# CSR In A Knowledge Economy

**Corporate social responsibility (CSR)** is an expression used to describe a company's obligation to be sensitive to the needs of **all** of 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 Milton Friedman, the celebrated Nobel laureate, that the sole responsibility of corporations is to its shareholders. He said, "it's the business of a business to run a business. This view eschews corporate social responsibility for the maximization of profits whereby society would be the indirect beneficiary of market capitalism. However, modern thinking, influenced by a number of other renowned economists, consider 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 and together, these create long term sustainable development.

## CSR & Education

The strategy of roping in corporations to share the growing budgetary constraints of the government began about twenty years ago in the United States. 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 the upgrades of infrastructure and facilities that were essential to prevent school 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 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 industries. Policy planners are also committed to making the country a knowledge economy. The urgent 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** is 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 now stands for commitment, quality, and now of credibility. At the moment India appears to be riding the wave but there are enough countries with similar advantages who 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 populace 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 can deliver the same job at a lower price. India already has an edge in the off shoring and other knowledge-based industries and 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 education system. For, what is the use of producing millions of engineers and other graduates if, to quote Infosys chief mentor Narayanmurthy, "75% of Indian engineering graduates are unemployable"?

The hunger of the offshore industry boom has 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, hungry for success and promise to deliver on quality just as well as India. India can pride itself on having a 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, government may have a certain yardstick while opening and running schools while a vocation like, say, nursing may require an altogether different approach. A holistic development of the economy can only be carried out when there are strong public-private partnerships, 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 trend growing in recent years, companies in the so-called 'new economy' like IT reach out to campuses in the final year of college to recruit fresh graduates. 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 may be no

coincidence that the number of engineering graduates far outweighs any other discipline. It should not come as a surprise that if medical tourism picks up pace as a major foreign exchange earner for the country, there will be many more medical and nursing schools—industry will just be adjusting the demand and supply side.

*Shiv Nadar, the founder of HCL Group manages the trust which runs the SSN group of engineering colleges in Tamil Nadu, which are amongst the highest rated colleges in the state. The college provides for a stream of young and talented engineers –who are given the first right of refusal to work in HCL and related companies--. The Trust provides a number of scholarship programmes for the under privileged students to help them tide over the financial obligations while studying. A judicious mix of business acumen with social responsibility that 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). Corporate Social Responsibility (CSR) is in the realm of '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, as compared to imposed or legalistic solutions that are often merely tolerated and not actually absorbed.

Simon Zadek 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 to include social inclusiveness within it. Post-colonial Indian government has always believed that the sheer dimension of social and economic deprivation in India can be tackled only with the active support of business . And so, independent India set up public sector enterprises (PSEs) that were 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 buzzwords 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 up 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.

*Tata companies have traditionally designated officers to conduct community work. In the 1990s, the group has 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. Through the Tata Corps of volunteers, Tata companies 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, major Tata companies 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.

*At SAP Labs India, in one of the CSR initiatives in the field of education, around 50 children are 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 through this initiative not merely to give underprivileged children a good education and nourishment but also to make a lasting contribution to the community. (http://www50.sap.com/company/saplabs/india/csr)*

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 the 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. 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 there are several corporate initiatives that seek to proactively intervene in uplifting the quality of the sector.

*Tata Institute of Fundamental Research **(TIFR)** attempts the complex task of balancing the demand and supply side of its main input—scientists—by extrapolating available numbers of scientists in the country, matching these*

6

*numbers with their requirements and attempting to pro-actively bridge the gap. The chairman of TIFR, Prof.S.Bhattacharya admits that the country's education system is not in good shape, particularly the basic sciences. Leading institutions have been shortsighted in not engaging with the system and he says that the crisis of distressed university systems is one in which all of us have a part. For its part, TIFR is making a beginning by starting an integrated PhD programme for students—a grand cradle-to-grave programme for students from class 12 upwards. As a two-pronged strategy, first comes a 'nurture' progarmme for young students, followed by an advanced programme for graduates. The idea is to retain bright minds in basic sciences rather than allow them to drift to IITs, etc. because of better compensation. TIFR hopes to make basic sciences an attractive career for today's youth (it has obtained a deemed university status so that it can also award degrees) so that the country does not face a generational shortage of scientists. (Fanning The Spirit of Frontier Science, Prof S.Bhattacharya,*

*http://www.tata.com/0_our_commitment/community_initiatives/institutes/tifr.htm)*

### 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-box solutions have to be found and implemented on a war-footing. Many believe that a major reason why WWII tipped in favour of England and the Allies was the role women played in German and English societies. While Hitler encouraged the ideal of a homemaker among German women, English ladies 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 pro-actively play the part of an enabler and must 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 up guest lectures as a measure of social service. With pro-active measures, the entire education sector can receive a boost and students will only benefit from such fresh inputs, buttressed with practical knowledge of the relevant industry. Government must also devolve authority for disbursing funds down the line towards grassroots level so that schools can decide on suitable compensation for services directly rendered to them and demand commensurate accountability.

### Do We Want To Commercialize Education?

Companies are usually best suited to doing what they ought to do—running a business. Companies may also 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 in an unfettered manner. 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 one-dimensionality will be 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 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 organizations (NGO) are an ideal mechanism to fulfill the social ambitions and obligations of enlightened companies. There are several NGOs who 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 a mentor with strong linkages to help further their work. Increased business-NGO partnerships will help reduce social tensions that big businesses often face, being accused of pursuing commercial interest over community interest. Businesses, with their commercial background, can help to establish quick communication channels with various government authorities that can put community projects on a fast track, to everybody's advantage. Businesses can also help increase the level of understanding among intermediaries with direct dialogue.

*The Azim Premji Foundation, set up by finances contributed by Azim Premji, Chairman of Wipro Corporation aims to significantly contribute to quality universal education by working in active participation with Government and other related sections of society. Programmes of the Azim Premji Foundation focus on "creating effective and scalable models that significantly improve the quality of learning in the school and ensure satisfactory ownership by the community in the management of the school". Azim Premji Foundation aims at building the future of India through transforming the lives of millions of children by catalyzing universalisation of elementary education. The Foundation works with government, particularly since they do not have a background in education. They hope to bring to the table passion, commitment, sincerity and integrity; result orientation; process orientation; credibility and brand equity; experience in IT, training and development and managing large initiatives; understanding of human resources development; and a burning desire of the team to make a difference. (Inputs from www.azimpremjifoundation.org and other websites)*

*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 do-gooding that may be at variance with the reason for existence of a business, that is, maximizing 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 hand (Porter and van der Linde, 1995; Holliday, et al, 2002)

In reality, it is a long distance that separates internalizing CSR practices throughout the organization 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 internalizing CSR initiatives come into the public domain, these no longer remain voluntary and are considered par for 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.

CSR agenda is not static but constantly expanding and evolving and 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.

## Synopsis

Indian economy is poised on the edge of an immense growth curve and if that potential is to be achieved, it must pay immediate attention to reducing the knowledge gap within the country. The call 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 immense and sustainable.

*Declaration: The above article is an original piece of work. References from other published works, if any, have been duly acknowledged by way of citations.*

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