

# Corporate Social Responsibility in a Knowledge Economy

**The Indian economy is poised on the edge of an immense growth curve. If that potential is to be achieved, we must pay immediate attention to reducing the knowledge gap within the country. The need of the hour is for all interest groups to make a concerted effort to raise the quality of the most important factor of production today — knowledge. Developing a corporate philosophy that addresses social obligations in line within its economic outlook is a difficult and demanding task. But for those who do achieve that delicate balance, the rewards are many and sustainable.**

Corporate Social Responsibility (CSR) is a term used to describe a company's obligation to be sensitive to the needs of all the stakeholders in its business operations. It is closely linked to the concept of sustainable development. CSR includes both obligatory and voluntary actions of a company, which ensure, at a minimum, that even those marginalised sections that do not share the benefits of prosperity are not adversely affected by a company's practices. CSR is beyond charity and requires that a company identifies itself with the community and environment in which it exists and actively participates in positively influencing its outcomes.

The concept of corporate social responsibility confronts the classical view of the celebrated Nobel laureate Milton Friedman, which states that the sole responsibility of corporations is to its shareholders. According to Friedman, "The business of business is business." This view eschews corporate social responsibility for the maximisation of profits, whereby society would be the indirect beneficiary of market capitalism. However, modern thinking, influenced by a number of other renowned economists, considers a corporate entity as a creation of and for society with a responsibility to enhance the

wellbeing and liberty of all the stakeholders. The three pillars on which modern economics stand are environment, society and commerce. Together, these create long-term sustainable development.

## CSR and Education

The strategy of roping in corporations to share the growing budgetary constraints of the government began about 20 years ago in the United States. School teacher layoffs, coupled with rising inability of office workers to adapt to computer technology, aggravated the situation. Budgetary constraints of school districts not only meant that schools did not receive upgrades of infrastructure and facilities that were essential to prevent dropouts, but also that teaching became an unattractive profession with very low salaries. From the business perspective, this situation was catastrophic since it meant a dismal employee profile for the future. Concern for America to be competitive in the next century catapulted corporations to intervene and help solve this problem by working along with political and education leaders.

## The Knowledge Economy

It is now accepted wisdom that knowledge has become one of the major factors of production, up there with land, capital and labour of the classical economic theory. This is also borne out by India's success stories over the past few years in the field of IT and IT-enabled



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industries. Policy planners are also committed to making the country a knowledge economy. The imperative, then, is to ensure that there are no shortages in this essential input; that is, to put all our efforts into reducing the 'knowledge gap'. Knowledge gap has been defined by the World Bank as unequal distribution of know-how across and within countries. Along with digital divide, knowledge gap is a major impediment to economic development.

Indian companies have been in the business of process deliveries for years, and have established Brand India in no uncertain terms. Brand India stands for commitment, quality, and now credibility. At the moment India appears to be riding the wave, but there are enough countries with similar advantages that can challenge the Great Indian Advantage. As more countries join the queue for a share of the outsourcing pie, India may find itself priced out of the market by equally qualified workers in other countries.

India cannot win this battle on the *cost factor* alone. It is an established economic fact that if you can do a job at a certain price, sooner or later, another person will deliver the same job at a lower price. India already has an edge in offshoring and other knowledge-based industries, so by relentlessly focusing on quality and establishing high levels of delivery quality, this industry can easily put itself beyond competition.

The focus on quality, however, has to find rapid backward integration into India's educational system. For, what is the use of producing millions of engineers and other graduates if, to quote the chief mentor of a leading IT corporation, "75% of Indian engineering graduates are unemployable"?

The result of the offshore industry boom is to immediately ratchet up the quality of education and training imparted by numerous Indian institutes. The biggest threat today is from countries like China, Philippines and Mexico. All these countries have large populations, hunger

for success, and promise to deliver on quality just as well as India. India can pride itself on having the lead in infrastructure, experience and the largest English-speaking population, but others can rapidly pare down this advantage.

### Mind the Gap

This matter of raising standards and reducing the knowledge gap is a mammoth task and cannot be done by any one institution, even if it is the huge government machinery. Each institution has its own area of focus, which may not address the needs of all sections of society. For example, the government may have a certain yardstick while opening and running schools, while those for certain vocations, (such as nursing) may require an altogether different approach. A holistic development of the economy can be carried out only when there is strong public-private partnership, with inputs from many more agencies than just a particular, even partisan, segment.

The backward integration of the corporate world into the education system need not be purely out of altruistic motives. When companies reach out to the youth through the education system, it creates a lasting sustainable value in terms of aligning education with marketable skills. In a recent trend, companies in the so-called 'new economy' (such as IT) are reaching out to campuses to recruit fresh graduates even before the commencement of the final year of college. This gives students a whole year to focus on polishing their job-oriented skills. Since the Indian economy is driven today by IT and IT-enabled companies (the demand side) it is no coincidence that engineering graduates far outnumber graduates in any other discipline. It should not come as a surprise that if medical tourism picks up as a major foreign exchange earner for the country, there will be many more medical and nursing schools—the industry will just be adjusting the demand and supply side.

Many industrial houses and IT majors manage trusts that run highly rated educational institutions and colleges. These institutions

provide for a stream of young and talented graduates in engineering as well as in other disciplines, who are immediately absorbed by those business houses. These Trusts also offer a number of scholarship programs for underprivileged students to help them tide over financial obligations while studying. This is a fine example of a judicious mix of business acumen with social responsibility, which complement each other and are mutually sustainable.

### Filling the Gap

This alignment of demand with supply by active intervention is the core of Corporate Social Responsibility. CSR is in the realm of a 'softer', voluntary approach to business regulation, where importance is given to consensual processes. The idea is that processes arising out of discourse that precedes consensus are far more sustainable—even superior—compared to imposed or legalistic solutions that are often merely tolerated and not actually absorbed.

Simon Zadek, CEO of AccountAbility, suggests that CSR companies tend to move through various stages, described as defensive, in which they deny they are a part of the problem; compliance, in which they adopt a policy which is seen as a cost; managerial, in which the issue is embedded in their core management processes; strategic, where addressing the issue is seen as good for business, and civil, where they encourage their peers to also address the issue. (Simon Zadek, *'The Path to Corporate Responsibility'*, Harvard Business Review, December, 2004)

The issue of CSR will necessarily have social inclusiveness within. A post-colonial Indian government has always believed that the sheer dimension of social and economic deprivation in the country can be tackled only with the active support of business. And so, independent India set up public sector enterprises (PSEs) charged with the goal of employment generation and building infrastructure on an

equitable basis across India. One may point out that due to this policy, PSEs are hardly edifices for economic efficiency or that with the onset of economic reforms, the role of the state as a preferred employer is being ceded to the private sector. But there is no denying the monumental work done by the public sector in building infrastructure. If the private sector has to learn anything at all from the public sector experience in India, it would necessarily mean not overlooking the objective of economic efficiency while discharging social obligations.

Developing a corporate philosophy that addresses social obligations in line within its economic outlook is a difficult and demanding task—a task that only a few companies have achieved worldwide with any degree of success. But for those who do achieve that delicate balance, the rewards are immense and sustainable.

In India, many large business houses have traditionally designated officers to conduct community work. They have developed a more proactive approach wherein specific employees identified by heads of HR would not just engage the community but also motivate other employees to become involved in community work on a group level. They have a large pool of active volunteers who provide not only a reliable and knowledgeable resource base for social activity, but also lay the foundation for building high-trust communities. In an effort to improve the volunteering process and make it more effective, they have instituted specific schemes for volunteering and keep a record of volunteering days on their data banks. (Anant G. Nadkarni, *'From Social Responsibility to Development'*, *Corporate Governance, Economic Reforms and Development*, Oxford, page 238)

Companies must identify and develop a strategic imperative. Rather than set lofty multiple goals, which may not end up delivering quality performance on any segment, companies should focus on one main objective—much like a corporate vision statement that must remain uncluttered.

As a CSR initiative in the field of education, a leading pharma company has arranged for around 50 children to be taught at a school opened by the HOPE Foundation in a neighbouring village of the company's campus in Whitefield, Bangalore. The company also funds job-oriented computer courses for older youth. It hopes to not only give underprivileged children a good education and nourishment through this initiative, but also make a lasting contribution to the community.

Most of the Indian corporate sector has moved from being a trading class of yore that passed for a business class. The transformation was primarily driven by new-generation businesses in technology segments, where motivated and highly educated young owners drove global businesses from India, imbibing the principles of universal competition and values. The creation of a long-term sustainable value of their enterprises presided over short-term profits. The buzz from the earlier era of manipulation and exploitation of the system was overcome by an age of transparency. The markets responded by creating more wealth for companies doing their business honestly, and that was a huge driver to stay and be clean. There is a growing awareness in the corporate sector of the fundamental importance of education in society, and several corporate initiatives seek to proactively intervene in uplifting the quality of the sector.

### **Drastic Situations, Dramatic Responses**

It is a war out there, a war to capture global markets, and if India is to be known as a knowledge economy, innovative, out-of-the-box solutions have to be found and implemented on a war footing. Many believe that a major reason why WW II tipped in favour of England and the Allies was the role women played in German and English societies. While Adolf Hitler encouraged the ideal of a homemaker among German women, English women were at the forefront of society, working in factories, driving trucks and

doing other heavy-duty work which ensured productivity of the economy and continued supply lines.

The government has to proactively play the part of an enabler and come out with more flexible rules for appointing teachers and educators. Our school system is plagued with many deficiencies, not the least of which is a chronic shortage of teachers, and so, government may examine the minimum qualifying rules for teachers. After all, teaching is not as complex a task as, say, that of a doctor and a person who has pursued higher levels of education without necessarily acquiring a teacher's degree is quite competent to teach that subject. As a suggestion, India has a huge army of homemakers who may be tapped into at least volunteer work to teach at neighbourhood schools. Besides, many professionals working in the corporate world would be willing to take guest lectures as a measure of social service. With such proactive measures, the entire education sector can receive a boost and students will only benefit from fresh inputs, buttressed with practical knowledge of the relevant industry. The government must also devolve authority for disbursing funds down the line to the grassroots level so that schools can decide on suitable compensation for services directly rendered to them, and demand commensurate accountability.

### **Do We Want to Commercialise Education?**

Companies are usually best suited to doing what they ought to do—running a business. So they may find it difficult to adopt an approach to education that is purely academic or altruistic and devoid of commercial interest. Education primarily involves abstract development of a student's mind and character that may transcend profit motives that companies so easily practice. Won't involving the corporate world in education then violate the autonomy of students and therefore the whole education system? Education, after all, is the only proven

way to develop free and open societies where ideas and exchanges flow unfettered. If corporations are allowed unrestricted entry into schools and colleges, there is a real danger that young, impressionable minds will be unduly influenced and ideas will be one-dimensional, depending on the corporate point of view of the sponsor of one's school/college. This unidimensionality is totally detrimental to the very purpose for which such interventions are required, since it will kill detachment and critical thinking that is so vital to growth. Further, unless a company achieves a certain size and market maturity, it may not have too many resources to invest in making any kind of impact with its CSR policies other than a narrow commercial focus.

Therefore, partnerships with non-governmental organisations (NGO) are an ideal mechanism for enlightened companies to fulfil social ambitions and obligations. There are several NGOs that do commendable work and are run by devoted and dedicated people who may be more attuned to a particular kind of work. Such NGOs need finances and mentors with strong linkages to help further their work. Increased business-NGO partnerships will help reduce social tensions big businesses often face, such as being accused of pursuing commercial interests over community interests.

Businesses, with their commercial background, can help to establish quick communication channels with various government authorities that can put community projects on the fast track, to everybody's advantage. Businesses can also help increase the level of understanding among intermediaries with direct dialogue.

### **Inevitability of CSR**

It would be wrong to assume that basic structural contexts and trends associated with capitalism and corporate globalisation make a mockery of CSR—in other words, profit motive and shareholder interests are at odds with forms of philanthropy that may be at variance

with the reason for existence of a business; that is, maximising shareholder wealth. There is certainly some validity to the assertion, tirelessly propounded by votaries of CSR, that there is a business case for CSR and scope for win-win opportunities related to improved social, labour and environmental performance, on the one hand, and competitive advantage, risk and reputation management, productivity gains linked, for example, to employee motivation and reduced staff turnover, and even cost reduction through aspects such as eco-efficiency, on the other (Porter and van der Linde, 1995; Holliday, et al, 2002)

In reality, it is a long distance that separates internalising CSR practices throughout the organisation and one where CSR practices are limited to specific ad hoc interventions. Inevitably, there is a scaling-up of voluntary initiatives, leading to a hardening of softer, voluntary approaches. As the benefits of internalising CSR initiatives come into the public domain, these no longer remain voluntary and are considered par for the course.

Because yesterday's theory is today's accepted management practice, companies that were lauded or rewarded at the stock markets for pioneering philanthropic investments—call it 'corporate social work'—may find that such work is no longer voluntary and investors consider such investment as the minimum acceptable standards. There is a subtle but sure shift from CSR to corporate accountability, with underlying tones of regulation and minimum codes of accepted corporate behaviour. This expected behaviour, then, applies to a broader range of companies rather than simply those that choose to adopt voluntary practices.

The CSR agenda is not static but constantly expanding and evolving. We can only expect more scaling-up and increased ratcheting-up of CSR practices. This will inevitably lead to overlap between voluntary and regulated forms of corporate conduct. □