



## Corporate Social Responsibility & Organizational Performance

### KEYWORDS

**S.BHUVANESWARI**

ASST.PROFESSOR, P.G & RESEARCH DEPT OF COMMERCE, SREE NARAYANA GURU COLLEGE, COIMBATORE

**UNNIKRISHNAN.P**

RESEARCH SCHOLAR (M.PHIL), SREE NARAYANA GURU COLLEGE, COIMBATORE (AFFILIATED TO BHARATHIAR UNIVERSITY)

**ABSTRACT** A business can be defined as an organization or economic system in which goods and services are exchanged for one another or for money. The main objective of any business organization is to maximize profit. A business establishment is a part of society and it depends on both natural and physical resources available in the society for its existence and survival, so the business organizations cannot deny their obligations towards the society.

Social responsibility simply means the obligations of a business firm to the society in which it is working .Every business organization must fulfill some basic social responsibilities because the business organization is surviving with the resources available in its environment. So the interest of all range of stakeholders must be protected.

Corporate social responsibility suggests that firms should also consider their impact on a range of stakeholders, i.e., parties that affect or are affected by a corporation's action" (United Nations Commission on Sustainable Development, 1998).

This study intends to make an in depth evaluation of the impact of corporate social responsibility in organizational performance

### INTRODUCTION

In the modern world of globalization and industrialization, business enterprises are no longer expected to play their traditional role of mere profit making enterprises. The ever increasing role of civil society has started to put pressure on companies to act in an economically, socially and environmentally sustainable way.

A business cannot operate in isolation. All the business organizations are depending on society for its growth and survival. Business units are using various natural, economic, non-economic and human resources from its business environment for its functioning i.e. business units are highly depending on society. So business organizations should do something back for the benefit of our society.

Corporate social responsibility can be defined as 'a company's sense of responsibility towards the community and environment in which it operates .It refers to a business practice that involves participating in initiatives beneficial to the society .CSR is becoming more mainstream as forward thinking companies embed in to the core of their business operations to create shared value for business and society.

### OBJECTIVES OF THE STUDY

The main objectives of the study are as follows

- To analyze the need ,scope and importance of CSR practices in business
- To understand various types of CSR practices followed by business units
- To analyze the relationship between CSR and organizational performance
- To make a detailed evaluation of CSR practices of selected business units in Malappuram district ,Kerala

### RESEARCH METHODOLOGY

Both primary and secondary methods are used for collec-

tion of data. Primary data are collected from 20 selected business units ( including Banks ,Jewellries ,and other institutions ) to make an in depth evaluation of CSR practices adopted by them by using interview method .secondary data are collected from various reference books and magazines .

### ANALYSIS OF DATA COLLECTED

The collected data are analyzed using percentage, ranking method and chi-square test.

### CORPORATE SOCIAL RESPONSIBILITY –AN OVER VIEW

With the passage of the Companies Act- 2013, the mandate for corporate social responsibility (CSR) has been formally introduced to the dashboard of the Boards of Indian companies. The industry has responded positively to the reform measure undertaken by the government with a wide interest across the public and private sectors Indian and multinational companies.

The practice of CSR is not new to companies in India. However, what this Act does is to bring more companies into the fold. Also, it is likely that the total amount which is spend for CSR will increase. What is clear to many companies is that if this increased spending is to achieve results on the ground – which is the intent of the Act – then it needs to be done strategically, systematically and thoughtfully.

### DEFINITION

The WBCSD defines CSR as **"the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."**

According to the UNIDO, **"Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business op-**

**erations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders”.**

Under this definition, it is important to draw a distinction between CSR- which can be a strategic business management concept- and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, it will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.”

From the above definitions, it is clear that:

- The CSR approach is holistic and integrated with the core business strategy for addressing social and environmental impacts of businesses.
- CSR needs to address the well-being of all stakeholders and not just the company's shareholders.
- Philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is promoting greater transparency and disclosure. Schedule VII of the Act, which lists out the CSR activities, suggests communities to be the focal point. On the other hand, by discussing a company's relationship to its stakeholders and integrating CSR into its core operations, the draft rules suggest that CSR needs to go beyond communities and beyond the concept of philanthropy. It will be interesting to observe the ways in which this will translate into action at the ground level, and how the understanding of CSR is set to undergo a change.

### **BENEFITS OF A CSR PROGRAMME**

#### **Communities provide the license to operate**

The license from government is only official in nature. Apart from the license of government, business needs society's "license to operate". Neglecting the society, a business organization cannot survive in future.

#### **Attracting and retaining employees**

Several human resource studies have linked a company's ability to attract, retain and motivate employees with their CSR commitments. Interventions that encourage and enable employees to participate are shown to increase employee morale and a sense of belonging to the company.

#### **Enhancing corporate reputation**

The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programs. This allows companies to position themselves as responsible corporate citizens.

#### **Increased ability to recruit, develop and retain staff**

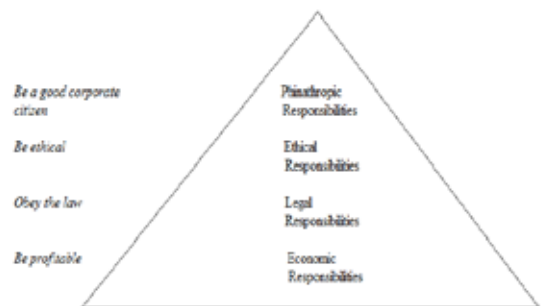
These can be direct or indirect. The 1999 business Ethics study found that employees are more likely to be loyal when they believe that their workplace has ethical standards. An organization that engages in corporate social responsibility will have dedicated and productive employees.

#### **Better relations with government**

The formal and informal licenses to operate are a key issue for many companies looking to extend their businesses. Diligence in meeting social and environmental concerns can result in a reduction in red tape and a more cooperative relationship with government departments. A good relationship with government can give a company significant competitive benefit.

### **CARROLL'S MODEL - PYRAMID OF CSR**

One of the most used and quoted model is Carroll's (1991) Pyramid of Corporate Social Responsibility. It indicates that CSR constitutes of four kinds of social responsibilities; economic, legal, ethical and philanthropic. Carroll considers CSR to be framed in such a way that the entire range of business responsibilities is embraced. These four responsibilities can be illustrated as a pyramid.



- The economic component is the responsibility to profit and this responsibility serves as the base for the other components of the pyramid.
- With regard to the legal aspect, society expects organizations to comply with the laws and regulations.
- Ethical responsibilities are about how society expects organizations to embrace values and norms even if the values and norms might constitute a higher standard of performance than required by law.
- Philanthropic responsibilities are society's expectations for a company to be a good corporate citizen.

### **PRINCIPLES OF CORPORATE SOCIAL RESPONSIBILITY**

1. Sustainability
2. Accountability
3. Transparency

#### **1. SUSTAINABILITY**

Sustainability implies that society must use no more of resources than can be regenerated.

According to Hawken (1993), social responsibility is looked upon in terms of the carrying capacity of the ecosystem and described in terms of input and output in the ecosystem.

For instance, in the utilization of trees for paper production, the organization must have to plant back trees; in the extraction of crude oil, farming systems should be developed back for farmers who depend on farming for livelihood.

#### **ACCOUNTABILITY**

This is concerned with an organization recognizing the fact that its actions affect the environment and is responsible for the effects of its actions. As a business manager, one should quantify the effects of these actions both internally

and externally to the organization. These things that have been quantified must be made known to the people within the organization.

### TRANSPARENCY

Transparency as a principle means that the external impact of the organization's actions can be ascertained from that organization's reporting and that pertinent facts are not disguised in reporting. The facts must be reported in their books for everyone to see, the records of all activities must be made available.

### CATEGORIES OF CSR

**Product Lines:** Not producing dangerous products, maintaining good product standard that are environmental friendly.

**Marketing Practices:** Responding to consumer complaints setting fair prices and maintaining fair advertising message contents.

**Employee Services:** Training, counselling, granting allowances for the welfare of employees.

**Corporate Philanthropy:** Contributing to community development activities and involving social projects.

**Environmental Activities:** Embarking on pollution control projects, adherence to federal standards and evaluation procedures of new packages to ensure ease of disposal or possible recycling.

**Employee Safety and Health:** Setting effective work environment policies, accident safe-guard, food and medical facilities.

Through these categories of Corporate Social Responsibility, a company is able to provide a healthy business environment for its operations and contribute to the well-being of the community

### TYPES OF CSR

1. Promotion of education
2. Eradication of hunger and poverty
3. Reducing child mortality and improving maternal health
4. Environmental sustainability
5. Social business projects
6. Employment enhancing vocational skills
7. Contribution to prime ministers relief fund and other state /central fund
8. Women empowerment programs
9. Combating HIV ,Malaria and other diseases And other matters fruitful to community

### GOVERNING LAW FOR CSR THE COMPANIES ACT, 2013

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013.

The CSR provisions within the Act is applicable

- to companies with an annual turnover of 1,000 crore INR and more, or
- a net worth of 500 crore INR and more, or
- a net profit of five crore INR and more.

The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

*The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities.*

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

The draft rules (as of September 2013) provide a number of clarifications. Some of them are highlighted as follows

- Surplus arising out of CSR activities will have to be re-invested into CSR initiatives, and this will be over and above the 2% figure
- The company can implement its CSR activities through the following methods: Directly on its own
- Through its own non-profit foundation set- up so as to facilitate this initiative
- Through independently registered non-profit organizations that have a record of at least three years in similar such related activities
- Collaborating or pooling their resources with other companies
- Only CSR activities undertaken in India will be taken into consideration
- Activities meant exclusively for employees and their families will not qualify

A format for the board report on CSR has been provided which includes amongst others, activity-wise , reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process are in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company

The CSR committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus.

### Reporting

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed.

### ANALYSIS AND INTERPRETATION OF DATA COLLECTED

For this study, 20 business units are taken, interview method is used for data collection and the findings are given as follows

1. Most of the companies (60%) started their CSR activities even before the compulsion of CSR by law
2. Majority of these companies are voluntarily adopted

CSR activities

3. 35 % of companies are engaged in providing free medicine to poor patients on request
4. 30% of companies are engaged in assisting poor but talented students in education
5. 10% of companies are making Contribution to educational institutions
6. 10% of companies are making donation to government relief fund
7. 5% of companies are providing free medical facilities such as medical check up camps etc
8. 10% of companies are undertaking Society development activities
9. All the companies are really interested in CSR activities and intends to continue in future too
10. All the companies agree that CSR activities will improve organizational performance
11. All companies agree that the good will , reputation and corporate image can be retained and can be improved by way of adopting CSR measures
12. All the companies expressed positive attitude towards CSR practices
13. Most of the companies are undertaking CSR activities after making discussion with employees.
14. All the business units are interested in CSR activities of nearby localities
15. Most of the business units intends to make innovative CSR practices
16. Business units are highly interested in promoting education
17. There is a higher degree of positive relationship between CSR and organizational efficiency in terms of customer satisfaction , employee satisfaction and societal satisfaction

### SUMMARY & CONCLUSION

CSR is not a new concept in management. Many business units undertook various society development activities even before the compulsion by law. But companies act of 2013 made compulsory provision regarding CSR that at least 2% of net profit must be used for society development in which they are operating.

A study was made in order to understand the need, scope and relevance of CSR in modern business scenario and also conducted an analytical study among 20 business units of Kerala to find out various CSR activities undertaken by them.

Data are collected using interview method and it was found that there exists a positive relation between CSR and organizational performance.

Most of the companies opinioned that CSR helps to retain employees, customers and the corporate reputation of such companies will increase.

### References:

#### Books referred

1. Company law –Dr.s.m.Shukla ,prof:N.Gupta ,sahitya bhavan publications
2. A text book of company law –PPS .Gogna ,S.Chand & company ,New delhi
3. **Websites visited**
4. [www.pwc.in](http://www.pwc.in)
5. <http://ssrn.com>
6. [www.iiste.org](http://www.iiste.org)
7. **magazines /journals referred**
8. *International Journal of Humanities Social Sciences and Education (IJHSSE) Volume 1, Issue 12, December 2014*