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## Mandatory CSR – A Strategic Opportunity

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### **Abstract:**

**Objective/Problem:** This paper examines corporate social responsibility in developing countries and the rationale behind the enactment in India related to the topic. **Design:** Conceptual Paper. Based on the study of IIM Udaipur with respect to lack of CSR talent and the scope of contribution, this paper proposes a framework for effective CSR implementation through the model of intrinsic CSR orientation on the part of both - organization and its members. **Findings:** The paper suggests that the mandatory corporate social responsibility be viewed as an opportunity by corporations to approach CSR more strategically. **Conclusion:** Using the framework, an empirical study of pace setting organizations is suggested as a part of future research.

**Keywords:** 1 India CSR Mandate, 2 Intrinsic CSR, 3 Strategic CSR.

## **Introduction**

### **CSR & its research in Developing Countries:**

Corporate Social Responsibility globally started becoming popular as a line of inquiry from 1970s (Carroll, 1999). Since then, the literature is built with studies of different forms under the theme of content (with respect to social, environmental, ethical, stakeholder), analysis (global, regional, country, sector, individual) and knowledge that is theoretical (normative or otherwise) or empirical (quantitative, qualitative, experimental). Given the significance of the drivers of CSR, such as culture and economic priority, research that popularly applied to developed nations requires a different emphasis in the context of developing countries. Accordingly, from 2000, a focused research on developing countries started evolving – either on specific countries (Jamali, 2007, Idemudia, 2011) or generalized (Frynas, 2006). Most of these studies also had heavy reliance on convenience-based case studies or specific incidents of individual companies.

Most developing countries in the world are often caught in dilemmas of addressing deep inequalities at one end and sustaining or enhancing economic growth at the other. These are often issues of job creation versus standard of labour, strategic CSR versus governance, development versus environment (Visser, 2008).

### **India's New Companies Act, 2013 - Section 135:**

India also had similar tensions like that of its peer nations on the need for investments and through it to address its developmental need. However, India is in a much better position to sustain both growth and stability than many of its Latin American counterparts (Zile, 2012), primarily due to India's demographic dividend in its favour contributing to the economic growth. The CSR mandate in the Indian Companies Bill is unique, and the first of its kind for a big economy (Rangan, 2014). While government in countries like France, Holland, Norway have instituted mandatory CSR *reporting*, this is the first time in the world history that a government had mandated CSR *spending* for the majority of companies. The two major arguments in favour of Indian government mandating CSR put forth by Van Zile (2012) is that in spite of their intentions, companies in markets that are known for stringent competition are constrained to not encourage CSR expenditures as this involves firstly, an up-front investment which is often characterised with not-so-clear returns that cannot be exactly measured and secondly, countries like India are desperately in need of funds for development. mandatory CSR spending was Indian government's answer to address this inequality. The decision received acceptance and criticism from sections of society in both the worlds of theory (Desai, *et al.*, 2015) and practice (Prasad, 2014).

Whether the issue is about reporting or spending, the intention of the government was to look at it as a 'relational CSR' – a partnership among Government, Business and Civil Society (Albareda,

2008) under its National Business System. With the problems of economic development, being similar in most developing countries, if the Indian model of development proves successful, it would be one of the approaches for other countries to emulate. With the current mandate on the CSR spending, the two percent corpus is estimated to bring India in line with CSR expenditures in the United States (Zile, 2012) and the magnitude is expected to range between Rs.20,000 to Rs.25,000 crore (Rai and Bansal, 2014) or much larger (Deodhar, 2015). In parallel, discussions on capitalism also demand the repeated questions on the role of Industry as economic agents, where the convention is shifting with the definition of the scope of business as 'profitability with responsibility'. This focus on purpose of business recognizes the interdependence of business and society – each being dependent on the other for survival (Hollensbe, *et al.*, 2015). Given the benefits associated with these powerful connections of change, it is important for both the government and the corporations to make it successful to see the full impact.

All of these raise interesting questions for scholars. First, now that the Indian government has taken a well-deliberated decision, how is the perception captured in literature over the last two years from the announcement of the new Act in August 2013. Second, is the corporate India ready to take-up the responsibility? Third, if success of this first-time initiative is critical from the perspective of being a pilot decision in the world of CSR, is there an available framework that guides successful implementation?

In this paper, we seek to answer these questions by drawing on insights from two bodies of literature, one that examines the current literature on CSR in developing countries and on the recent Indian Government mandate and the other from the literature on motivation in organizational behaviour. Generally, what is important about this is that literature on organizational behaviour focus on how organization and its members are motivated to discharge their responsibility and this would act as a guide in CSR implementation.

The paper proceeds as follows: Having given the background behind Indian Government approach to CSR, we analyse the literature and industry reports on the new provisions of the Act. By studying this large development closely at an early stage, we help to highlight an important blind spot of non-availability of a ready framework and recommend a matrix based framework that would guide corporations at an early stage of the mandate to make an effective process change. Also, studies in the past (Campbell, 2007; Matten & Moon, 2008) seem to have ignored the intrinsic determinants of socially responsible corporate behaviour such as motivation and organizational climate and culture, which we have attempted to ignite.

This article is organized as follows. First, we briefly reviewed and linked the literature in CSR in the developing countries with reference to India particularly with the enactment of Section 135 in the new Companies Act, 2013. Second, to check the corporate India's readiness, we studied the progress in implementation of Section 135 through CSR literature post enactment and the

recently completed study – the only comprehensive literature available in this aspect - conducted by IIM Udaipur – The Economic Times that rated India's Best Companies on CSR 2014. Third, we recommend a 2x2 matrix that provide a framework for implementing CSR.

**Literature review:**

**Literature on the New Act:**

Deodhar (2015) discussed the CSR norms and the kind of activities a company need to engage-in and covered the scope under the channels of CSR spending as per the categories discussed by Rangan, Chase and Karim (2015), namely i) philanthropy, ii) operational efficiency, iii) transforming business. Confederation of Indian Industry's Development Initiative Council in collaboration with Pricewaterhouse Coopers(2013) published a handbook on CSR in India encompassing the CSR processes that involved developing the CSR strategy and policy, operationalizing the institutional mechanism that included the tools, technical guidance and the standards to be used. Rai and Bansal Study (2014) carried out an analysis of CSR expenditure by top firms with respect to the size of the firm and types of CSR activities across ten major industries. Desai, Pingali and Tripathi (2015) in their experimental evidence study observed that that the amount of CSR spending reported was lower particularly when the minimum 2% rule was imposed compared to when it was not mandated. Given the criticality of the decision with respect to a) magnitude of money involved, b) first time mandate in a large economy and c) April 2015 marking completion of the first financial year closure of the new Act covered in the Annual Reports of corporations, it is important to evaluate how the corporations have received the government decision and if not well embraced, what could be an appropriate model to institutionalize CSR across businesses in India.

**Indian Institute of Management, Udaipur (IIMU) - Evaluation Study:**

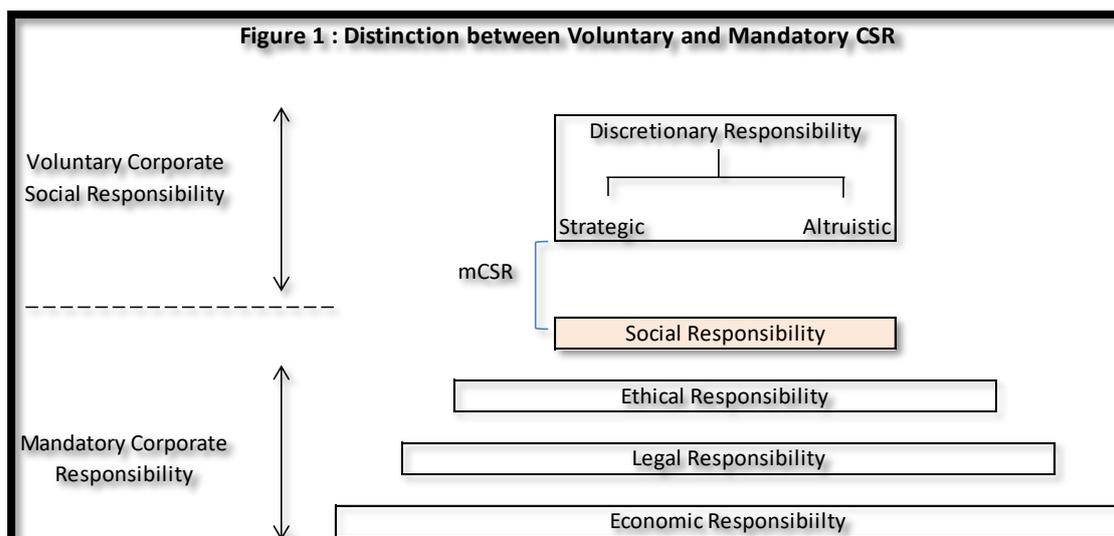
A comprehensive research evaluating corporations after the new law, is the IIMU – Futurescape study published in the Economic Times that selected India's Top Companies on CSR 2014. This study analysed the annual reports of 2012-13 which was the early stage of enactment. Of the four key dimensions in the IIMU Study, the scores against each dimension for the companies that scored above 50% performance are governance – 51%, disclosure – 33%, *sustainability -27% and stakeholders -20%*. It was observed that the companies were not taking comprehensive action to address sustainability related risks and opportunities. There were negligible set of initiatives related to supply chain and logistics. CSR was limited to companies operations and *not extended to other channel partners/customers/stakeholders*. These observations give us an initial indication that the progress made in CSR implementation after the enactment is not encouraging. The Guidance Note released by the Institute of Chartered Accountants of India, provided clarity only on the accounting for expenditure on CSR not on the framework.

Overall reviews of literature reveal that post enactment studies are limited in numbers and also in context. These are experimental studies or study of CSR spending or CSR practices. This reflects in the debates corporate India had on 'why the mandate' and how this may curb the voluntary CSR (The Hindu, 2013). The discouraging trend could be due to India Inc., still being confused with the Mandatory Corporate Responsibility (ethical/legal) and Voluntary CSR (social).

### **Mandatory Corporate Responsibility & Voluntary CSR:**

In India, where at least one-fifth of citizens live in poverty and where the public health and education systems are majorly dysfunctional, the fund for development is more desperately in need (Zile, 2012). Therefore, India's CSR proposal capturing the best aspects of both the voluntary and the mandatory approach to CSR, with government harnessing the financial as well as managerial/intellectual might of the corporate to address various development issues of the country.

The understanding of CSR is grounded in the context of social responsibility that is voluntary. The concept is explained well in Figure 1 (Jamali, 2007) illustrating the scope of responsibility by corporate. By mandating social responsibility of corporate that are large enough by way of revenue or profits, the Indian government has pushed a large part of social responsibility of business in the lower block of Mandatory Corporate Responsibility. However, it is left to each individual company as to how they wish to spend the allocated CSR funds – in strategic or altruistic fashion. Strategic CSR is a conscious attempt to build the connection and align the company's business objective and its social contributions whereas altruistic CSR is supporting initiatives that are far from its mainstream business. If well planned, strategic CSR helps companies to maximize the value, provide direction for the high level of investment of resources with respect to fund and people and the supporting actions, and this can open up the endless potential to look at profitability and responsibility in the same platter (Porter and Kramer, 2003). This approach also sets the purpose of business from the broader society perspective which would include broader goals such as "making a difference" or "improving lives" or "reducing harm" answering the question "why a society provides the license and freedoms for a business to operate, and what conditions are necessary for those freedoms to continue" (Hollensbe, 2014). It may be argued that corporations should embrace mandatory CSR for its opportunity to be part of the larger change and identify projects such that it provides strategic benefit, though the trigger is compliance to the new Act.



Source: Jamali, 2007, Social Responsibility(mandatory CSR) added

**Sensemaking and CSR:**

The roadmap captured in the IIMU Study evaluating CSR observed disconnect between challenges and action, where the challenges are understood and the desire is to ‘do something’ but the implementers were observed to be confused about what that ‘something’ should be. So while every organization studied had a high opinion of their own performance, a closer look has revealed existence of fundamental gaps (Majmudaret.al, 2014). This leaves scholars with an understanding that being the first larger attempt by a developing economy and an absence of a clear understanding of ‘how’ to make the Strategic CSR work, can lead to ambiguity and complexity in CSR implementation. In organization related studies, this issue of ambiguity and complexity are often answered through sensemaking theory. When faced with unclear goals and related chaos, employees look for clarity through explanation (Weicket al., 2005). Sensemaking as a process is described as the way in which one creates an understanding for oneself when met with uncertainty faced by confusing events or situations, particularly when these are not of our own making (Tamsin A.L., et al., 2010). In the absence of a ready framework for implementation and therefore, the related ambiguity in CSR implementation, the only way employees will understand CSR orientation of corporations is through sensemaking. Accordingly, it can be said that senior management actions set the pace for CSR orientation.

Through actions and words, senior management personnel shape the understanding of what the company values (Albert and Whetten, 1985; Dutton et al. 1994). Manager as a key stakeholder has also been emphasized in various literatures including those in CSR (Donaldson and Preston, 1995; Hill and Jobes, 1992). Williamson (1985) recognized managers as one of its most important and powerful constituencies among all stakeholders. Korschun (2014) argued that employees who are conscious of the views of senior management factor this into the way they approach their job and this may extend beyond the core job design and include the CSR activities

undertaken by their respective companies. This is noticed by employees when the leaders commit themselves through their actions that demonstrate support for the company's social responsibility practices.

It is important to understand sensemaking in this context because when the senior management orientation to CSR is observed in the firm, the employees who identify with the organization through the sensemaking process adopts to the observed workplace behaviours (Hekman *et al.* 2009) and are generally, motivated to support the organization (Drumwright, 1996; Hughes and Ahearne, 2010), as they see it as a way of life. With the increase in CSR importance to employees, CSR activities pursued by their corporations become more self-relevant (Gaertner *et al.* 2000; Korschun, *et al.* 2014). Motivation for engaging in such Voluntary CSR, is thus driven by self-interest than by an external force (Moon, 2001), which is the intrinsic urge to make the difference either as a part organization which embraces CSR in its activities or its members who absorb it through the process of sensemaking.

#### **Intrinsic Motivation and CSR:**

In their study to examine the relationship between management's view on CSR and actual CSR efforts of the firm involving 111 Dutch firms, Ven de Vanand Graafland (2006), observed that the intrinsic motive drives a stronger involvement in CSR than the extrinsic motive. Literature on motivation in general management also clarifies that when intrinsically motivated a person is moved to act for the fun or challenge involving the action than externally driven reward or punishment (Ryan and Deci, 2000). For this to be sustainable, it is recommended that the CSR orientation should be intrinsic – both at individual and at the firm level. Based on the intrinsic or extrinsic orientation, the employees ally their orientation to the CSR efforts.

CSR has gained popularity as a concept (Crook, 2005) commonly signifying the responsibility of the corporation towards the society to its various stakeholders representing the tripartite concerns of 'people, planet, profit' (e.g. Cramer *et al.*, 2006) but its implementation as a "practice" is still seem to be 'black box' in the literature (Tamsin A.L, *et al.*, 2010).

For many corporates this shift to CSR strategic orientation is difficult and is multiplied by the dearth of CSR talent to create a long-term strategy that is scalable and well implemented. While thousands of jobs will be created because of the recent law in India, key CSR jobs at most levels lie currently vacant. Questions in these budding CSR departments in corporations include what causes are worthy supporting, how the efforts can be scaled up and how to implement the CSR initiatives without losing focus on core business activities. This paper recommends the framework to address the 'how' aspect of implementation using sensemaking, motivation constructs at the firm and individual level. By committing at the business strategy level using this framework, the leadership will be able to drive a CSR orientation across the organization by establishing the culture that is committed to CSR.

### **CSR: implementation framework**

Because there is difference in the way CSR is done among different organizations and because this may be influenced and governed by the orientations with which the corporations approach it and the sensemaking by its employees, we categorize these motivational drivers towards CSR in a 2x2 framework. This framework will not only organize these approaches but also will highlight their interrelationships and provide implications in achieving the strategic CSR objective.

#### **Dimensions of the Framework:**

The categories presented here are derived by combining two independent dimensions: a firm-individual dimension and an intrinsic-extrinsic motivation dimension. It is not assumed that these are the only organizing dimensions that may be identified. The dimensions identified in the present framework appear to be useful one for organizing key drivers of CSR performance from the implementation point of view.

##### **Firm-Individual dimension:**

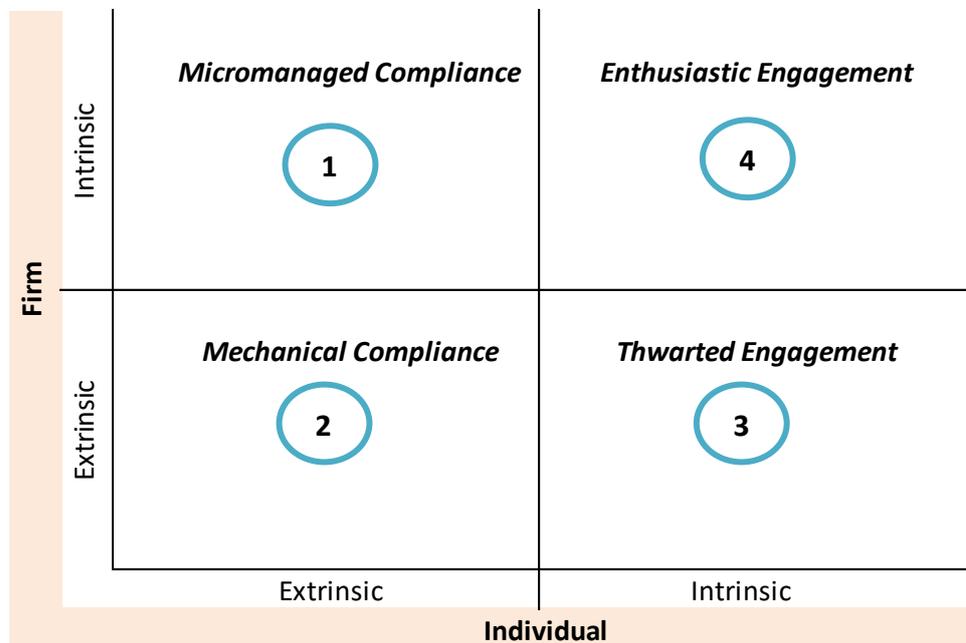
The firm-individual dimension was suggested in the Organization Theory literature where the firm's behaviour is viewed as a collective behaviour of individual employees of the firm. The cognitive structures that shape collective behaviours are collections of individuals such as teams, divisions of organizations, and entire firms (Brymer *et al.*, 2011, p.127). While the individual behaviour determinants are well explained in literature, the firm behaviour can also be a summation of behaviour of all the people in them that in turn defines the organizational direction (Schneider, 1987). This is also conceptualized as a fit between individual and organizational values (Person-Organizational fit) that drives an employee's commitment and preference for a particular kind of employer (Sen and Bhattacharya, 2001).

##### **Intrinsic-Extrinsic dimension:**

This dimension was inspired by the motivation theories dealing with the drivers of employee behaviours being, intrinsic-extrinsic. (Ryan and Deci, 2000). People's willingness to seek contacts with the organization and demonstrating organization citizenship behaviours are triggered by stronger organizational identification (Sen and Bhattacharya, 2001), that can be inferred as being intrinsic rather than being extrinsically driven.

**The Framework - Identifying behavioural outcomes in 4 Quadrants:**

It is assumed that the firm-individual dimension and intrinsic-extrinsic dimension are independent of each other, thereby yielding four distinct classes of behavioural dispositions when the two dimensions are combined. Figure 2 below organizes these approaches.



**Micromanaged Compliance Quadrant:** In this quadrant 1 when the firm is intrinsically motivated to CSR and the employee is extrinsically driven, the employees follow the rules and executes from compliance perspective. This model requires a strong control and review mechanism and micro-management to monitor progress. The vibes of genuineness are normally not felt by the society and other stakeholders for whom it is intended as managers may not be sharing the social concern of the organisation. Manager do not appreciate the genuineness in the efforts by the organization and do not connect with the company’s CSR orientation. These are employees who are not ‘cut’ for the company and are typical misfits in organizational culture that is oriented to CSR. Most likely, in such organisations, with its strong belief system (that is, prevailing social norms) regarding creating social “good” apart from profit, will ensure that those who do not fit the culture auto-exit from the system (Chatman and Cha, 2003). These are wrong-hires. Norms act as means to ensure conformity – both positive and negative - and also applies sanctions to deviant behaviour. Under these circumstances, it would even be appropriate to exit non-compliant employees.

**Mechanical Compliance Quadrant:** In quadrant 2, where both the organization and the individual are only extrinsically motivated and do it for the purpose of compliance. These are pure capitalist enterprises who have consciously hired self-centered individuals in its workforce who are shrewd career managers focussed towards growth at an individual level. These

organizations and individuals are engaged at the instrumental and transactional level. These relations do not last long. In current scenario of co-existence, these organizations tend to collapse. These are organizations whose approach to CSR is either a response to situation or responsibility mandated by the regulators. These organizations also see the mandate as burden. However, the downside of this approach is that with increasing scrutiny by media and civil society, the pure capitalistic way of doing business is likely to encounter higher levels of criticism that eventually will only endanger their existence. In today's world, the general trend is increasing inclusiveness and connectedness with the society and inclusiveness is manifested in corporate responsibility (Van Marrewijk, 2004).

**Thwarted Engagement Quadrant:** wherein this quadrant, the firm is extrinsic and employee is intrinsically motivated towards the CSR contribution, the sensemaking does not apply or in fact, discouraging. Frey and Oberholzer-Gee (1997) explains that a person perceives external interventions as controlling or even suffocating and, as a result, their intrinsic motivation reduces gradually with repeat failures. Intrinsically motivated individuals act on the choice if they observe that the organization has a value-based orientation to their management system, and less likely to act so if they observed that the organization places high emphasis on arguments that are instrumental or uses a solely control-oriented management system (Ramus & Oppegaard, 2006). Employees in organizations in Quadrant 3 will give themselves more time to wait and see the organizational approach and if unaddressed within a defined time-frame, will leave such organizations (Premack & Wanous, 1985; Schneider, 1987). On the other hand, employee engagement in CSR is observed to influence organization pride that is negatively related to intention to quit (Bhattacharya, C.B, *et al*, 2008).

**Enthusiastic Engagement Quadrant:** Studying this quadrant 4 is the key for our discussion as this being an ideal position this can be defined as 'Powerful Combination'. These are often organizations who are trend setters or 'Pace Setters' as identified by the IIMU Study (Majmudar, *et al*, 2014) who have high CSR scores and reaping rich rewards out of their CSR investments. These organizations most times are observed doing more than the required CSR as they genuinely want to make a difference. 'Powerful Combination' in quadrant 4 indicates that both the organization and the individual members are intrinsically motivated towards the social responsibility through sensemaking. Basu & Palazzo (2008) studied CSR through the eyes of sensemaking - including motivation for CSR as a fundamental demonstration - as a feature that represents general organizational character. Thus, it is important for corporations to see the strategic opportunity and be the initiator of the sensemaking process. Both Sethi (2003) and Dando and Swift (2003) have indicated the potential for ongoing CSR behaviour among firms that view it as important in strategic terms, that are culturally attuned to responsible behaviour, and that are equipped with requisite systems to support successful implementation. The organizational reputation of 'being caring' increases the organization's capability to attract and retain talented individuals, and thereby, such organizations making its initial steps towards

becoming the employer of choice. The decisions regarding CSR activities are in fact made by such managers based on their sense of who they are in their world. As described by Pfeffer, “What we do comes from what and how we think” (2005: 128) (Basu& Palazzo, 2008).

Companies who operate in Quadrant 4, with an intrinsic motivation at the firm level where CSR is the way of life, will be able to attract more people who are also intrinsically motivated to CSR. This is well supported in organizational choice literature where people choose organizations that give their valued outcomes (Neiner& Owens, 1985).

Regardless of the types of outcomes desired by organizations or their stakeholders, sustainability (i.e. the initial stability of the output and the continuous effort by the persons involved) has emerged in the literature as an important aspect of CSR impact. Quadrant 4 develops as a ‘Powerful Combination’ when walking the talk and the alignment between thought process and communication act as a base for a strong relationship (eg. Trust and reciprocity) reflecting an intrinsic character of persons involved (Ciulla, 2005). For CSR to be sustainable and be a Pace Setter, “enthusiastic engagement” is the answer.

#### **Evaluation and discussion:**

The framework presented here serves two most useful functions: (i) It clarifies the conceptual interrelationships among the dimensions that impact CSR implementation (ii) recommends an approach through which organizations can use the government mandated opportunity in building their strategic CSR position.

According to Indian Institute of Corporate Affairs, over 6,000 companies across India will be required to take-up the CSR projects for complying with the applicable provisions of the Act, 2013 with many of them undertaking the initiatives for the first time (PwC-CII Report, 2013). For many corporates this level of strategic shift is expected to be difficult and is multiplied by the absence of required CSR talent. The skills, unique culture, and more importantly the intrinsic ability of Indian companies to innovate are expected to establish their brands as responsible corporations sensitive to society (Majmudaret *al.*, 2014).

This paper is an effort to provide answers the last two questions. As organizations build this talent, it is important to weave it in the way business is currently done. This will help corporations synergize the efforts to build HR Systems that will facilitate effective implementation. For example, selection process tools can be built to filter candidates with the social bent of mind, building employee evaluation tools and reward systems that recognizes employees sensitive to society and all stakeholders than rewarding only financial performance, designing training that emphasizes organization values that elaborates the CSR orientation. By what organizations support through rewards and recognition and set expectations, it indicates what are imperative for organizational effectiveness. This then, becomes a part of Organizational

Culture (Schneider, 1987). Organizations who master these capabilities of intertwining CSR to the organizational way of functioning are those who would typically be the Best companies in CSR. It is not a surprise that the Top 5 ranked India's Best Companies in CSR are the house of businesses known for philanthropic and voluntary CSR even before it was mandated (the Tata Group Companies and Mahindra).

Many developing nations, though have similar challenges like that of India, may have a few dimensions that are macro-economic factors such as growth rate, industrial employment, workforce demographics, that would limit the recommendation of this study to its applicability more in India and its neighbours. Future Research in the field can involve empirically studying the organizations that are identified as Pace Setters with respect to the dimensions discussed here and how the business processes in these organizations have factored this CSR orientation.

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