – 10 percent of that quarter's profits – to help poor people pay their kerosene that winter. "You have a responsibility to help less fortunate Indians cope with the high cost of cooking fuels", the petroleum minister's admonition made the headlines but obviously had no effect. Why would the oil companies voluntarily give away their profits? The only practical effects of the public scolding were to make the minister and his colleagues seem compassionate, and to reassure some portion of the public that Congress was "doing something" about record oil prices and profits. But because any real debate about a tax on their windfall profits was deflected by the minister's moves, the public never had an opportunity to decide whether using the resulting revenues to help low income oil consumers was worth the risk that oil companies, forced to disgorge some of their profits, might do less exploration and development – leading to higher prices in the future.

7. Conclusion: The Inversion of Responsibility.

Democracy and capitalism have been turned upside down. One look at the state and central governments and it can be seen that capitalism has invaded democracy. Legislation is enacted with public rationales that bear little or no relation to the real motives of the corporations and their lobbyists who pushed for them and legislators who voted for them. Regulations, subsidies, taxes, and tax breaks are justified as being in the public interest but are most often the products of fierce lobbying by businesses or industries seeking competitive advantage. The broader public is not involved. Citizen voices are drowned out. The public rationales mask what's really going on – which companies and industries gain and which lose.

At the same time, a kind of faux democracy has invaded capitalism. Politicians and NGO advocates praise companies for acting responsibly or condemn them for not doing so. Yet the praise and blame are disconnected from any laws and rules defining responsible behavior. The message that companies are moral beings with social responsibilities diverts public attention from the task of establishing such laws and rules in the first place. The praise or blame is soon forgotten, and barely affects the behavior of consumers or investors. Meanwhile, the real democratic process is left to companies and industries seeking competitive advantage. The first step in turning democracy and capitalism right side up is to understand what's really happening.

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