

An Analysis on the Mandatory Emphasis on CSR by Governments: How Far is this a Viable Solution in Achieving Macroeconomic Goals? is there a Conflict with Business Ethics?

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ABSTRACT

This study investigates the prominence of Corporate Social Responsibility (CSR) as a suitable solution to achieve various macroeconomic goals and identifies its impact on firms and their activities. CSR describes a firm's commitment to conduct its activities ethically and establish a requirement to benefit society. CSR typically keeps businesses from creating any negative externalities, which are a big problem for society. This issue has made corporate social responsibility (CSR) a greater priority for businesses of high stature. In order to analyse and comprehend the economic impact of CSR, this research paper uses a qualitative research approach. It also synthesises CSR data from significant Indian companies in order to determine the significance of CSR and make conclusions from it. Thorough analysis and interpretation suggest that although CSR may not lead to immediate gains, it allows long-term economic enhancement and societal improvements like poverty reduction.

Keywords: CSR, philanthropic, macroeconomic indicators, business ethics, social responsibility, governance, corporate reputation, financial performance

Research Question: The paper will analyse the reasons on why Corporate Social Responsibility (CSR) are an important vehicle for achieving economic goals. How can these goals be achieved? What are the benefits that the Corporates gain in such philanthropic activities? Is it translated into increasing profits? In following this course, is there any compromise on business ethics? What is the extent of viability of such activities for both the government and firms?

Introduction:

CSR activities have become an extremely integral part of the global economy today. There is a synergy between corporations, nonprofit organisations, and the government committed to

improving communities and serving as key agents for poverty reduction. Reducing poverty is part of the macroeconomic indicators that any developing economy aims to achieve. In these economies where governments have failed to provide essential services CSR activities have stepped in to try and bridge the gap. Research has indicated that there are a large number of organisations that work with the primary aim of improvement of society. Fuseini, Sulemana, et al., (2022) have referred to them as “sweethearts of development”, as they play a critical role in addressing challenges where the state has failed to provide for the welfare of its citizens.

These organisations are local and worldwide and have addressed a wide range of issues from human and civil rights to poverty alleviation, support for the underprivileged (Svara 2021), and protection of children (Degenaar et al., 2022).

CSR in the world today has become obligatory as well as voluntary. With the growth of this field, it is important to understand the business ethics involved in it. There are indications that this concept has advanced the corporate goals of the firms. Globalisation has brought the responsibility of businesses out in the open. This is true for multinational corporations where corporate accountability has become a point of interest at both the national and international levels. The corporations too are responsible and accountable for the activities that they undertake. Besides alleviation of societal drawbacks, these companies are answerable for any human rights violations.

Figure 1: Aim of CSR



Source: Govern- Board Management

Growth path of CSR activities:

Businesses are an extremely powerful element in society and the government must harness this productivity for a social purpose. Responsible business is 14 synonymous with the term corporate social responsibility.

CSR is a responsibility, initially assumed to be a voluntary activity. In Europe 70 multinational corporations and 25 national partner organisations are members. CSR Europe is a platform that connects companies to share best practices of CSR, innovating new projects between businesses and stakeholders, and shaping the modern-day business and political agenda on sustainability. This organisation was founded in 1995 in response to an appeal by the European Commission President Jacques Delors. This initiative has evolved continuously increasing the commitment of businesses toward society, the major requirement being that the government along with corporations need to build a credible society. Businesses are encouraged to develop credible ethical behaviour and contribute meaningfully to economic prosperity. Simultaneously harnessing the quality of life of their workforce, dependents, and families where they operate.

CSR may be defined in different ways by different countries but the crux of all definitions is that “CSR is a broad concept which can take diverse forms through scholarships, grants, philanthropy, boost morale, volunteer efforts, etc.”

CSR can come in different ways such as;

- Socially sensitive investment
- Working in collaboration with local communities
- Building relationships with their workforce, clients, and families
- Participating actively in activities that ensure environmental conservation

The main headings under which most companies divide their CSR efforts are;

- Social responsibility to employee
- Social responsibility to the supplier
- Social responsibility to the investor
- Social responsibility to the consumer

- Social responsibility to the community
- Social responsibility to the environment

Whether the company under consideration is *Apple Inc.*, *Walmart Inc.*, or *ExxonMobil Corporation*.

Over time the United Nations (UN) has spelled out very clearly the importance of CSR activities in achieving goals for the world at large.

Figure 2: CSR activities of Apple Inc.



Source:- Apple Inc.

Figure 3: CSR goals of the UN



Source: UNCSR Group

Economic concept behind CSR being mandatory:

The main idea behind CSR is the belief that businesses should not only be focused on profit but should also be accountable for their actions making a positive contribution to the world. It is a business model that companies follow where a concerted effort is made to enhance rather than degrade society and the environment. It is also making financial decisions based on a commitment to doing good. Example: Investment in alternative energy, spending money on education programs, and funding local charities. It also focuses on how businesses can introduce the production of profitable products that society requires for its benefit. ‘It means profitable goods for society’.

CSR is a business model looking towards enhancement of the society and the environment. It includes environmental impacts, ethical responsibility, philanthropic endeavours, and financial responsibilities.

Figure 4: Economic Concept behind CSR



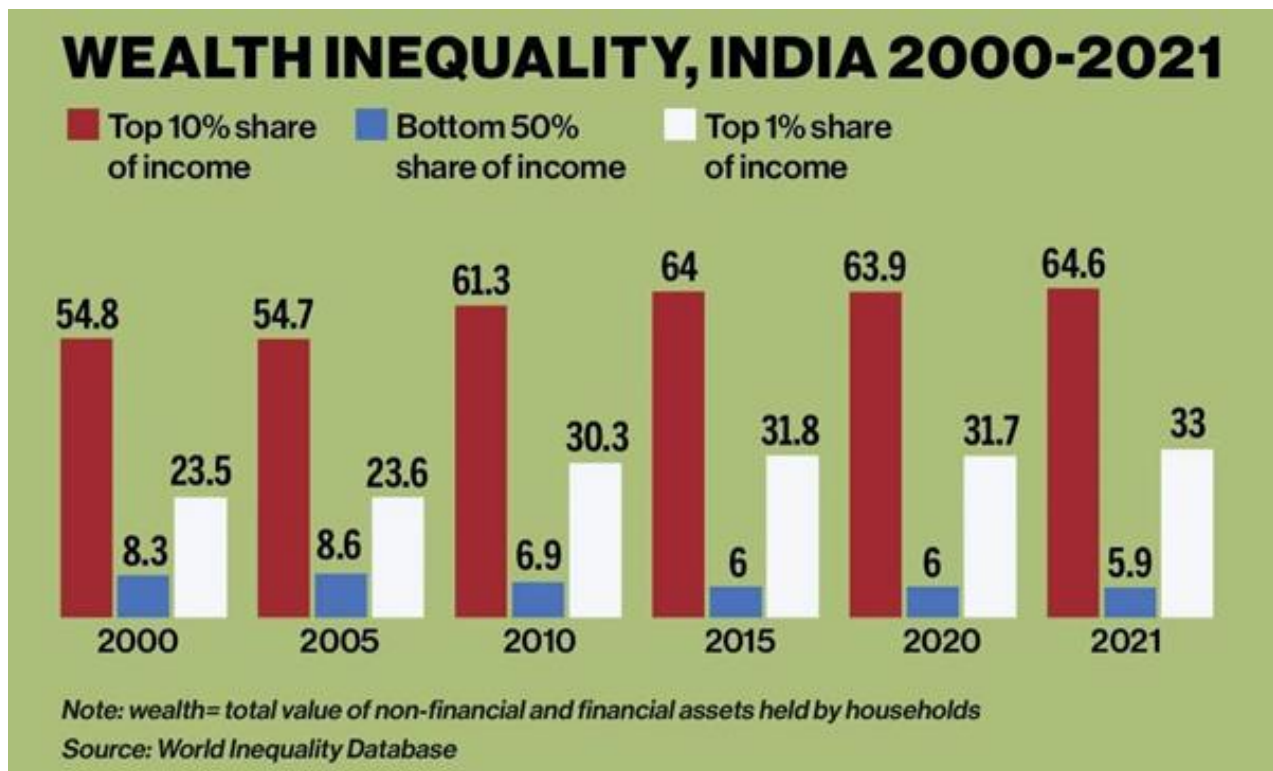
Source:- IONOS

Developing economies like India lack adequate skills for their burgeoning young population. There are issues on eradication of poverty and reduction in inequality. It is to help the government in these areas that CSR activities were made mandatory under section 135 of the

Companies Act, 2013 and became effective in India in the year 2014. One of the main reasons for doing this was firstly to help the government to achieve its economic goals and secondly, the fruits of increasing GDP have not trickled down to the lower percentiles of the country. India has been growing from 2003 onwards at an approximate GDP percentage growth of 7% per annum, but the fruits of this growth have not reached the marginalised population of the economy. 22.6% of India’s national income in 22-23 went to the top 1%.

For wealth inequality, the share of the top 1% in wealth was as high as 40.1% in 22-23. The share of wealth amongst the top 10% increased from 45% in 1961 to 65% in 22-23. The share of the bottom 50% and middle 40% in wealth has declined. Economists have found an inverse relationship between the income share of the rich and economic growth. If the share of the top 20% of the population increases by 1 percentage point lower, suggesting that the benefits do not trickle down, but if there is an increase in the income share of the bottom 20% it is likely that the GDP would grow at 0.38 percentage points. (Santosh Mehrotra; Gaps in wealth and income in an unequal India).

Figure 5: Wealth inequality in India



Source:- World Inequality Database

India, to counter this lack of growth especially at the lower percentiles, requires the government to make extra effort in providing adequate job opportunities for both the rural and urban areas. It is with this context that the government has roped in the private sector through the compulsory 'CSR Company Act'. This spending would enable the marginalised in the population. The main problem in India as far as unemployment is concerned is that the government provides solutions for 'distress' type of situations. What it should aim to do is to address the issue of employability which is primarily due to a low level of skill and training. What is required is a mass-scale educational program with links to apprenticeship on a war footing. It is in this sphere that the CSR act has been made mandatory and is considered a duty and responsibility towards society inspired by the highest values of seeking to return to society a part of what businesses have received over the years. India has a budget outlay of ₹25,000 crores under the CSR Act on 13th January 2024.

Examples of CSR activity by Indian firms in achieving macroeconomic goals of the government:

The Indian firm TATA Consultancy Service (TCS) is involved in marine protection, health and wellness, hygiene, disaster relief, and sanitation. Their initiatives are aimed at achieving sustainable growth including efforts towards green buildings and a green supply chain. Their focus is on areas "where we can make the most impact, preferably at the intersection of what we are good at, what society needs and what can be provided by leveraging our intellectual, technology, human and financial capital". Their CSR programs strive to bridge opportunity and accessibility gaps by taking an intrusive approach to meeting the needs of women, youth, and underrepresented populations. Their focus areas are on those that have the most impact primarily education, skilling, entrepreneurship, and employment. TCS had spent Rs. 674 crores in 20-21. In 2021 TCS spent Rs. 727 crores, and 783 crores in 22-23.

HDFC has named its CSR activity (Parivartan). Their area of intervention is in rural development, education, skill development, livelihood enhancement, healthcare, hygiene, and financial literacy. In the case of hygiene, they worked in Prayagraj in Uttar Pradesh. They aim to break the cycle of poverty and marginalisation by empowering underprivileged communities and contributing towards nation-building.

Rural development has taken place in Prayagraj, Gorakhpur, Ayodhya, Shravasti, Jhansi, Chitrakut and Bulandshahar. They promote natural farming that is based on the use of traditional seeds and local resource-based agriculture. They also have added solar power streetlights in certain UP districts. Besides this, the bank has created smart classrooms in 200 government schools again in the state of UP. They implemented the Jal Jeevan Mission for rural communities and ensured safe drinking water across 40 villages. Besides this, they conduct financial literacy

camps. HDFC's CSR spending was Rs. 634.91 crores in 20-21 and Rs. 736 crores in 21-22. In 22-23, HDFC spent Rs. 820.89 crores on CSR activities.

Wipro's CSR activities are committed to focus at four different levels;

- Fulfilling basic duties and obligations and practising high levels of corporate governance and transparency.
- A proactive approach to leading initiatives inside the organisation that demonstrates a commitment to a humane, sensitive, and sustainable world.
- Engaging with and contributing to relevant issues in neighbourhood communities and initiatives in all regions and countries.

Using the power of communication and advocacy to influence the larger society.

Wipro Foundation was set up in 2017 the emphasis of this was systemic social issues. Wipro Foundation represents the CSR initiative. They have various disclosures that adhere to the highest ethical standards, transparency, and accountability. For eg:

- Wipro manifesto for being a good citizen
- Policy on CSR
- Wipro CSR program and project

Examples of their projects are:

- Doorstep school
- Niramoy (Sabuj Sangha)
- Prayas

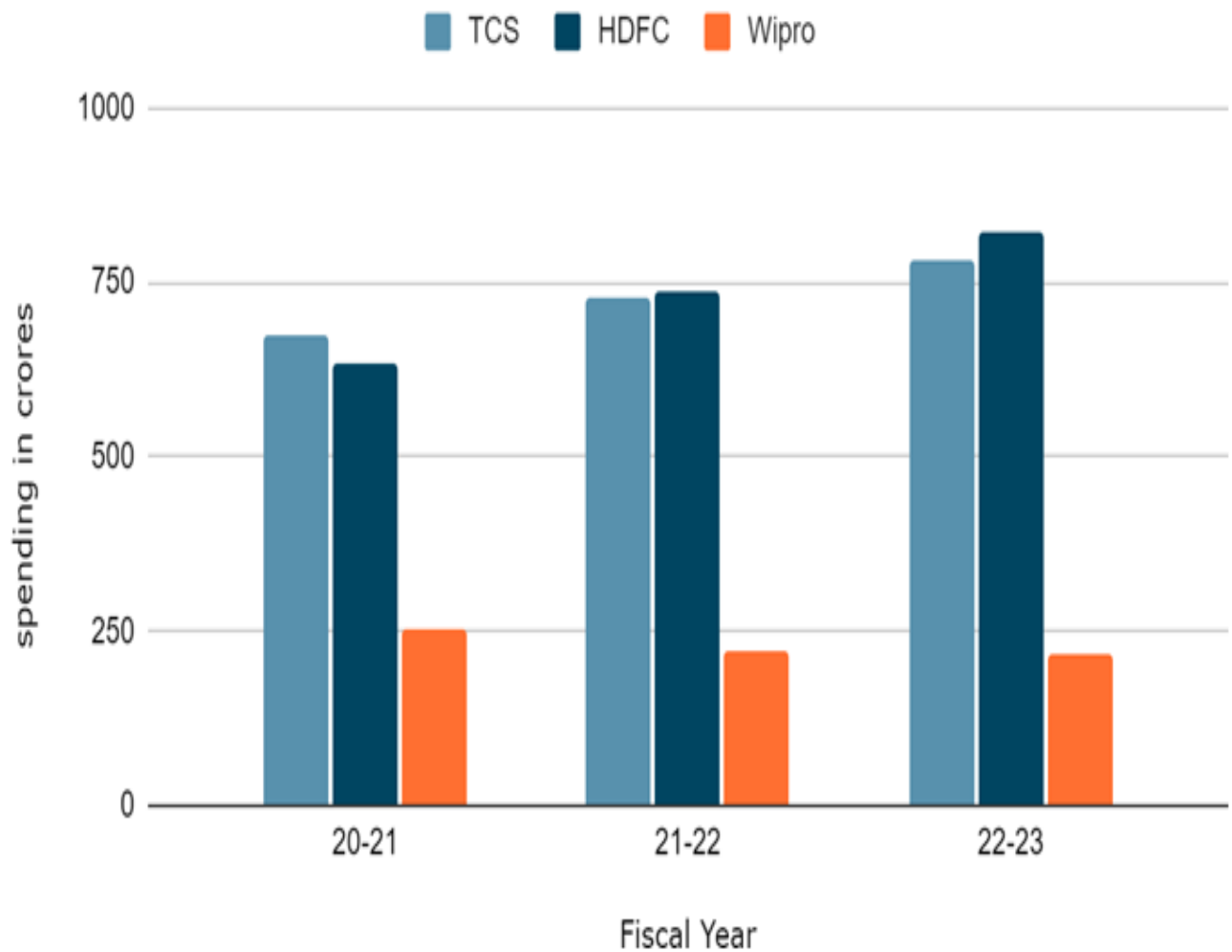
Wipro spent 251.19 crores on CSR in 20-21. In the fiscal year 21-22, Wipro spent Rs. 221.6 crores and spent Rs. 215.7 crores in the fiscal year 22-23. The required CSR spending for Wipro was Rs. 198.6 crores in the year 22-23 which they surpassed.

All three examples that have been indicated above, clearly show the sincerity with which they believe in philanthropic activities. In their pursuit of this goal, they have achieved great heights in great inroads in helping the government achieve its macro goals. Most of the companies

believe in these types of activities over and above the amount stated by law. It is their intrinsic endeavour to help the marginalised and unprivileged of society.

Graph 1

CSR SPENDING



Source:- Own Source

All the companies for which CSR activities were analysed namely TCS, HDFC, and Wipro as indicated in Graph 1 showed that they spent much more than the statutory requirement as indicated by the government of India which is 2% of the net profit over the three preceding years.

Impact of this on the profitability of firms:

There have been various views that have been offered to explain the importance of CSR in business activity. Some economists (neoclassical) have said that firms aim to minimise costs and maximise profits. They have said that CSR is a deflection from the main business of wealth creation and increases costs for the firm.

CSR has reflected social and environmental responsibilities and may be a reflection of the changing expectations of society. It does pose several challenges concerning their obligations in the supply chain and how far they should anticipate and plan their activities concerning the use of natural resources. What has emerged in recent times is the belief that beyond the quest to maximise profits, corporate organisations play an important role in solving society's problems. This apparent conflict was indicated quite early by the Nobel laureate Milton Friedman who attributed that any effort to use corporate resources for altruistic purposes would be considered socialism.

The recent trends indicate that CSR-oriented strategies could create a corporate image and bring value to a company in the form of financial benefits. A wide variety of mechanisms due to CSR activities such as enhanced firm reputation, increased innovation capabilities, customer loyalty, and customer satisfaction could help improve financial performance. But it is also seen as an expense that reduces shareholder wealth by reducing corporate profit and stock prices.

On the other hand, findings have indicated that employees demonstrate a stronger commitment to a firm that has a public image leading to a positive relationship between stock returns and the firm's environmental performance.

CSR activities must target and be visible to a broader audience (society employees, customers, environmentalists, etc.) Customers are more attracted to organisations with values and norms that they deem essential. CSR enhances the reputation of the firm and lowers the transaction cost which offers performance-related advantages.

Research has indicated that CSR does not directly lead to short-term profitability financial performance but it improves the reputation of the firm that contributes to increased stock returns and long-term financial performance.

These activities lead to greater profitability but indirectly. These initiatives need to be implemented into a business strategy and communicated to the external stakeholders by changing the brand's perception and helping to reap financial benefits in the short term.

Managers should thus consider CSR initiatives as antecedents to enhance brand value and

corporate reputation as they represent *intangible assets* but they contribute hugely to a company's competitive advantage in a market.

CSR inculcates a strong sense of employee purpose, resulting in increased engagement.

When a company has increased engagement it automatically results in increased productivity, increased profitability, and lower absenteeism. This can easily translate into a huge profit for the company.

Impactful CSR can result in excellent press coverage that could lead to a boost in brand awareness and brand affinity. It also results in customer retention as well as loyalty. The new generation of workforce considers a socially responsible company and attractive workplaces even if it means a lower salary.

CSR activities are usually characterised into three dimensions:

- Governance
- Social
- Environment

From the risk management perspective, engaging in activities that concern the environment or society could reap greater benefits because this is suitable for building up moral capital. It improves the corporate reputation and suggests that it is a good corporate citizen.

The governance dimension indicates the operations of a company ensuring that its executives and its board members act in the best interest of its shareholders. This dimension of CSR has been treated in most research as a controlled variable rather than as an integral part of CSR. Consumers are important stakeholders who are likely to take into account a firm's reputation for CSR issues. Reputation is extremely important. High competition among firms can motivate them to strategically use CSR activities despite the competitive environment.

Impact on the business ethics of firms:

Developing economies or transitional economies, while making remarkable economic progress due to market-oriented reforms as well as increased competition in the deregulated sectors and judicious use of foreign direct investment, display rampant moral degradation which is a progressive loss of society, and weakening of moral and ethical structures. This is exemplified by the sales of counterfeit products, unsafe goods, wasting resources, stock market manipulation, corruption, plundering of state assets, etc. It is in these societies in particular that CSR activities

need to be understood and implemented. In such economies, firms that have a high CSR commitment have a positive effect on performance. The moral behaviour of firms is indicated by their CSR investment and these firms are likely to reap rewards from investing in CSR.

The perception of ethical issues has changed radically in recent years. If a company wants to be perceived as a reliable business partner and a respected member of the business sector, it should be in a position to demonstrate a high level of business ethics both in principle and in practice. *Business ethics is regarded as a significant factor that has an influence on business success and the corporate image of companies.*

Globalisation has been accompanied by rapid technological changes that have given rise to a completely new business environment. Under these circumstances, the development of a modern company is not only by the effective use of resources and appropriate strategy but also by taking into account the concept of CSR and business ethics in management processes.

The role and importance of CSR and business ethics are especially evident in controversial sectors of the economy. Examples:- the pharmaceutical sector (they might be saviours but they are accused of charging high prices, applying immoral marketing practices, doing ethically questionable clinical trials, etc), tobacco companies, alcohol, weapons, etc.

CSR issues too have become more unpredictable and are changing. This can be seen in the treatment of child labour, union assembly rights, etc.

Ethical behaviour and CSR can bring significant benefits to the business:

- Attract customers to the company's products thereby boosting sales and profits.
- Ensure that employees want to stay with the business thus reducing labour turnover and therefore increasing labour productivity.
- Attract more employees enabling the company to hire the most talented employees.
- Attract investors and keep the company share price high thereby protecting the business from a takeover.

In contrast, unethical behaviour or lack of CSR could damage a company's reputation and make it less appealing to shareholders, leading to a fall in profits.

Business ethics cover areas of moral principles, beliefs, values, culture, governance issues, and a code of conduct for business. CSR operates on the principle that firms are obliged to meet their responsibility to the stakeholders and shareholders.

Figure 6: Business ethics and CSR



Source:- LinkedIn

Conclusion and the way forward:

The mandatory requirement by governments all over the world to invest in CSR activities is definitely a good policy measure. This is most important in emerging economies like India where there are a number of macro indicators like poverty, unemployment, illiteracy, and women empowerment to name a few that are lacking in the system. Countries like India do not have the required resources to utilise on growth and investment activities as well as on improving the condition of its population. Under these circumstances it is necessary that private firms impart some portion of their earnings in philanthropy and CSR activities. The idea behind this is that firms need to give back to society what they have earned from society. This is the basis for all economies in the world. Ideally, these activities should be voluntary but India is one of the few countries that has made it mandatory beyond a certain profit earning. The way ahead is to inculcate in all firms irrespective of the level of profit to work 'on giving back to society' voluntarily. But the step that the Indian government has taken is a bold and important one

considering the level that its macro indicators have to reach.

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