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Abstract

Purpose – The purpose of this paper is to emphasize the importance and means of making corporate social responsibility (CSR) an integral part of corporate strategy with the help of case studies.

Design/methodology/approach – The article explores the transformation of business from being egocentric to socially responsible. With the use of examples it demonstrates how integrating CSR into strategy can create sustainable business models.

Findings – Firms need to develop a framework for integrating CSR into their business strategy for long term successful survival.

Social implications – Corporates and society are intertwined and mutually dependent. Business cannot survive without society's acquiescence nor succeed without its active support.

Originality/value – The article explains the benefits of CSR and how to make it an integral part of business strategy to gain a competitive advantage.

Keywords Corporate social responsibility, Sustainability, Corporate strategy

Paper type Conceptual paper

Born out of compulsion

With every corporate scam, governments across the world add few more regulations. The corporate failures in the UK and the USA in the early 1990s gave birth to stringent corporate governance regulation. Regulations limit but are unable to prevent corrupt practices. Every time you put an extra or more sophisticated lock, the thief finds even more innovative ways to steal. There is a universal realization the regulation alone cannot ensure good governance and protection of stakeholders' interest. It is essential that corporates run their business transparently and ethically and weigh the interest of all stakeholders while taking decisions.

Corporations being citizens, have a responsibility to the society and/or country in which they operate. With the growing concern for protection of environment and development of all sections of society, governments are increasingly expecting companies and other organizations to shoulder their share of responsibility. Environmental laws and regulations are being put into place to prevent global warming, pollution, hazardous waste emissions and to ensure that business activities do not cause harm to society. People are willing to do their part also. A 2010, survey of CoreNet Global and Jones Lang LaSalle results reveal that real estate industry is struggling to reduce environmental impacts of buildings while simultaneously control costs and support corporate financial performance. (CoreNet Global/Jones Lang LaSalle Sustainability Survey, 2010).

Key findings of the survey include:

■ Sustainability is a critical business issue today for 64 percent of respondents and 92 percent consider sustainability criteria in their location decisions.

- The number of respondents willing to pay more for green leased space jumped from 37 percent in 2009 to 50 percent in 2010.
- 31 percent of corporate executives ranked employee productivity and health as their top sustainability concern, and an additional 11 percent rated employee satisfaction as the most important factor.
- Respondents still focus on energy efficiency program (65 percent) and waste recycling (61 percent).

Colossal corporate attention to ethics, governance, and CSR has hardly been proactive or voluntary. Instead it is a reactive response compelled by regulation and public outcry. The consumer boycott faced by Nike in the late 1990s in the USA over abusive labor practices of sub-contractors in Indonesia, which forced Nike to take corrective action, is a case in point.

World growth in population, increasing agricultural production, urbanization of rural, rapid industrialization and climate changes is expected to create acute fresh water shortage in the near future. This is compelling companies to strategically plan their business models and production processes to deal with this. For examples decisions regarding location of plants in China on account of cheap labor may have to be reconsidered as the Himalayan glaciers that feed the rivers in China is rapidly melting due to global warming.

Corporate narcissism to altruism

Traditionally and particularly in the Anglo Saxon approach it was assumed as Milton Friedman (1970) puts it ''the business of business is business . . .the social responsibility of business is to increase its profits.'' The objective of companies was to generate profits and create value for shareholders. Wealth maximization of shareholders was the prime motto of firms.

The argument put forth later was that companies have a duty to be good citizens and ''to do the right thing''. They have a moral responsibility to give away some share of their seemingly huge wealth to the poor and weaker sections of society. Charity became a fashion. In the name of ethical and social behavior philanthropy became a corporate obligation. However, one can question the right of a board to give corporate funds to charity, which rightfully belong to shareholders and could have been given as dividends or reinvested into the business to create more wealth for them. Implementing governance practices and CSR activities were considered distinct from the business and an additional burden and cost to the firm.

Cost to benefits

The debate concerning ethics, good governance and CSR is now shifting from costs to benefits. The immediate and obvious benefits are strengthened public relations, improved reputation, reduced risks, licence to operate and an opportunity for cause marketing. A national-level study on CSR among leading business and corporate houses and public sector organizations carried out by TNS India and the Times Foundation in India (2008) found that 90 percent of the companies are involved in CSR initiatives up by almost 50 percent from 63 percent in 1991:

> For most companies, CSR was a way to improve the public perception of the company, and over half of them do so to brand the company among the people. Only a tenth of the organizations said that they are into CSR because it is mandatory, and just about two-fifths of them do it for tax exemption.

Reputational Capital is based on the company's relationship and trust with its external stakeholders – customers, suppliers, creditors and investors, and is reflected through its goodwill, image, brand equity and customer loyalty. It is well accepted that a strong reputational capital is what distinguishes winning companies from the rest. Companies known for ethical behavior are able to create value by establishing a more open and trusting relationship with their stakeholders. It's a matter of choice. Each stakeholder chooses on the basis of trust (see Table I).

Table I	Critical choices based on trust	
Provider of choice		Customer
Employer of choice		Employee
Investment of choice		Shareholder
Partner of choice		Supplier
Business of choice		Community
Complier of choice		Government
Source: Adopted from Bill Velentio (2006)		

CSR activities help strengthen public relations and win the trust of society. As far back as 1994, in a survey conducted by Cone & Roper 84 percent of the respondents said they had a more positive image of a company if it is doing something to make the world better. As seen in the case of Nike unethical practices and lack of concerns for all stakeholders can put the company at risk. While legal compliance grants explicit permission, being ethically responsible to society offer companies implicit licence to operate.

Eight in ten Americans have a more positive image of companies that support causes they care about and acceptability of cause marketing was as high as 74 percent. (Cone/Roper, 1999) Cause-related marketing is a powerful marketing tool created by a mutually beneficial partnership between a profit making company and a non-profit organization where the non-profit organization leverages the financial resources of the company and its customer base to enhance its ability to reach a large audience and the company is able to create a healthier public image, improved customer relations, and new marketing opportunities. NDTV in 2008 launched the ''Save the Tiger'' signature campaign supported by Sanctuary Asia and Kids for Tiger asking for urgent action to be taken to save the country's national animal. A petition to save India's tiger, signed by close to 500,000 people from across the country was submitted to the Prime Minister. The aim of NDTV's public campaign was that leaders and politicians should see the urgency of the problem and declare an emergency to save the national animal from extinction. In 2010 through a 12-hour save our tigers telethon NDTV raised Rs 5 crore to set up tiger task forces in key reserves across the country – a force that can respond to any emergency. To implement this on the ground they had a dedicated partnership pledge from the Wildlife Conservation Trust (WCT). NDTV was able to involve mega stars like Amitabh Bachchan to create awareness and gain mileage for the campaign. (Adopted from Save our Tigers (2013)

CSR activities impact the financial performance for companies. A study of 25 companies that excelled in managing relationships with five types of stakeholders: investors, customers, employees, suppliers and the communities in which the companies operate ''outperformed the S&P 500 by 126% over the past 15 years. The total shareholder return for these companies was 43%, while the total shareholder return from the S&P 500 was only 19%'' (Weiser and Zadek, 2001).

Not so strange bedfellows

Corporations are private initiatives, true, but increasingly they are becoming public institutions, whose survival depends on the consumers who buy their products and shareholders who invest in their stocks (Paul, 2006).

This was appreciated by Mahatma Gandhi even in those days. He said:

> A customer is the most important visitor on our premises; he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.

Organizations and the society they operate in are intertwined with each other. Companies need healthy, qualified, trained and skilled workforce. This calls for education and health care for the people. Efficient and effective use of resources – land, water, energy and other natural resources increase productivity and lower cost of production. Safe products at

reasonable prices attract customers and generate revenue. Societies that are imbalanced and unhappy create disturbances and causing disruptions and losses to business. Strong societies, that provide equal opportunities and a good standard of living, demand products and services that companies provide. Government action against companies or activists' back lash can seriously hinder the firms' business activities and profits.

Firms now understand their dependence on society. Political or economic instability in the society they operate can be detrimental to them. Resource utilization must be efficient and not exploitive so as to harm future operations. Competitive business requires efficiency, optimal use of resources and maximizing effectiveness of operating systems. Achieving their objectives and long term survival is subject to social and environmental sustainability.

While firms have realized the need to run their business ethically and responsibly, they are not sure how to go about. They have responded to these issues by framing fancy codes of conduct for their employees, setting up large number of board committees and giving money for philanthropic work. These are showcased in CSR reports and media campaigns.

Cosmetic to strategic

While the response to demands for ethical and responsible behavior by companies has mostly been cosmetic, organizations need to appreciate that ethical behavior, good governance and CSR can be integrated into the companies' strategy right from the beginning to create winning models. The Amul success story is one such glaring example (see Exhibit 1 ''Amul the taste of India'') ''The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities.'' (Wood, 1991) CSR, as an integral part of corporate strategy improves stakeholder perceptions and create sustainable business.

Cutting edge innovation and competitive advantage can result from incorporating social and environmental concerns into business strategy. Social and environment causes can in fact be converted into business opportunities. Amul did just that. C.K. Prahalad (2010) in the *Fortune at Bottom of the Pyramid* suggests that the poor people (which are about 4 billion globally) can be a great source of new business providing a huge customer base. The success of Grameen Bank in Bangladesh has made micro financing a business of huge profits. The model has been replicated in India and many other parts of the world. Firms by involving NGOs, civil society organizations and local governments like Panchayats and Zilla Parishads can access the poor and create new business models of success. Prahalad suggests 12 principles of innovation for converting opportunities at the bottom of the pyramid into fortunes for companies. These include appropriate pricing, scalability of operations across cultures and languages, eco-friendly products that reduce resource exploitation and distribution methods appropriate for both urban and rural markets.

Developing a strategic framework

In 1985 Tata Tea originated the selling of polypack tea in India with the concept of *Asli Taazgi* indicating fresh tea straight from the garden. In the last several years it has beautifully integrated its brand building strategy with CSR. Its advertisement *Har Subah Sirf Utho Mat, Jaago Re.* (just don't get up, awaken) not only captures the imagination of viewer but sends a message of ''social awakening''. In 2009 it extended the notion to awaken people and fight against corruption with its *Aaj Se Khilana Bandh, Pilana Shuru* (no more feeding, but serving drink, while *khilana* literally means feeding is metaphorically used for giving bribes) marketing promotion where a person asking for bribe is instead served a cup of tea.

An equally powerful example of integration of CSR activities into the brand building strategy is that of ''What an Idea Sirji!'' (see exhibit) (Media Newsline, 2008) where through innovative ideas mobile phones are used as an instrument to solve socio-economic-political problems. As firms understand the need to integrate CSR activities into business strategy they must develop a strategic framework that makes CSR an integral part of the business model. Integrating CSR into business strategy requires firms to:

- *Identify overlapping areas*. Every activity of the firm directly or indirectly affects the stakeholders. For example wages and working conditions define the living standards of the laborers. For an agro based industry supply of right quality and quantity of raw material is essential. This means that farmers must be in a position to supply. Identifying the areas of common interest requires analyzing the business and its environment from a new perspective.

- *Determine its competitive advantage*. Companies should determine what their competitive advantage is going to be and how they want to achieve it. Accordingly appropriate CSR activities are to be selected. If skilled computer and software engineers are going to be the strength of an IT firm, it could support a software engineering college. They could be involved in designing curricula, providing summer internships and imparting practical inputs. The company would then be able to source its fresh recruits, who would naturally suit the company's requirements, from this college.

- *Decide its CSR activities.* There are millions of social and environmental issues that a firm can undertake. Companies must select those issues which interlock with their business interests and create a competitive advantage for the firm. For example a rice processing and selling company should address issues of farmers growing and selling rice. This would help the company get its raw material at the ''right price, quality and quantity''.

- *Integrate CSR activities into business*. Once an activity has been selected it must be made an integral part of the business model. The rice processing company's business model should include training farmers; providing access to seeds, fertilizers, irrigation etc; removing middle men and greater market opportunities to them.

- *Make it a corporate social agenda*. The CSR activity should become a constituent of the firms' vision and mission. Supporting the selected activity should be embodied into the culture of the organization and an essential responsibility of all employees.

A potent illustration of integrating CSR into corporate strategy is the e-chaupal launched by ITC Ltd. ITC is one of India's foremost private sector company rated among the ''World's most reputable companies'' by Forbes magazine. ITC has a diversified presence in cigarettes, hotels, paperboards and specialty papers, packaging, agri-business, packaged foods and confectionery, information technology, branded apparel, personal care, stationery, safety matches and other FMCG products. It is one of India's largest exporters of agricultural goods. ITC ''conceived e-Choupal as a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis. The e-Choupal model has been specifically designed to tackle the challenges posed by the unique features of Indian agriculture, characterized by fragmented farms, weak infrastructure and the involvement of numerous intermediaries, among others. '' (Source: ITC, 2013)

With the use of internet, small and marginal farmers (mostly below poverty line) are provided with farming know-how and services, timely and relevant weather information, transparent price discovery and access to wider markets. E-Choupal has enabled farmers to strengthen their bargaining power, enhance productivity, get higher prices for their product and reduce risks. By directly sourcing the crop from farmers ITC benefits from reduced purchasing cost, (higher crop price but much lower transaction costs by eliminating middle man and multiple handling), assured supply of inputs, and quality raw material that meets food safety norms.

Conclusion

Companies are slowly learning that good governance and CSR are not something done out of choice, nor is it an added cost to company. CSR is a strategic driver of businesses. CSR orientated organizations gain from a series of tangible and intangible benefits by winning the confidence and support of all stakeholders. The long term benefits for a company integrating social aspects into its business strategy are enormous, such as reducing risk, retaining customers, shareholder support and attracting new investors. Firms need to develop a framework for integrating CSR into their business strategy for long term successful survival.

Exhibit 1

Amul: the taste of India

50 years after it was first launched, Amul's sale figures have jumped from few lakhs a year in 1966 to over Rs. 80,000 million a year in 2010. No other brand comes even close to it. Every day Amul collects more than 9 million liters of milk from 2.9 million farmers (many illiterate), converts the milk into branded, packaged products, and delivers goods worth over Rs 60 million to over 500,000 retail outlets across the country. ''Amul,'' from the Sanskrit *Amoolya*, meaning precious or priceless is a brand name managed by an apex cooperative organization, Gujarat Co-operative Milk Marketing Federation, (GCMMF), a dairy cooperative in India. One of India's largest food products marketing organizations it provides quality products at reasonable prices on one hand and protects the interest of the farmers and offers them remunerative returns on the other hand. It has contributed in making India the largest producer of milk and milk products in the world. Amul is the biggest brand in the pouched milk sector in the world. Amul's range of products includes milk, ghee, milk powders, curd, ice cream, paneer, cream, chocolate, cheese, butter, and shrikhand. Amul exports its products to roughly 37 countries including USA, Australia, Mauritius, China, Hong Kong, Singapore, UAE, and Bangladesh (see Table II).

It all started in the small town named Anand (in Kaira District of Gujarat, India) in December 1946 with a group of farmers keen to free themselves from the exploitation of intermediaries, gain access to markets and thereby ensure maximum returns for their efforts established the Kaira District Co-operative Milk Producers' Union. Milk is collected twice a day from each cow/buffalo. Producers had to travel long distances, physically carrying individual containers to deliver milk to the only dairy, the Polson Dairy. (monopoly rights given by government) The milk would often get sour, particularly in summer. As milk is perishable, they were forced to sell at whatever price the agents gave.

Angered by the unfair and manipulative trade practices, the farmers established the Kaira District Cooperative to collect, process and supply milk. It began with two village cooperatives and 250 liters of milk per day. Milk collection was decentralized, as most of the producers were marginal farmers who were in a position to deliver only 1-2 liters of milk per day. Village level cooperatives were established to organize the marginal milk producers in each of these villages.

The success of the dairy co-operative movement spread rapidly in Gujarat. Within a short span five other district unions – Mehsana, Banaskantha, Baroda, Sabarkantha and Surat were organized. In order to combine forces and expand the market while saving on advertising and avoid a situation where milk cooperatives would compete against each other it was decided to set up an apex marketing body of dairy cooperative unions in Gujarat. Thus, in 1973, the Gujarat Co-operative Milk Marketing Federation was established. The Kaira District Co-operative Milk Producers' Union Ltd. which had established the brand name Amul in 1955 decided to hand over the brand name to GCMMF (AMUL). The Amul Model is a three-tier cooperative structure. This structure consists of a Dairy Cooperative Society at the village level affiliated to a Milk Union at the District level which in turn is further consolidated into GCMMF at the State level.

Primitive market conditions and poor infrastructure proved to be an obstacle for marketing milk and its products. The cooperative started supplying high quality buffalo semen.

Table II	Amul statistics
Number of producer members:	2.9 million
Number of village societies:	15,322
Total milk handling capacity:	13.07 million liters per day
Milk collection (Total - 2009-2010):	3.32 billion liters
Milk collection (Daily average 2009-10):	9.10 million liters
Milk drying capacity:	647 Mts. per day
Cattle feed manufacturing capacity:	3,740 Mts per day

Through village society workers, artificial insemination service was made available to the rural animal population. They started mobile veterinary services to render animal health care at the farmers' doorstep. Improvements in animal husbandry and veterinary services saw production multiply, leaving farmers with surplus milk. Thus indigenously developed plants and processes were set up for producing milk powder and butter and later for condensed milk and cheese. Beginning with liquid milk, GCMMF enhanced the product mix through the progressive addition of higher value products while maintaining the desired growth in existing products.

With consumers in India, in those days, having limited purchasing power and modest consumption levels of milk and other dairy products, Amul adopted a low-cost price strategy to make its products affordable and attractive to consumers by guaranteeing them value for money. Managing the supply chain efficiently is critical as GCMMF's competitive position is driven by low consumer prices supported by a low cost system.

Today Amul's supply chain involves collecting milk from almost 3 million farmers spread across 15,000 villages and delivering milk and dairy products across the world. It collection process involves weighing the milk, determining the level of fat and calculating its price. Its delivery mechanism requires storing and processing 9 million liters daily and then distributing it across 500,000 retail outlets. Amul has come a long way from the time when farmers had to walk long distances to sell the milk. By a system of door to door collection and multiple collection centers it has built an efficient collection channel. Amul has introduced electronic automatic collection system across its many collection centers that weighs the milk and measures the fat at time of delivery. Payment is immediately made to farmers. Chilling units have been set up at the village cooperative society levels to prevent the milk from turning sour. Once the milk is processes it is sent from warehouses to wholesalers, who distribute to retail outlets and home delivery contractors.

A movement in dairy corporative, its success has established it as a uniquely appropriate model for rural development. In the last 15 years its turnover has multiplied more than seven times from Rs. 11140 ($ 355) million in 1994-1995 to Rs. 80053 ($ 1700) million in 2009-2010.

Some of the reasons for its success, particularly in the early ages were:

- Self-motivated farmers (in fact they had no other choice, it was a do or die situation).
- Support from top government leaders.
- Democratic setup of the cooperative where management committee was elected.
- Education and training of farmers.
- Support services like animal husbandry, animal feed factory helped farmers.
- Everyone in the villages, rich and poor, educated and illiterate came together for a mutually beneficial cause.
- Committed to purchase all the milk produced by members.
- Marketing through word of mouth.
- Indigenous designed processes.
- Developed an efficient and cost effective supply chain.
- Created means of livelihood for millions in thousands of villages.
- Did not disturb the socio cultural system of the region.
- Did not harm the environment.
- Delivered quality product, meeting international standards to customers at affordable prices (Amul, 2011; Chandra, 2005; The Indian Dairy, 2011).

Exhibit 2

What an idea Sirji

People of the world's largest democracy, India, witnessed a new dimension of the proverbial ''Government of the people, for the people, and by the people'' in the 2008 media campaign of IDEA Cellular, a leading telecom services provider. The campaign gives the idea of ''participative management'' for governance where two-way communication is encouraged between government and public. With a brand tagline ''What an idea Sirji!'' the promotion explores the idea of government(s) using mobile service as an efficient tool to gather public opinion and support, while taking vital decisions impacting people's lives. IDEA's brand campaign celebrates champion ideas which have the power to change. In one of its earlier advertisements, based on the theme of education for all, teachers while teaching in a regular class give lessons to children of an entire village over the mobile. (IDEA Cellular, 2008) IDEA builds its brand by demonstrating the power of an ''Idea'' by looking at mobile telephony and its benefits in a fresh, imaginative and elevating way (Media Newsline, 2008).

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