

Corporate Social Responsibility as a determinant of market strategic issues: An exploratory study

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Abstract:

The Sanskrit saying, 'Atithi Devo Bhav', means – 'the one who comes to you for being served, should be taken to be as God', is considered as the highest order of responsibility, be it to individuals or to the society. Thus, the phrase Social Responsibility has its roots in Indian context.

Corporate social responsibility (CSR) is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities.

CSR has several strategic implications. The first is that CSR can be an integral element of a firm's business and corporate-level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. A second strategic implication of the firm's perspective is that one can generate a set of predictions regarding patterns of investment in CSR across firms and industries.. In particular, the focus is on issues relating to industry evolution, market structure, firm dynamics, and the role of asymmetric information in the context of CSR.

Thus ,the present exploratory research focuses the Corporate Social Responsibility as a determinant of market strategic issues , with the various dimensions of CSR and its relevance for emerging markets , it also throw light on redesigning marketing paradigms for the global competition.

Key words: Corporate social responsibility, differentiation strategies, emerging markets, redesigning marketing paradigms, global competition

Introduction

***“Let us walk together
Let us talk together
Let our heart vibrate together”***

(Rig Veda)

The Sanskrit saying, 'Atithi Devo Bhav', means – 'the one who comes to you for being served, should be taken to be as God', is considered as the highest order of responsibility, be it to individuals or to the society. Thus, the phrase Social Responsibility has its roots in Indian context. This phrase has long been in use with growth of industries and corporate.

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It not only reflects the 'passage of time' in its impact and transformation, but its meaning and understanding has been affected by the growth of society, nations and changes in their appreciation of cultural heritage and background. Corporate social responsibility is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit.

Defining Corporate Social Responsibility

Theodore Levitt (1958), could be credited with setting the agenda for the debate about the social responsibility of business in his *Harvard Business Review* article 'The Dangers of Social Responsibility', in which he cautions that 'government's job is not business, and business's job is not government'.

Milton Friedman (1970) expressed the same sentiment and added that the mere existence of CSR was a signal of an agency problem within the firm. An agency theory perspective implies that CSR is a misuse of corporate resources that would be better spent on valued-added internal projects or returned to shareholders. It also suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas.

Donaldson and Davis, (1991) Another perspective, stewardship theory is based on the idea that there is a moral imperative for managers to 'do the right thing', without regard to how such decisions affect firm financial performance.

Donaldson and Preston (1995) who stressed the moral and ethical dimensions of CSR, as well as the business case for engaging in such activity.

Russo and Fouts (1997) tested this theory empirically using firm-level data on environmental and accounting profitability and found that firms with higher levels of environmental performance had superior financial performance, which they interpreted to be consistent with the RBV theory.

Adopted by the World Bank Committee for Sustainable Development (WBCSD) in 1998 "The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

McWilliams et al. (2002) applied the RBV framework to demonstrate how US firms can use political strategies based on CSR to raise regulatory barriers that prevent foreign competitors from using substitute (e.g. low labour cost) technology.

Corporate Social responsibility is best defined by the **World Business Council (2006)** as "The continuing commitment by business to behave ethically and contribute to economic

development while improving the quality of life of the workforce and their families as well as of the local community and society at large”.

Research found that company CSR programs influence 70 per cent of all consumers purchasing decisions, with many investors and employees also being swayed in their choice of companies.

Emerging markets: The evolution of CSR in developing economies

Corporate social responsibility is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit. A company’s stakeholders are all those who are influenced by and can influence a company’s decisions and actions, both locally and globally.

The Emerging CSR Model

Objectives	Stakeholders	Components	Outcomes	Benefits
Image makeover	Internal customers or employees	Treatment as resource life and career planning better job design employee welfare	Motivated and happy workforce	Higher productivity, efficiency and creativity
Build relationships Accountability	Customers	Better product quality better service quality create awareness charging fair price	Satisfied customers, loyal buyers	Thwart competition, higher market share
CSR	Intermediaries	Assured returns sharing the risk support and facilitation supply chain mangement	Loyal , reliable suppliers and distributors	Efficient supply chain
	Shareholder	Better financial disclosure adequate information protection of interest ensuring ROI	Satisfied bunch of investors	Higher and long term investment trends

The evolution of CSR in these developing economies shows widely varying results. **Chambers, Chapple, Moon and Sullivan (2003)** evaluate the extent of CSR penetration in seven Asian countries (India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand). And show that the mean value for the seven countries (even including industrially advanced Japan) is just 41% compared to say a score of 98% for a developed nation like the United Kingdom.

However, there are exceptions to the mean scores. India for example had an average CSR penetration of 72% compared to Indonesia’s 24%. The concept of CSR as visualized in the emerging markets and the developed countries have very different understanding.

Methods of CSR implementation

- 1. Moon (2002)** distinguishes three types of CSR reporting 'community involvement', 'socially responsible production processes' and 'socially responsible employee relations'. During the formulation stages of development of CSR in emerging economies, the community involvement is more along the lines of a philanthropic involvement with company involvement, to operate in the business environment.
2. The other factors are internal to the firm involving the moulding of their business activities while incorporating CSR practices like, environmental and societal norms. This will mean that human rights agreements are also upheld taking into account the rights of the local communities.
3. CSR also leads to evolution of employee relations in the company in such a way that employees become major stakeholders with definite decision making powers especially in the area of formulation of CSR policy.
4. CSR also leads to evolution of employee relations in the company as a strategic partner i.e. employees becoming major stakeholders with definite decision making powers especially in the area of formulation of CSR policy

Thus, outcome of the comparative study of the above parameters by **Chambers, Chapple, Moon and Sullivan (2003)**, focuses that currently Asian nations are still faring strongly only in the first parameter of community involvement.

Some Cases of CSR initiatives in India

1. 'LABS' of Dr Reddy's Labs

Dr Reddy's lab started 'LABS' (Livelihood Advancement Business School) in the year 1999. It trains the under privileged youngsters, even street children for livelihood earnings in the job areas i.e. technology, healthcare, hospitality, finance and marketing issues. It involves four types of volunteers viz student volunteer Mentors, Faculty Volunteer Mentors, Network Mentors and Resource Mentors.

2. House of Sun drops Edible oil

Sun drops is well known Edible oil in India, for a Rs 1,200 cr FMCG company Agro-Tech foods Limited (ATFL). Recently, it came out with an initiative in which for every liter of 'Sun drop' sold, AFTL will contribute Re. 1 to 'Narayan Hrudanalay Heart Hospital' for the treatment of children with cardiac disorders.

3. Care Today Foundation

India Today, a leading publishing house of the country, set up 'Care Today Foundation during the Kargil conflict in 1999. The major contributions of Care Today Foundation include: Rehabilitation of the Kargil soldiers, Rehabilitation of the cyclone and drought victims in Orissa to name a few.

Redesigning marketing paradigms for emerging markets

In a newly emerged Global market, the value of competition – both domestic and Global-coupled with innovation and risk-taking has to be recognized. Today, every Global Company wants its system to be professionally managed in the light of Global competition.

As competition heightens and customers become more sophisticated, companies must ensure social responsibility order to secure the fundamental relationships that fuel business growth. Building a distinctive brand is at the heart of long-term relationships between company and society. The business environment has undergone vast changes in the recent years in terms of both the nature of competition and the wave of globalization that has been sweeping across markets.

Prahalad and Lieberthal (1998) point out that companies must make the transition in their business strategy of ‘thinking globally’ to ‘thinking locally’ as each of the merging markets represents an intriguing challenge for marketing with its vast diversities existing across nations and even within nations in culture and socio economic conditions. It is in marketing across such diverse cultures and varying conditions that the concept of corporate social responsibility becomes critical to success. The present paper has focused on two main paradigms of marketing in which CSR plays an important part:

a. **Customer Segmentation and Consumer behaviour-** There is an urgent need for modifying currently existing customer segmentation techniques. While segmentation based on finer product features may have been successful in the industrially advanced nations, such fine distinctions may not strike a cord with consumers in the emerging markets. This is amply demonstrated in the case of consumer products like toilet soaps where market segmentation techniques in the developed nations are based on value provided by products, like fragrance, anti-aging etc

b. **Distribution** -Emerging markets, especially those in Asia have posed significant distribution challenges to multinational companies.

Violation of CSR principles

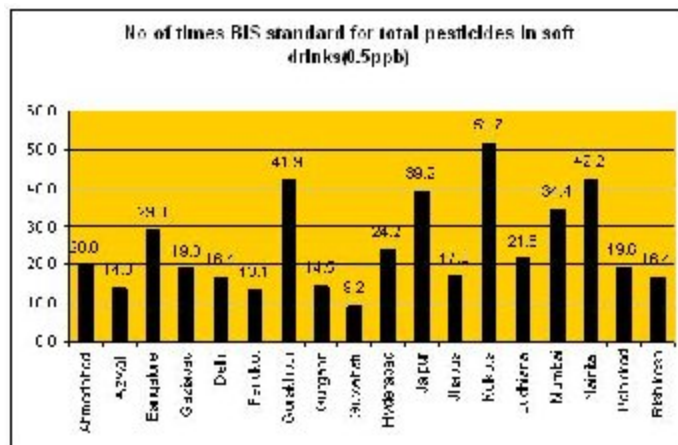
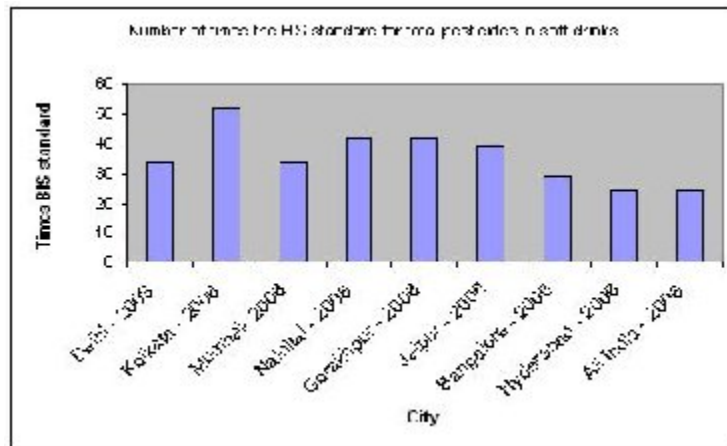
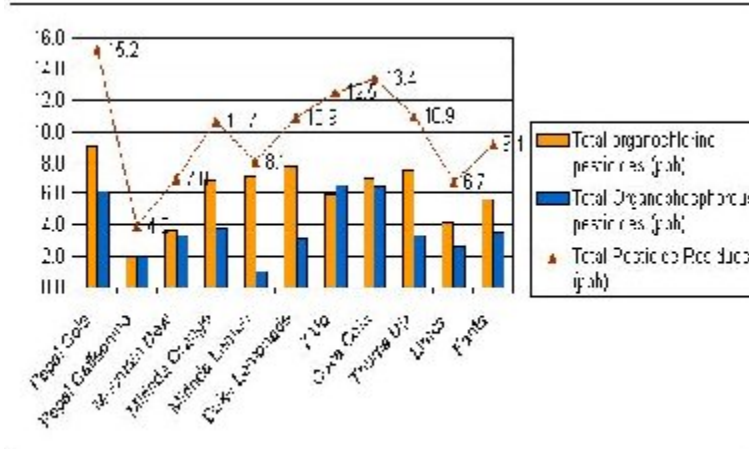
Case of Cadbury in India

In October 2003, a Cadbury stockiest in Mumbai detected worms in Cadbury’s Dairy Milk chocolate. Then the Commissioner of Food and Drug Administration of Maharashtra examined the sealed Dairy Milk packs and found worms in them. He immediately ordered the seizure of all Cadbury’s Dairy Milk chocolates from the company’s factory in Talegaon near Pune. This attracted lots of criticism from consumer activists on lack of appropriate laws on storage. They also demanded immediate government action against Cadbury. Another factor brought to light was that the

chocolates were delivered by three –wheelers, which did not have refrigeration facility for appropriate transit maintenance of the product.

Case of Soft drinks

Nationwide study by Centre for Science and Environment (CSE) 2006:



Centre for Science and Environment (2006) in its findings on pesticide residues in soft drinks, a new nationwide study shows nothing much has changed: soft drinks remain unsafe and unhealthy. And public health remains severely compromised. Worse, even the directions given by the Joint Parliamentary Committee (JPC) have been disregarded: standards for safety have been finalized but blocked because of company opposition.

The 2006 CSE study tests 57 samples of 11 soft drink brands, from 25 different manufacturing plants of Coca-Cola and PepsiCo, spread over 12 states. The study finds pesticide residues in all samples; it finds a cocktail of 3-5 different pesticides in all samples — on an average 24 times higher than BIS norms, which have been finalized but not yet notified. The levels in some samples — for instance, Coca-Cola bought in Kolkata — exceeded the BIS standards by 140 times for the deadly pesticide Lindane. Similarly, a Coca-Cola sample manufactured in Thane contained the neurotoxin Chlorpyrifos, 200 times the standard.

Hence, the above cases of chocolate and soft drinks shows that emerging markets might have loose laws which do not protect the interests of the local population or laws that are not implemented properly. However it is in the best interest of the corporations to take care of the welfare of the local community. The adverse publicity caused by the protests and media coverage brings out high degree of negative public response for the product safety of the company.

Conclusions

“Business is recognised and challenged as a new player in social development, setting standards and protecting human rights”

*****Kofi Annan***

Corporate social responsibility is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit.

Emerging Asian markets like India has drawn attention of Multinational Companies for the potential global market. A company's stakeholders are all those who are influenced by and can influence a company's decisions and actions, both locally and globally. Business stakeholders include (but are not limited to): employees, customers, suppliers, community organizations, subsidiaries and affiliates, joint venture partners, local neighborhoods, investors, shareholders (or a sole owner), and the environment.

The case of pesticide and chocolate proves without doubt that irresponsible corporate behaviour can lose good will of the product throughout global markets and company's obligation towards the society.

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