
AN IN-DEPTH ANALYSIS ON THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES ON THEIR PROFITABILITY AND IMPACT ON SOCIETY

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ABSTRACT

The importance of CSR activities for the betterment of the nation is an absolutely essential step. It is not only increasing the visibility of the company but helps a great deal in enhancing the lives of the citizens of a country. Public Private Partnership between the company and the Government increases efficient management, as well as the viability of the project. There are disadvantages for the firm in terms of extra expenditure, and maybe untoward criticism at times, but the positives definitely weigh over the negatives.

Keywords: CSR, PPP, Philanthropy, branding of a product, Giving back to society, profitability, initiative.

Research Question: Corporate Social Responsibility (CSR) has become an extremely important aspect of today's society. Most Government have passed a law making it an essential part of their functioning. In India too all corporates that have a turnover of a particular magnitude have to mandatorily spend at least a small portion on philanthropic activities. How far is this profitable for the Company in terms of visibility, acceptability and increase in sales and revenue? Is it just a means to give back to society? The research paper would attempt to answer these questions.

1. INTRODUCTION

Corporate Social Responsibility has become an integral part of a company's work ethics. It is a model by which companies make a concerted effort to work in a manner that enhance rather than degrade society and environment. The term was first coined in 1953, by an American economist Howard Bowen, and since then is referred to as the father of CSR. In India this was introduced in the 2013 Companies Act and CSR became the buzzword of business in India.

Throughout the world there have been stories of corporate donating for social causes. Many corporates and philanthropists have left their mark on society by their deeds. The main reason they undertook these acts were due to the fact that they felt they had a special responsibility towards society because they earned from it.

In India too before it became a part of the act in 2013, there are a number of instances as to how corporate groups were engaged in building universities, hospitals etc. During the Freedom Struggle, Mahatma Gandhi was closely associated with a number of businessmen cum philanthropists. At that time the donation was going through religious institutions with the purpose of helping those that were dispossessed.

As far as the world was concerned, philanthropic activities were heard of even during Britain's Industrial Revolution. There were a number of wealthy individuals who were moved by the plight of the working class. During this time an industrialist named Andrew Carnegie donated a large portion of his wealth to causes related to education and scientific research. He had made his fortune in the steel industry. John. D. Rockefeller, who is considered the richest American of all times, donated more than half a billion dollars to religious, educational and scientific purposes. He had made his fortune in the oil industry. It was only in 1953 that it came to be known under its present name.

2. DEFINATION

CSR is a form of self-regulation that reflects a business's accountability and commitment to contributing to the well-being of communities and society through various environmental and social measures. It is an evolving concept that reflects various views and approaches regarding corporate relationships with the broader society. It is a complex, multidimensional concept. Though it started in the 1950's, it was not fully adopted as a business discourse and a managerial strategy until the 1990's and 2000's, where there was a focus on business practice accounting for and meeting stakeholder needs.

As the need for the 'sustainable development', became imperative, so did the importance of CSR increase. CSR is the critical linkage between business strategy and sustainable development. The importance of this activity took an important turn when social media, improved communication and the exchange of knowledge and information improved.

CSR involves a range of viewpoints and interests including civil society, local community, managers and government, investors and consumers thereby incorporating multiple and diverse agendas.

3. TYPES OF CSR INITIATIVES

Figure 1: Definition of CSR



Source: www.simpletaxindia.net

CSR can be categorized into four types:

- Economic
- Legal
- Ethical
- Philanthropic; activities that donate to worthy causes that may or may not relate to a business.

Environmental. These activities focus on preservation of natural resources. The four basic approaches to CSR activities are:

- Obstructive
- Defensive
- Accommodating
- Proactive

CSR strategies are a comprehensive plan that companies and funders use to design, execute, and analyze their objectives and end result.

Figure 2: CSR Goals



Source: Google image

3.1 Impact of CSR activities that increase Profitability of the firm

There is an immense possibility that CSR activities start portraying the companies in a different light, and due to various factors like social media and other such factors, the visibility of the firm increases many folds. This directly has an impact on the visibility of the firm and works as an advertisement for the firm, bringing value to a company in the form of financial benefits.

With the advent and spread of internet facilities, customers are extremely aware of local, national and global issues. These in turn influence their buying decisions. It is very likely that they would buy more from companies, that show concern and take positive actions over issues that resonate with customers.

Socially responsible companies cultivate positive brand recognition, increase customer loyalty and attract highly skilled employees.

With the increasing emphasis on CSR, the definition of the measurement of Business performance has undergone a change. There is a definite shift from the classic short-term analysis with particular focus on indicators like shareholder value, revenue share market share to taking into account additional factors that include soft indicators like employee and customer satisfaction that are extremely important for the contribution towards the success of the company.

CSR are the intangible benefits that increase the profitability of a company. Research has indicated evidence of positive and significant direct effects of CSR on both innovation and organizational performance.

Figure 3: CSR's impact on Profit



Source: Google Image

4. Understanding CSR activities in the Indian Context

CSR in India was incorporated in the Companies 2013, under section 135(1). India is one of the first countries in the world to make CSR, mandatory. An amendment in the Companies Act, 2013 in April 2014. The document specified that businessmen could comply against CSR activities in the following areas:

- Education
- Betterment of society
- Sanitization
- Disaster Relief
- Covid-19 relief
- Donation to PM-CARES Fund, and Prime Minister's national relief fund.
- Any other fund as initiated by the Central Government concerning socio-economic development, relief and welfare of the scheduled caste, minorities, tribes, women and other backward classes.

- Promotion of Health Care.

The Act stated that it was mandatory for companies qualifying the criteria to form CSR committee. The Businesses that qualified are:

- Every Company
- Its Holding Company
- Its Subsidiary Company
- Foreign Company

Having in the preceding financial year:

- Net worth greater than Rs 500 crores
- Turnover greater than Rs 1000 crores
- Net Profit greater than Rs 5 crores

Figure 4: Areas that CSR funds can be deployed



Source: Google Image

This concept works on 3P's; People, Planet and Profit. The majority of policy initiatives in the country are driven by the objectives of equal opportunities, minimizing poverty and human deprivation, focus on fundamental rights.

4.1 Impact on Society

CSR as mentioned earlier is a multilayered concept, that has four interrelated dimensions, namely; legal, economic, ethical, and philanthropic, which are placed on organizations by society at any given point in time.

Society expects companies to do more for them and go beyond the law to serve them better. This is over and above all the other commitments. Philanthropic responsibilities are the voluntary urge of the companies to do good for the employees, community, and for society at large, to help make it a better place to live. With the growing spread of data connectivity, there is an enormous demand by consumers for companies to be ecologically and socially responsible. This in turn pushes companies to work towards this direction. Aware consumers on the other hand do base their buying decisions on the basis of what a company does for the betterment of society.

This has resulted in a 'value shift' as far as companies are concerned. They have started concentrating on the ethical aspects of their decisions. A large number of them believe in the integration of the objectives of profit making with environmental and social objectives.

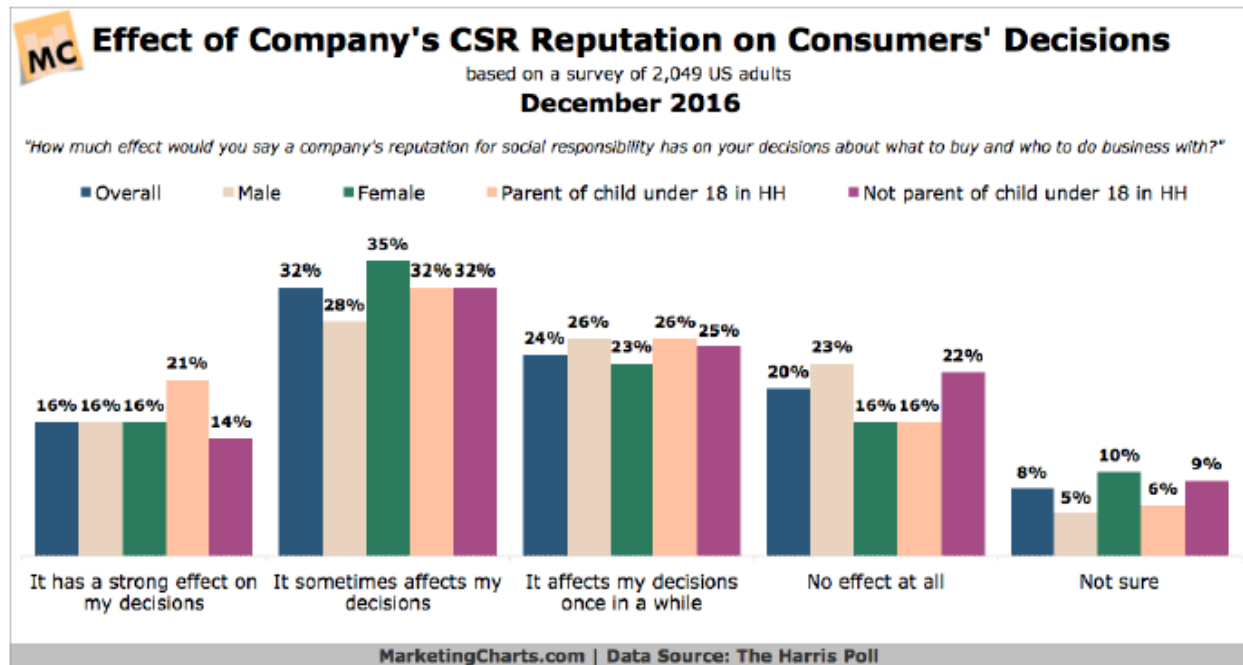
4.2 Impact on the profitability

Engaging in CSR, results in a favorable stakeholder attitudes and better support behavior. This is with respect to purchase, seeking employment and investing in the company. It plays an important role in a company's brand perception; attractiveness to customers; employees, and investors. For the company to take complete advantage in every aspect, these practices need to be integrated into its culture and business operations. Both customers as well as employees place a premium on working for and spending their money on businesses that prioritize CSR activities.

Spending on social causes increase the brand value of the product. "What the public thinks of your company is critical to its success," said Katie Schmidt, founder and lead designer of Passion Lillie. Advocating and raising awareness for socially relevant causes is an excellent way to remain in the mind of a customer, thus automatically increasing its brand value.

The figure below indicates the decisions that are impacted by CSR. This is based on the age group of the respondents. This is an example to indicate the impact that CSR activities have on a consumer.

Figure 5: Impact of CSR activities on Consumer Decisions



Source: The Harris Poll

Companies that are involved in CSR activities are not treated as business expenses, hence not allowed for IT deduction purposes, and is deemed not to have been incurred for purpose of business.

4.3 Achieving Macro Economic Goals

Attracting investment, improving the business environment, reducing business risks, and creating a more sustainable economy, would definitely promote economic growth and development. These initiatives in the support of education, provision of healthcare as well as protecting the environment improve the well-being of the people as well as contribute to the overall development of the economy.

In Developing Economies like India, the Government requires the support of enterprises in the upliftment of its citizens. As these companies have the knowledge and expertise with respect to effectively managing as well as implantation of projects, with maximum benefits to the people. The greater the number of projects they take under their wing the greater benefit for the citizens of the country. This would result in achieving major macro-economic goals like; universal education, skilling the work force, and reduction in poverty levels.

Figure 6: CSR and Macro Economic Goals



Source: Google Image

5. CASE STUDIES

The influence that CSR activities have on a firm's profile, both in terms of employee satisfaction as well as in terms of increasing sales revenue and thus profit, it is necessary to look at company profiles.

5.1 Case study of TATA Company

Business houses in India started realizing they would have to rise over and above profitability, and take care of all those associated with their survival in the society directly or indirectly. The TATA group under the leadership of Mr. Ratan Tata who exemplified the sense of responsibility towards the upliftment of common masses and protection of the environment and development of the nation. The responsibilities of corporations can be described in the form of three concentric circles:

The inner circle: states the basic responsibilities for the efficient execution of the economic function, jobs and growth.

The intermediate Circle, is responsible to exercise this economic function with a sensitive

awareness of changing social values and priorities. This with special emphasis on environmental conservation, hiring, expectation of customers and safety factors.

The outer circle, which is the newly emerging responsibilities that corporates have towards improving social environment.

Figure 6: TATA's CSR ACTIVITIES



Source: Professional Practices

Social responsibility towards the following stakeholders:

- Towards itself
- Towards Employees; Timely payment, Hygienic environment, Good and impartial behavior, Health care, Recreational activities, encouraging them to take managerial decisions.
- Towards Shareholders
- Towards State
- Towards Consumers
- Towards Environment

The TATA company has about 200,00 employees over more than 80 companies. CSR activities in the TATA group “should be in the DNA of every individual”. TATA’s CSR responsibility is basically to protect the interests of all its stakeholders, and contribute to the society at large through:

- Livelihood & employability
- Health
- Education
- Environment

Their basic moto has been, to be committed to be a good corporate citizen not only in compliance with all relevant laws and regulations, but also by actively assisting in the improvement of the quality of life of the people in the communities in which it operates with the objective of making them self-reliant. This would include initiatives like community health and family health, water management, vocational training, education and literacy, application of modern scientific, and managerial techniques and expertise.

The range of TATA companies' CSR activities have the following factors with respect to the various stakeholders:

- 1) To the policy makers; it encourages Private Public Partnership (PPP), encompassing infrastructure, pollution, child labor, labor productivity & morale. It also brings into focus that policy makers at both the political and corporate level, consider CSR as an investment and not as an expense, resulting in an increase of goodwill and corporate image.
- 2) To the society; in the form of infrastructure, environment protection, upliftment of the rural populace, as well as bringing tribes into the mainstream of the company.
- 3) To the economy as a whole: by increasing its growth rate, by enhancing its image as a better investment destination, eventually leading to an improvement of its Human Development Index (HDI).

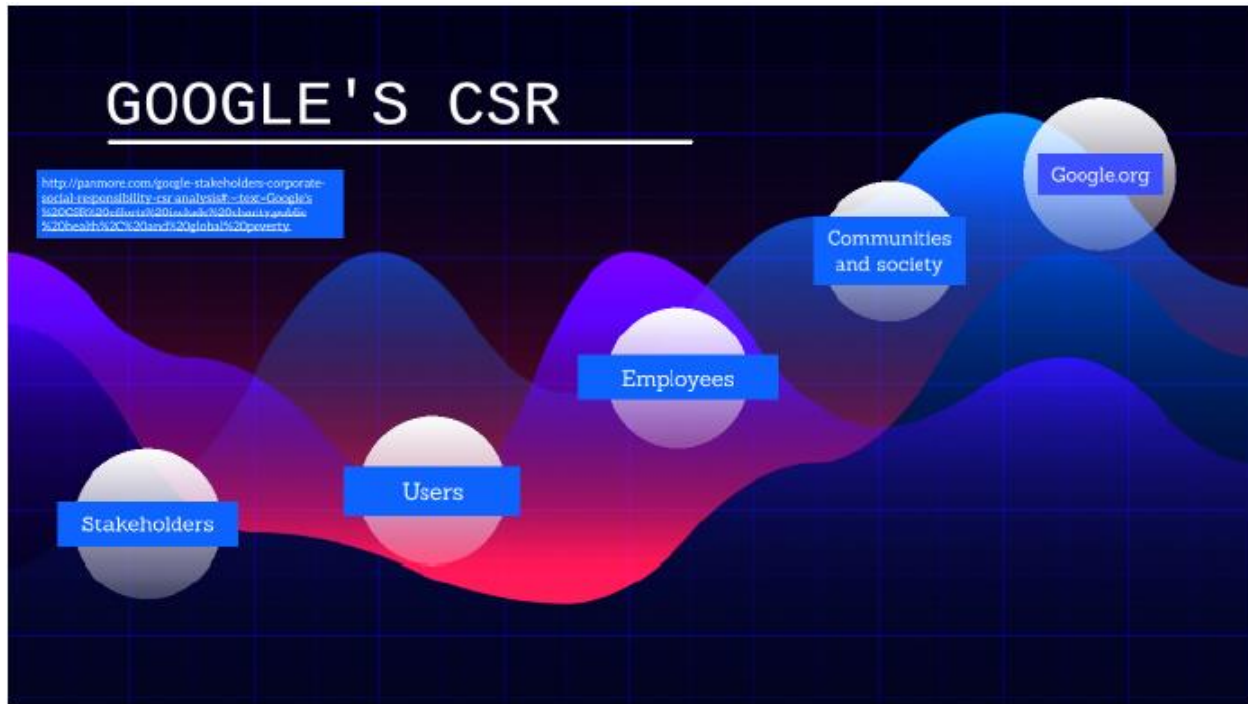
5.2 Google

Google is one of the most preferred brands by both employees as well as customers alike. Most of the people give it an extremely high rating in almost every aspect. They have recently decided to block all advertisements that deny climate change. Allowing such advertisements would naturally bring in a lot of revenue. Banning such advertisements indicate the committed intent of the company towards sustainability and climate change. According to the company this would "help in strengthen the integrity of our advertising ecosystem, at the same time aligning it with the work that it has done in the last two decades, to promote sustainability and confront climate change head-on".

CSR for Google is one of the four principal foundations of building corporate trust along with

reputation management, recruitment as well as amplifying content through reach.

Figure 7: GOOGLE'S CSR



Source: Google image

The Company in 2019, achieved 13 years of carbon neutrality. For its employees it enables healthy spaces and places that enhances the well-being of Googlers, its communities and the natural environment. It supports sustainability priorities with initiatives focused on topics such as water, waste, food and transportation, which it advances at global events through employee engagement. The primary aim has been to stick to its goal of sustainability in all spheres of working even if it is at the cost of earning revenue.

6. Advantages and Disadvantages of CSR activities

The advantages of CSR activities definitely override the disadvantages. The beneficial impact of all the activities have had a far-reaching impact. The fact that the government of India is one of the few countries that has had made it mandatory for all companies over a particular norm to undertake such activities have increased their reach in society. The disadvantages are when companies work in areas which are actually fictitious. The amount they spend is not what they portray leading to evasion as far as the spirit of the activity is concerned. Besides this there are other factors that our disadvantageous to the principle namely:

- Customers may become impatient
- Company's reputation may suffer
- Changes to the goal of creating a profit
- Manufacturing costs may suddenly increase among other things.

Philanthropic efforts go a long way in building up the reputation of the concern, it takes a long time. But once organizations are engaged in CSR activities, they are also subject to inspection, criticism, and public opinion. Besides this there are high costs involved in such activities, forcing firms to relook at their budget to accommodate such costs.

Shareholders and all other stake holders need to be appraised of the increasing financial burden of such activities leading to decreased profits and dividends. As CSR activities are in the public eye there is a possibility that even the smallest of a negative act may put you in the eye of a storm. It is very important to be prudent and work on the activity such that it acts as an asset for the brand and the firm.

7. Conclusion

CSR activities have become an extremely important part of the world today. The mindset of most firms irrespective of whether it is mandatory obligation by the government or not is to give back to society some part of what one has taken from it; in terms of profit. The Indian Government has made it a law, that depending on the size of the firm, they need to devote a small percentage of their sales revenue/ turnover/profit/it into a given list of CSR activities. This would help in achieving the long-term macro goals of the government. Very often the firms may be choosing the path of philanthropy on their own, irrespective of the mandate by the Government, but these are far and few. With CSR activities becoming law, there has been a number of Public Private Partnerships which have developed for the wellbeing of the citizens of our country. The advantage of course is the visibility of the company which increases many folds, but along with it comes criticisms too. By and large for the economy the concept of CSR, is a huge step for the betterment of its citizens as well as the for the companies themselves.

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