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## Development of Corporate Social Responsibility (CSR) in India

### Abstract

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The interest in Corporate Social Responsibility (CSR), which recognizes that companies have obligations that extend beyond short-run profit maximization to include notions of social and environmental concern, has increased considerably in recent decades. The globalization of the world economy and the related trade liberalization has brought forward a discussion of the importance of business as an actor in the development of society. The aim of this research is to analyse the effectiveness of the CSR strategies of international companies in terms of their impact on development in the host country. This will be performed as a case study of CSR in India. India constitutes a location with significant potential for international companies to contribute to development through CSR since it is an open nation with substantial international presence but still faces challenges regarding poverty alleviation and inequalities. Very little academic literature examines the development effects of CSR. In order to undertake this analysis, an analytical tool will be established that will present key characteristics of efficient CSR in terms of its impact on development. These key characteristics will be derived from the theory of new institutional economics, and will primarily argue that in order for CSR strategies to achieve the greatest efficiency, they must adhere to the institutional framework of the host context. The case study of the research will outline the nature of the international companies' CSR strategies in India and evaluate them according to this analytical framework. The findings of the research indicate that the development effects of the contemporary CSR strategies in India are modest. However, CSR is a relatively recent amendment to the corporate agenda and it has potential to increase in efficiency and importance in the future.

### Introduction

The vast majority of the academic articles on CSR are published in management and business related journals, which treat the concept of CSR primarily from the perspective of the individual firm and where the main debate regarding the issue is concentrated around the potential existence of a trade-off between profit motives and social responsibility (see for example Orlitzky et al; 2003, Godfrey and Hatch; 2006, Garriga and Melé; 2004). Very little emphasis is placed on the effects of CSR on the host community, but rather on the company's financial returns to CSR engagement. Although the interest in the issue from the management perspective is growing, very little academic economic literature on CSR is available. The impact of CSR on the host society and its potential and actual contribution to development receive little attention in the current development economics discourse. The economic perspective has a greater potential to treat the interests of all

actors in the society, while the management perspective mainly treats the profit-making objectives of the corporations. Thus, the economic perspective is very important to the discourse on CSR and its effects on the host country. Two clear limitations of the current literature on CSR have been identified: Firstly, the lack of sufficient economic research on the topic deprives the discourse of an important dimension regarding the societal effects of CSR. Secondly, although the concept of CSR has been developed due to the increasing social consciousness and responsibility among corporations, little research and academic literature are devoted to analysing the extent of the effects of the CSR policies on the host community, and their potential and actual contribution to development of the host society. The limitations of the current academic literature on the issue of CSR and its effects on the host society call for further and more in-depth research on the area. The current development economics discussion regarding CSR lacks

sufficient analysis of the strengths and weaknesses of contemporary CSR policies by international companies in less-developed countries, especially concerning their effects on the host society. This research will contribute to fill part of that gap through the development of key characteristics, which are based on the new institutional economics and which determine the efficiency of CSR strategies in terms of their impact on development in the host society. These key characteristics will be translated into practice in the analysis of the CSR strategies of international companies in India.

### Literature Review

CSR constitutes a complex aspect of the relationship between business and society, and a thorough introduction to the concept will be useful for the understanding of the research. In line with the globalization of the world economy and the increasingly rapid flow of information that simplifies the detection of unethical performance of companies, the interest in, and importance of, CSR are continuously increasing. During the latest decade, CSR has achieved its breakthrough among the wider international business community and taken its place in the general business discourse (see for example Jutterström; 2006, Perrini; 2006 and Whitehouse; 2006). The concept of corporate social responsibility acknowledges the corporate sector's obligations towards society beyond short run profit maximization and that the group of stakeholders, whose interests are to be considered in corporate strategies and operations, are extended further than to the shareholders to include societal and environmental values. This description of CSR reflects the general idea of the concept – to redefine the relationship between business and society and to emphasize the social and environmental responsibilities by corporations acting in the world economy. Recent literature recognizes that the concept of CSR lacks a precise definition, which makes it, to a certain extent, open for interpretation by the individual practitioner (Campbell; 2006). It is likely that its content will fluctuate according to cultures as well as to societal norms and trends (Snider, Martin and Hill; 2003, Garrega and Melé; 2004). Whitehouse (2006) argues that the only statement that can be made regarding the identification of CSR is that there exists no universal definition of the concept. Blowfield and Frynas (2005) and Valor (2005) identify

CSR as an umbrella concept, including a variety of theories and practices which recognize the social and environmental responsibilities of corporations, as well as that companies are responsible for the behaviour of others with whom they do business – for example with supply chains. This definition allows for a multitude of interpretations and also addresses the difficulties of establishing one single, universal definition and meaning of CSR. Companies and organizations often develop and adopt their individual understanding of the concept. Among the business community, the denotation of the “Triple Bottom Line” or “Triple p – people, planet and profit” constitutes a popular reference to the concept of CSR and recognizes the integration of the economic, societal and environmental responsibilities into the business strategy of modern companies (Painter-Morland; 2006, Garrega and Melé; 2004, Husted and de Jesus-Zalazar; 2006). It can also be seen as a reference to CSR as an integral part of the business strategy of contemporary international corporations. CSR is often identified as the social and environmental care that constitutes an integral part of the business strategy and cooperation that goes *beyond* compliance with the existing legislation in the home location and the host country of operation. Löhman and Steinholtz (2004, p. 13) state that the focus on beyond compliance is emphasized in for example the European Union's definition of CSR. Jutterström (2006) quotes a statement by the International Chamber of Commerce (ICC) and the International Organization of Employers (IOE): “Compliance with the law is the minimum acceptable level of performance; [CSR], in our view, refers to the initiatives that go above and beyond legal compliance”.

### Operational phase

The above focus is largely on the theoretical level of the concept of CSR. The remainder of the section will provide a brief introduction to the action to render CSR operational, which will be further discussed in the case study of the research. The operational phase of the CSR strategies of international companies in a developing context can be divided into two main categories. The first category consists of the social and environmental concerns of a company that are related to its internal structure, such as occupational health and safety, minimum wages, anti-corruption, ensuring compliance with human rights at the workplace and maintaining

good relations with employees and supplier (Whitehouse; 2006, Kumar and Balsari; 2004). One of the primary tools with which companies develop and implement the above conditions is the code of conduct that is established by the individual companies and which outlines the company's priorities and standpoints regarding the above issues (Venkateswaran; 2004).

### **India as a host location for CSR policies**

India is an ideal location in which to study CSR policies of international companies. It is a country with substantial international presence and investments, which implies that there will be many companies who can, and are willing to, engage in CSR activities. Furthermore, India still face challenges of for example poverty alleviation and development, which implies that there are possibilities for CSR initiatives to contribute to positive effects for, and development of, the host community. A brief overview of the economic and social background of India will provide a more detailed introduction to the country context.

### **Economic conditions**

India is a vast and heterogeneous country, with a multitude of different cultures, languages, religions and traditions, spread out over several states. It is an important emerging economy, with a dynamic market and accelerating economic growth, which is expected to increase even further in the future (Farrington and Clarke; 2006). After gaining independence from Great Britain in 1947, decades of economic planning followed, with the first five-year plan coming into effect in 1951 (see for example Bhagwati; 1996). India adopted, unlike parts of East Asia, an import substitution strategy with restrictions on foreign exchange and the private sector (Tendulkar; 1996). A macroeconomic crisis in the beginning of the 1990s, with mounting budget deficits and heavy reliance on external borrowing, triggered the economic reforms. In July 1991, India adopted a structural adjustment program by the World Bank and the International Monetary Fund and initialized its economic reforms (Chossudovsky; p. 149, 2003). This marked a new economic beginning in India, and the reforms included macroeconomic stabilization, structural adjustment through opening up of the economy to international trade as well as reformation of the tax structure and the financial institutions (Tendulkar; 1996, Roy;

2005). Since the economic reforms in 1991, India has gained increasing importance in the world economy, deepened its integration with external trading partners, opened up its borders to international investment and liberalized trade (Kumar; 2006).

### **Social conditions**

India's rapid economic growth has not automatically translated into development of the country and improved living conditions for the population. A growing middle class has emerged, with living standards and purchasing power comparable to those in some of the most developed countries. However, India still faces challenges regarding poverty alleviation and development (Deaton; 2004). The gaps between different income groups is continuously increasing and at least 25 % of the population still live below the absolute poverty line, with an additional part subsiding in deprivation that is not included in official statistics (Roy; 2005, World Development Indicators). According to Roy (2005), the incidence of poverty is decreasing in India in the long run. However, the rate of decrease is slower than that of other parts of Asia that have adopted export orientated strategies of economic reforms. Following the growth of the Indian economy, migration from rural areas into the cities has increased, which has brought about increases in urban poverty, slum-dwelling and urban homelessness (Farrington and Clarke; 2006, Roy; 2005). However, the most vulnerable situation is often found in rural areas. The majority of the rural population consists of small, marginal farmers or landless farm workers, residing in, or on the edge of, poverty (Chossudovsky p. 151). Structural imperfections within the social, political and economic framework limit the range of possibilities regarding employment opportunities, social status and access to material resources as well as to human capital for many groups in the Indian society (Utrikesdepartementet, Venkateswaran; 2004). Groups traditionally belonging to lower castes are overrepresented in the low-wage and informal sectors of the economy (Utrikesdepartementet). The structural imperfections act to a certain extent as an impediment to human and social development, as they cement the existing divides between different income and status groups, and render it more difficult for marginalized groups in the society to overcome poverty traps. The central

labour legislation in India, which must be adhered to by all states, dates back to the time of independence and it is comprehensive and thorough (Roy, 2005, Utrikesdepartementet).

### **Theoretical framework**

The effectiveness and potential development impact of the CSR strategies of international companies in the Indian context will be analysed according to the new institutional economics. Since this analysis will concern Western-oriented corporations operating in a developing context, and it is probable that the relationship between them will be marked by differences in the respective institutional environments (as will be further elaborated below), the perspective of the new institutional economics will provide an appropriate analytical framework. An introduction to the new institutional economics will provide an outline of the essence of the theory, and a discussion regarding its relevance for the CSR context will follow. A conclusion will sum up the findings from the section, where key assumptions concerning the characteristics of efficient CSR strategies will be established. These assumptions will serve as the basis for the subsequent analysis of the CSR strategies of international corporations in India. The basic foundations of institutional economics will to a large extent be drawn from the theories by Douglass North and his work "Institutions, Institutional Change and Economic Performance" (1990). Very little academic literature analyses issues such as to develop characteristics that CSR should possess in order to maximize its efficiency in the developing context. Within the existing framework of new institutional economics, this research will attempt to develop such guidelines that determine the characteristics of efficient CSR seen from a host perspective.

### **Relationship between formal and informal norms**

Nee (1998) argues that the relationship between formal and informal norms in the society constitutes a crucial determinant for the performance of the economy. If this relationship is successful and formal and informal norms complement each other, both driving the society in the same direction towards the same goal, the effectiveness of the institutional framework will increase and lead to lower information, monitoring and enforcement costs, higher

economic performance and promoted development. Thus, the relationship between the informal constraints and the formal norms constitutes an important aspect of the performance of organizations and economies. The importance of the relationship between formal and informal norms is also emphasized by North (1990), who argues that the potential success of formal norms depends to a great extent on whether they are coherent with the existing informal constraints of the society in which the norm is to be implemented. Nee (1998) states that the most beneficial outcome occurs when the interests of informal constraints and formal norms (and their representatives) coincide and merge into a common purpose. When this happens, the self-enforcing mechanisms of social control can substitute part of the external enforcement applied by corporations, which can enhance economic effectiveness and development (North; 1990). On the contrary, when formal rules ignore the conventions and culture of the social networks and norms, economic performance is likely to be limited, which also affects institutional change negatively.

### **Institutional change**

Institutional change is brought about by for example changes in relative prices, technology or ideology (North; 1990, Coase; 1992, 1998). According to North (1990, p. 73): "[O]rganizations and their entrepreneurs engage in purposive activity and in that role are the agents of, and shape the direction of, institutional change." Changes in the above factors such as relative prices or ideology lead to an adjustment in the maximizing behaviour of the agents in society, which fosters institutional change. The informal constraints that establish the principles and routines for human interaction are often firmly embedded within the social norms and networks of the society and sub-groups thereof. The self-enforcing nature of social standards and the evolutionary process through which the informal constraints are formed indicate their rigid and deep-rooted character that does not easily change, which is further emphasized by for example North (1990), Coase (1992) and Shirley (2005). Formal norms can be altered through a more straightforward process, for example through legal adjustments. The contrast of the structures of formal norms and informal constraints, and the complex relationship between them makes them change at different

rates (North; 1990), where informal norms are considered the most tenacious. Tension is developed when formal and informal rules are inconsistent with each other, such as when the change has occurred in the institutional framework (most often within formal norms) (North; 1990). This conflict will persist until a new equilibrium within the institutional environment has been formed and the balance has been restored between formal and informal norms (North; 1990, Nee; 1998). The maximizing efforts by economic agents through responding to changes in preferences or the ratio of factor prices most often give rise to marginal adjustments in the institutional environment rather than wholesale changes of the entire institutional structure (North; 1990). The result of these marginal adjustments is dependent upon historical changes in the institutional framework, which creates the point of departure for current and future changes. The importance of path dependence, where it is argued that the historical decisions and institutional environment shape the existing structure of norms and incentives in which changes can take place, is emphasized by most institutional economists (see for example North; 1990 and Shirley; 2005). North (1990, p. 98) introduces the concept: "Path dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future." Path dependence can to a certain extent also explain the persistence of underdevelopment in some regions of the world, which will be further discussed below.

### **Underdevelopment**

The new institutional economics suggests that underdevelopment in Third World countries can, to a large extent, be explained by the prevalence of an inefficient institutional environment in these countries (Keefer and Knack; 1997, Bardhan; 2000). In a developing country context, the institutional framework is - more often than in developed countries - dominated by redistributive rather than productive activities, with a weak legal and regulatory framework, including inefficient property rights and contractual rights as well as inefficient systems of enforcements of the rights. This may limit investments and entrepreneurial activities, and restrain these countries from economic convergence with developed nations (Keefer and Knack; 1997, North; 1990). Earlier in this paper, it was established that the economic performance

of a country is largely dependent upon the efficiency of its institutional framework, which is further confirmed by for example Dollar and Kraay (2003), who emphasize the positive correlation of good and efficient institutions, trade and economic growth. The prevalence of a less efficient institutional environment in many developing countries, including insecure property rights, increases transaction costs of economic activity and investment, and the risk of limiting economic performance (Shirley; 2005).

### **Relevance for CSR**

The above introduction to new institutional economics will prove useful when analysing the effectiveness of international corporations' CSR strategies in India and their effect on development in the host country. When international companies implement their CSR strategies in a developing context, especially within the field of codes of conduct, suppliers and other concerned parties could perceive the CSR strategies as the imposition of another formal norm, since they include additional rules and regulations which demand compliance. Since cornerstones in the concept of CSR include voluntary compliance beyond legal requirements, CSR cannot be seen as a formal rule per se. However, it is likely to give rise to similar effects. External monitoring and enforcement (by company representatives or by independent auditing firms), as opposed to self-enforcement within the social group, constitute an additional similarity with formal norms, which are enforced by the judicial system. Equilibrium between formal and informal norms promotes institutional efficiency (North; 1990, Coase; 1992, 1998). Thus, international corporations should aim at developing and implementing CSR strategies that give rise to the smallest possible conflict within the existing institutional framework and promote the creation of a new institutional balance. To adhere to formal norms in terms of compliance with the prevailing legislation is a relatively uncontroversial issue for corporations, and the majority of codes of conduct include a paragraph which requests compliance with the local legislative context, both among suppliers and within the own company. The challenge among corporations is often found in identifying and respecting informal constraints within the host community in which they operate. The state structure in India can be considered relatively weak compared to that of many Western states

(Nadkarni; 2004), which indicates greater importance of the informal constraints as determinants of social and economic interaction. Respecting, and acting in accordance with, the institutional framework of the host society are important within the entire spectre of CSR strategies, from the code of conduct-related activities mentioned above to projects related to community development, in order to promote maximum efficiency of the CSR strategies and investing in projects aimed at areas in the most need of development assistance. Projects related to community development or other philanthropy-related causes that are initiated by international companies in the host context in which they operate are less likely than codes of conduct to be considered as additional formal norms. However, the development impact is far from uncontroversial. According to institutional economics, institutional change promotes development. Thus, it can be concluded that in order for community development-related projects to have an impact on development, they should lead to institutional change. Shirley (2005) discusses the links between institutional change and aid, which can to a certain extent be comparable to corporate philanthropy. She emphasizes that aid must respect the informal constraints of the society in order to arrive at institutional change. An international company cannot simply impose its Western values and experiences on the developing context and expect development to take place. To engage in partnerships with representatives of the civil society can constitute an important method by which to adhere to the institutional constraints of the host society and thus diminish the conflict within the institutional environment arising from the introduction of CSR strategies. This is a practice that is recognised by scholars who are engaged in the issue of CSR and development, although they are not specifically devoted to its connection to institutional economics. See for example Venkateswaran (2004), Kumar and Balsari (2004) and Kondap and Singh (2004) for further research on this area. In order to limit the institutional conflict, it is also important to develop CSR strategies according to the actual needs of the host community, or beneficiaries of the strategies. This is recognized by for example Eweje (2006), who conducted an empirical field study of international CSR policies in Nigeria and South Africa. Representatives of the host community stated that the CSR policies, which were conducted by the international companies, that they considered to be the most successful

were those where the host society got the chance to participate in the design and formulation of the strategies. From this discussion, it can also be concluded that in order to achieve the maximum development impact, the CSR strategies should be aimed at the groups in society in the greatest need of development assistance, rather than letting commercial interests of the individual corporation determine the beneficiaries of the CSR policies. The importance of adhering to the existing legal framework and informal constraints when implementing a new formal rule is also emphasized by Berkowitz et al. (2003), who performed an extensive analysis of the "legal transplant effect" and its influence on economic development. The results of the study indicate that the origin of the country's legal system (if it adopts a system of for example common law or civil law) is a less important determinant of legality than the manner in which the new legislation is transplanted and received. Berkowitz et al. (2003) argue that in order to promote legality, it is important to initiate legal reforms whose purpose can be understood and is appreciated by the agents within the institutional framework. "In short, legal reform must ensure that there is a domestic demand for the new law, and that supply can match demand." (Berkowitz et al.; 2003). Furthermore, a positive correlation is found between the transplant effect and the impact that the legislation has on economic development. A similar line of reasoning can be adopted on the international companies' codes of conduct. Development and institutional change, especially regarding informal norms, are long-term concepts that do not occur overnight. Thus, in order for international companies to actually be able to contribute to development through their CSR strategies in the host society, their engagement should have a long-term character where community involvement is encouraged rather than focus on one-time spot efforts of monetary donations. Also the codes of conduct related aspect of CSR should possess these characteristics. The above discussion regarding underdevelopment of the Third World due to inefficient institutions emphasizes the importance of institutions, not only as a determinant of economic performance, but also development. When linking this reasoning to the potential effects of the international companies' CSR strategies in the Third World context, it can be concluded that in order to maximize the contribution to development, the CSR strategies should focus on fostering a more efficient institutional framework. Horn af Rantzien (2003)

identifies that corporate responsibility is perceived, by the international business community, as notably important in contexts where a “*legal vacuum*” prevails. That is, in developing countries with insufficient property and contractual rights, and where the state lacks the adequate mechanisms for enforcing existing rights and regulations. Hence, the introduction and implementation of CSR strategies, which respect and act in accordance with the existing institutional environment, have the potential to function as a complement to existing legislation and state enforcement. Inherent in functioning CSR strategies related to codes of conduct lies a system of monitoring and enforcement (either by representatives of the companies themselves or by an external auditing body) that coexists simultaneously with its state counterpart. If CSR strategies are to have the potential to contribute to development through stimulating institutional efficiency, they should take place on a larger, structural level in the society. The effects are likely to be smaller if CSR strategies act on the micro level, unless substantial spillover effects exist in the society. This is important both for the code of conduct related features and the aspect relating to community development.

### Methodology

The analysis of the effectiveness of international companies’ CSR strategies in the Indian context and their potential contribution to development in the host country is based upon a qualitative study through interviews with representatives of companies and organizations in India. The interviews were conducted through a Minor Field Study, with financial support from Sida, the Swedish International Development Cooperation Agency, on location in India during April and May 2007. The geographical concentration of the interviews was set to Mumbai and Delhi, with some interviews performed with companies in neighboring cities. These specific locations were selected due to their high representation of potential interviewees in terms of relevant corporations. The results of the Minor Field Study will be presented in the case study of the CSR strategies of international companies in India (section V).

### Selection of interviewees

The companies that were interviewed for the case study were selected according to the following criteria: First and foremost, the companies had to be of Swedish origin and

operating with subsidiaries located in India. The decision to concentrate on companies that originated from Sweden was taken so as to provide a somewhat more limited platform for the selection of companies. However, Swedish companies possess similar characteristics to international companies in general and can thus be argued to constitute a legitimate foundation for the analysis of the CSR strategies of international companies in India. The Swedish Trade Council provides a comprehensive report of the trade relations between Sweden and India in which all Swedish companies that are located in India are listed. This “Sweden-India Business Guide” acted as a useful guide when selecting and contacting relevant corporations. Through consulting the guide, companies whose Indian headquarters are located in, or in the vicinity of, Delhi and Mumbai were identified and contacted. After the corporations had been identified, they were contacted either prior to the field study or while on location in India. The potential interviewees who were approached showed a positive attitude towards the interview and the research, and all organizations, academics and government representatives accepted the proposal for an interview. Two corporations turned down the interview proposal due to lack of time. One additional company stated that it did not have any CSR representative on location in India, and thus found that an interview would be unfruitful. In the end, five companies and approximately fifteen academics, government representatives and organizations were interviewed. Since the research treats CSR strategies from the host perspective, more weight was put on interviews on the latter group of interviewees.

### Interview procedures

The interviews with the corporations were all conducted with the persons responsible for CSR issues at the respective companies. At two corporations, members of the senior management team in the company were also interviewed. During the interviews with academics and representatives of organizations and the government of India, persons with rigid knowledge of, and insight into, CSR issues were interviewed. The interviews were all conducted through personal meetings. They were performed at the workplace of the interviewee and in the majority of interview situations, only one interviewee and the interviewer, who is also the



author of the research, were present during each interview.

### Case study

The case study-section will present the results of the case study that was conducted as a Minor Field Study of the CSR strategies of international companies in India. The introductory section will provide the historical background and definition of CSR in India. Following the introduction, the case study will present the characteristics of the international companies' CSR strategies. These characteristics will be analysed according to the key assumptions of the theoretical framework in terms of their impact on development in India. The final section will discuss the future for CSR in India and summarize the findings.

### Historical perspective of CSR in India

The Indian society and industry are considered to have long traditions of engaging in philanthropic activities and participating in community development, which can be traced back from the rich and nuanced cultural and religious background of India (Kumar and Balsari; 2004, CREM-report; 2004). Notions of generosity and trust, as advocated by Gandhi and his followers are described by, among others, Reed (2004) and Roy (2005) as having served as an ideal for many business leaders both during pre and post-independence times. The importance of these values within the corporate culture in India is also emphasized by for example Sagar and Singla (2004). They present surveys regarding corporate respect in India where they find that transparency and ethics belong to the most important components in order to be perceived as a respectful company in India<sup>2</sup>. Chatterjee and Pearson (2000) define the Indian business society in modern times as a complex mix of ancient traditions that appreciated ethical values and the institutional and corporate values of the colonial period. Well-established Indian conglomerates, such as the Tata Group and Birla, are renowned for their profound commitment to CSR (see for example Marg; 2004, Engardio and Lakshman; 2007). The Tata Group, with over a century's worth of experience from involvement in social causes, is considered as one of the pioneers and leaders within corporate responsibility with its profound and far-reaching engagement that has contributed to setting the agenda for CSR in modern-time India (Nadkarni, 2004). Until recently, philanthropic activities of

Indian companies were not linked to any strategic business interests in the fashion that they are presently associated with. Several interviewees emphasized that the concept of CSR was introduced into the Indian business vocabulary in connection with the economic reforms in the early 1990s, when the country experienced an inflow of international capital and companies (see also for example Sarkar and Sarkar, 2004). International corporations are considered to have launched CSR as a policy issue in India, and as an issue where corporate philanthropy also could serve the profit-related interests of a company.<sup>3</sup> The increased industrial competition also called for a more accountable and transparent corporate structure than was needed in the more closed model of the economy prior to the structural adjustment in 1991 (Baxi; 2005). Pressure arose from a diverse range of stakeholders, such as shareholders, customers and institutional investors, to reshape the internal organization and adopt a more liable and open approach towards the market and the concerned stakeholders. The interest in, and importance of, CSR as a driver for the development of the relationship between business and society have accelerated swiftly in India during the last five to ten years, which reflect the general progress of CSR in the world economy (Whitehouse; 2006, Baxi; 2005, Balasubramanian et al.; 2005, also confirmed by almost all interviews). During this time, CSR has increasingly taken the shape of a business case, even though it is still to a large extent influenced by philanthropic values.

### Time frame

CSR in its present form is a relatively new amendment to the corporate agenda, and in some aspects still under development. The companies that participated in the case study all revealed a rather recent engagement in CSR, dating mostly a few years back. As stated by one of the corporate representatives: "These issues were not so much focused earlier, some years back, *but after the past ten years, these issues are talked about by many companies.*"<sup>5</sup> The of CSR as still being in its start-up phase was shared by organizations throughout the case study. The company with the longest involvement in CSR has been committed to these issues since 1997, while the company with the most recent CSR strategy initialized it in 2006. The most CSR-compliant companies, or the companies with the most profound engagement in CSR, are often

found among large, well-established Indian business houses and large international companies operating in India (Partners in Change; 2000, Sagar and Singla; 2004, several interviews). This observation is confirmed by the CREM-report (2004), which finds that large and international companies are overrepresented among companies with CSR policies in India. Often, it is these companies that see themselves as possessing the human and monetary capital needed in order to commence and sustain a commitment to CSR. Furthermore, they are also the companies that most often see the potential links between CSR and profit (CREM-report; 2004), and venture into a deeper and more long-term commitment to CSR that extends beyond purely passive philanthropy. This will be further discussed in section V.II.

### **Characteristics of the CSR strategies**

The CSR strategies of international companies operating in the Indian context, as well as those of large Indian companies, often include policies regarding the internal structure and working conditions of the company and its subcontractors, with the code of conduct as the prime instrument for control and compliance. Many companies are also engaged in community development-related projects or other activities that can be associated with philanthropy. Moreover, several companies acknowledge that the CSR commitment also includes environmental responsibility. Environmental engagement can take the form of specific actions, such as tree planting or rain water harvesting, and it can also be an integral part of the production process, where the ambition is to continuously lower the environmental impact of the products that are produced. This is a very important aspect for a sustainable future. However, the focus of this research will be the social aspects of CSR, which will be outlined and analysed below.

### **Local initiatives**

The companies in the case study state that the headquarter, often situated in a Western context, provides a framework for CSR strategies that must be followed by the subsidiaries in India. However, within this general framework that provides the guidelines for CSR policies, companies at the India-level are found to have a certain freedom to develop strategies that are specific to the local context, especially within the

field related to community development. The participating companies in India all present some degree of independent CSR initiatives within this area (see section V.III for examples of such initiatives). This finding is shared by other surveys relating to the CSR policies by international companies in India. CREM-report (2004) states that: "None of the companies [in the survey] has developed a country specific CSR policy. The corporate values and principles that are defined at the headquarters are guiding. However, everyone acknowledges the need to take into account local culture and needs. Therefore, the management of the daughter company is free to develop further initiatives at the local level." This conclusion is supported by, for example, Chapple and Moon (2005), who find in their study of CSR strategies in Asia that the profile of international companies' CSR strategies (primarily the aspects related to community development) tends to reflect that of the country of operation rather than the country of origin. Chapple and Moon (2005) further conclude that CSR policies tend to vary among the studied Asian countries<sup>8</sup>, and that this variation is likely to result from variations in national business systems.

### **Partnerships**

The theoretical framework of the new institutional economics suggests that partnerships between business and representatives of the civil society can contribute to a better understanding of the local institutional context and thus lead to greater efficiency of the CSR strategies in terms of their impact on development in the host country. This is also emphasized by for example Venkateswaran (2004), Kumar and Balsari (2004) and Morimoto et al. (2005). The room for local initiatives in international companies' CSR strategies opens up the possibilities for fruitful cooperations of private companies and the civil society, for example, with NGOs. As development-related NGOs often have greater experience in the field and a better understanding of the specific development situation, such partnerships have the potential to increase the adherence to the local institutional environment within CSR projects (Kondap and Singh; 2004). Venkateswaran (2004) belongs to the advocates of cooperation regarding CSR related projects and considers that partnerships between companies and NGOs can play a crucial role in rendering the involvement of business in society

more effective. Following the reasoning derived from the new institutional economics in the theoretical framework, it can be concluded that partnerships with the representatives of the host society can enhance the adherence to the institutional framework, and thus increase the potential development effects, through providing deeper information and knowledge regarding the local informal constraints than the international companies (albeit on a local level) may possess. Partnerships between the international companies and local organizations show the intentions of the corporations to adhere to the institutional framework of the host society, and such cooperation has indeed the possibility to enhance institutional efficiency and limit the conflicts between the CSR strategies and the prevalent institutional framework.

### **Supplier relationships**

The nature of the relationship between the company and its stakeholders (of which the suppliers constitute an important part) is crucial when determining the extent to which the company's CSR strategies adhere to the institutional context of the host country. Successful relationships can limit the institutional conflict arising from the introduction of CSR strategies, as discussed in the theoretical framework, and thus increase institutional efficiency. The introduction of CSR policies, including codes of conduct, mark a new phase in the relationship between the suppliers and the international companies – the buyers – where the buyers' demands on the suppliers extend beyond quality control, on-time deliveries and price competitiveness. The power structure that exists between the buyer and the supplier becomes increasingly articulated with the intensification of the buyers' intervention in the previously conditions of the supplier. Affairs that were earlier considered domestic and confined to the individual supplier are now under scrutiny and control of the international buyers, which often originate from the Western business community. In the discussion on the theoretical framework, it was suggested that codes of conduct could be perceived by suppliers as additional formal rules that demand compliance. When the formal rules - that is, the codes of conduct - are not developed and implemented in accordance with the existing framework of informal constraints embedded in the social norms and networks of the society, a conflict will occur where the efficiency of the CSR

strategies risk being limited (Nee; 1998). The conflict will also limit the legality of the CSR strategies. The suppliers' initial reluctance has increasingly changed in favour of a more understanding and positive approach towards the codes of conduct. Companies and organizations agree that suppliers are increasingly gaining a more long-term and sustainable vision regarding their business. Furthermore, the interviewees report an increasing awareness among suppliers that CSR policies constitute an important part of the global economy, and suppliers who wish to sustain in the business in the long run should adopt the codes of conduct. This finding is further supported by Kozak (2004), who finds that this view is indeed prevalent among the Kozak (2004) also finds that suppliers perceive that CSR brings a win-win situation for buyers and suppliers. importance of implementing formal rules that are accepted by the social and cultural networks and conventions in the host context is also emphasized by the research of the transplant effect (Berkowitz et al.; 2003), which was introduced in the theoretical framework. This research The companies in this case study confirm that the introduction of codes of conduct has, in most cases, involved increased costs and investments for suppliers. Compliance with codes of conduct has demanded another regulatory infrastructure in the factories of the suppliers. In the course towards compliance with the codes of conduct, companies claimed, to a varying degree, to have assisted the suppliers with their skills and knowledge in order to facilitate the procedure. However, none of the companies provided financial assistance to the suppliers during the process. One of the important findings from the theoretical framework stated that since development of the country will most probably be brought forward through institutional efficiency on the structural level in the society, it is on this level (as opposed to the micro level) that CSR strategies have the greatest potential to contribute to development. Through examining the previous sections of the case study, it can be seen that many large and well-established domestic and international companies that are operating in the Indian context are engaged in one or several projects pertaining to community development. However, the scope of these projects is usually rather confined, both geographically to a predetermined location, which most often coincides with the area surrounding the factory, and in the sense that they offer limited expansion possibilities in terms of increasing the magnitude and the

number of the projects. Thus, the greatest potential to influence the development of the host country can be argued to prevail on the micro level. Examples can be drawn from the previous section of the case study: The health academy that has been initialized by one company is likely to indeed enhance the quality of life for the group of youths that participates in the project. However, only a fixed number of young people are involved in the project and it is unlikely to allow for vast expansion possibilities. Thus, it is improbable that this project, albeit successful, will contribute to development on a larger scale in the Indian society. Throughout the interviews for the case study, several examples of flourishing community development projects are presented, which indicates that CSR actually has the potential to be effective on the micro level in the host society. Companies and organizations alike confirm the success rate of the projects and claim that they can indeed contribute to enhancing the quality of life at an individual level in India. The interviewees also confirmed the limited range of the projects, which renders the projects unlikely to contribute to institutional change on a structural level. This will most probably lead to a rather constrained impact of the CSR strategies on the institutional framework of the society, and thus a quite limited development impact on the host country.

### Reasons for CSR commitment

Furthermore, the reasons for engagement in CSR suggest that it can be seen as an integral part of the business strategy, which could support the long-term nature of the strategies. None of the companies in the case study explicitly stated that their engagement in community development activities was related to any profit-seeking motives. When approached with the question of the reasons for their engagement, companies usually responded that their rationale behind their commitment to CSR included increasing employee wellbeing, and the importance of being seen as a caring and responsible employer by its employees. Companies expressed a wish that their employees should feel proud to work for the particular company. Other common responses included a social commitment as a natural aspect of their corporate culture and that the company board found CSR to be an important issue to which they felt a personal commitment. These answers are in line with the reasoning by the international business community, as found by for example Horn af

Rantzien (2003). In her study, it is suggested that the rationale behind international companies' commitment to CSR is to strengthen the relationship with the employees, suppliers and customers, a more efficient utilization of resources, increased good-will and a stronger "license to operate"

### Conclusion

As a conclusion of this case study, it can be argued that the development impact of the international companies' CSR strategies has a very complex character. The theoretical framework of the new institutional economics and the derived key assumptions, which have acted as the basis for the analysis, have been a valuable tool in evaluating and analysing the nature of the CSR strategies. Although all the companies are engaged in CSR, the profoundness of the commitment varies according to their experience and knowledge of the issue, and a lack of coherence among companies and stakeholders regarding the understanding of, and engagement in, the issue is evident. In its contemporary stage, the development impact of the CSR strategies can be seen as rather modest. Since the CSR strategies have been found to have the greatest impact on the micro level in the host society, they are unlikely to contribute to changes of a more structural character. Moreover, the international companies show only partial adherence to the institutional framework of the host context, which could also limit the development impact since a coupling of the formal and informal norms in society is then unlikely to take place. It was also doubted whether the CSR strategies actually reached those in the greatest need of development assistance. Hence, the contribution to institutional efficiency and thus development can be seen as limited, and it cannot be completely confirmed that the supply of CSR strategies actually match the demand for them among the stakeholders in the host society. However, the CSR strategies were argued to actually have contributed to certain improvements in working conditions, albeit on a micro level, which could be attributable to the system of monitoring and enforcement. From the case study, it can be concluded that the concept of CSR should not be seen as the main driver for development in the host context at present. The most important contribution can be argued to be that CSR has made an important contribution to the redefinition of the relationship between

business and society and to the highlighting of the obligations of corporations that extend beyond short-run profit maximization. However, it is important to remain aware of the limits to CSR and not overestimate its significance in the international business community. CSR is still a relatively recent amendment to the international corporate agenda, and considering the importance that it has gained during recent years; its importance is likely to increase even further in the future. From the previous focus on corporate philanthropy, more and more companies are adopting a more strategic approach to CSR, where it constitutes an integral part of the long-term business strategy and where the commitment has moved beyond passive philanthropy towards a more active engagement. This indicates that the importance of CSR will increase even further in the future and that its development effects will probably become more pronounced as the experience and knowledge of CSR increase.

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