



# **Corporate Social Responsibility – Creating Synergies**

**Krishna V R Muppavarapu**

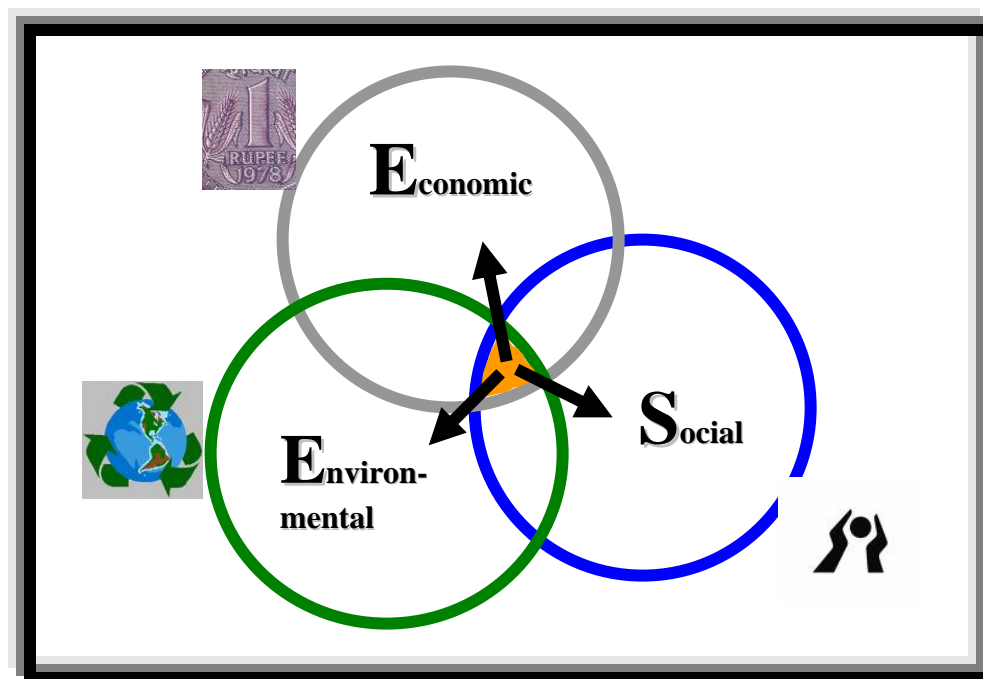
**20<sup>th</sup> Dec 2006**

---

**Satyam Computer Services Limited**  
Office: 3<sup>rd</sup> Floor, Lakeshore Towers, Raj Bhavan Road, Somajiguda, Hyderabad (AP, India) - 500 082.  
Ph. +91-40-3065 7373 Fax: +91-40-2330 0500 Website: [www.satyam.com](http://www.satyam.com)

## Prologue...

A widely quoted definition by the World Business Council for Sustainable Development states that "*Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.*"



## **Introduction**

According to a paper published in *The McKinsey Quarterly*, organizations are bound by an overarching social contract<sup>1</sup>, which in turn is classified into formal and semi-formal contracts. Formal contracts are largely regulatory in nature and have ‘legal tangibility’. Semiformal contracts are implicit in nature and cover aspects like industry norms. Though semiformal contracts do not have a direct legal implication, they go a long way in making or breaking an organization or its brand image. For example, a polluting factory might face closure due to action by the local community, though it might be operating well within the formal contract called pollution norms. As such incidents keep increasing semi-formal contracts will tend to get converted into formal contracts. In the example of the polluting factory, probably the government would come into picture and tighten the environmental norms, thereby setting a new precedent. Beyond the formal and semi-formal contracts are the unspoken expectations from the society that are not part of the social contract, but have a potential to become binding over a period of time. For example, no one would have thought of Corporate Social Responsibility (CSR) as a formal or a semiformal contract at the beginning of the Industrial Revolution. At that time, making money and profits was the key driver to businesses. But as the industry evolved, a definite need was perceived for the industry to give the society its due. Gradually corporate social responsibility became an industry norm – in other words a semiformal contract with the society.

## **CSR – Evolution into a social contract**

CSR in its current form is being used widely as a tool for brand building rather than with business intent. But more and more organizations are realizing the importance of CSR as a part of their business strategy. There has been a clear trend towards integration of social and environmental objectives with the economic objectives. The triple bottom line and full cost accounting concepts are efforts in that direction. Organizations have started realizing the importance of involving themselves in activities that lead to multiple objectives rather than just the economic benefit. In a way business organizations are realizing the importance of the social contract they are bound by.

A re-look at the motives of the business will help one understand the concept of “social responsibility”. We define two business motives – the short term or the ongoing and the long term. Before elaborating on this further, we would like to indicate that the terms businesses and business organizations would be used interchangeably throughout the paper. The short term motive of a business organization is definitely that of making money, earning profits and maximizing profitability, while complying with various regulatory forces. But if organizations get bogged down by only the short term business motive, there is a danger of them losing sight of the implications of the larger social contract. For example, an organization cannot ignore its responsibility towards the society whose legitimate resources it is using up – the natural resource, the human resource, the infrastructure, etc. So, a long term business motive for organizations is to develop frameworks that encompass the explicit and the implicit components of the

---

<sup>1</sup> When social issues become strategic, Sheila Bonini , et al, *The McKinsey Quarterly* 2006 Number 2

social contract. This does not amount to philanthropy nor is it contrary to the very purpose of business. What seems to be long term in fact is an enabler for organizations to remain in business and grow. Social contract is so dynamic that organizations need to constantly keep pace with the ever changing scenarios. There are examples abound that showcase how the social contract has been changing. For example, the proposals to legislate job reservations for local people are an indicator of the changing social contract. This may just be an example, but the greatness of organizations lies in envisaging the future trends in social contract and quickly incorporating them in their framework. A beautiful account of how the social contract keeps changing is given in some of the articles in a compendium by Harvard Business Review<sup>2</sup>.

Gearing up for meeting the demands of a dynamic social contract does not necessarily involve costs always. Through carefully structuring their strategies organizations can make CSR a profitable proposition – profitable not necessarily from the short term perspective of economic bottom line.

### **How CSR is getting institutionalized**

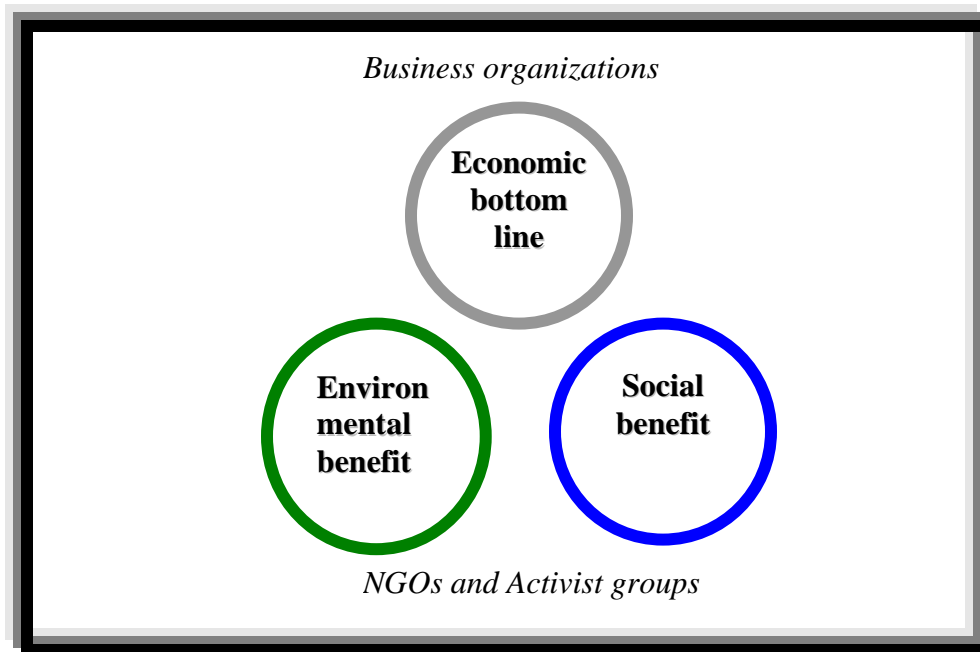
It was in the 1970s that structured definitions<sup>3</sup> of CSR started to be formulated. Till that time the spheres of economic, social and environmental concerns were disjoint. Economic concern was in the domain of business organizations, while social and environmental concerns were in the domain of activists and not-for-profit organizations. This is evident from the conflicts between corporates and activist organisations on various issues – both social and environmental. But there definitely has been a shift in the way corporates are viewing CSR. Sufficient funds are earmarked every year for CSR related activities by business organisations and there has been a realignment of interests for businesses as well as non-business entities.

We represent this in the form of three spheres. If the area of the sphere represents the magnitude of the corresponding benefits, then as the spheres approach each other their areas tend to increase because of the synergies that get created.

---

<sup>2</sup> *Harvard Business Review* on Business and the Environment

<sup>3</sup> Corporate Social Performance Revisited Donna J. Wood *Academy of Management Review*, Vol. 16, No. 4 (Oct., 1991), pp. 691-718



We explain this synergy through an example. The author was a part of an energy conservation project with a leading tyre manufacturer in India. The project was implemented through a simple reengineering of the plant piping system to tap the potential of flash steam<sup>4</sup>. Prior to this, there was tremendous loss of energy in the form of flash steam because of a design that has been conventionally followed in tyre industry. Because of this project the energy requirement reduced by almost 15 million kcal per day. This amounted to a saving of more than 1500 litres of furnace oil a day or almost US \$ 150,000 annually<sup>5</sup>. This found a mention in the annual report to the shareholders and clearly the organization improved its economic bottom-line. Incidentally this also reduced the emissions of carbon dioxide, sulphur and nitrogen oxides, thereby reducing the burden on environment, or in other words improving the organization's environmental performance. The success of this project set a precedent for many more such innovations and the tyre manufacturer eventually made huge investments in switching over from furnace oil to gas with very attractive rates of return. Michael Porter argues in his article "Green and Competitive" that socially and environmentally responsible corporate behaviour helps organisations gain through productivity improvement, waste reduction, brand enhancement, etc.

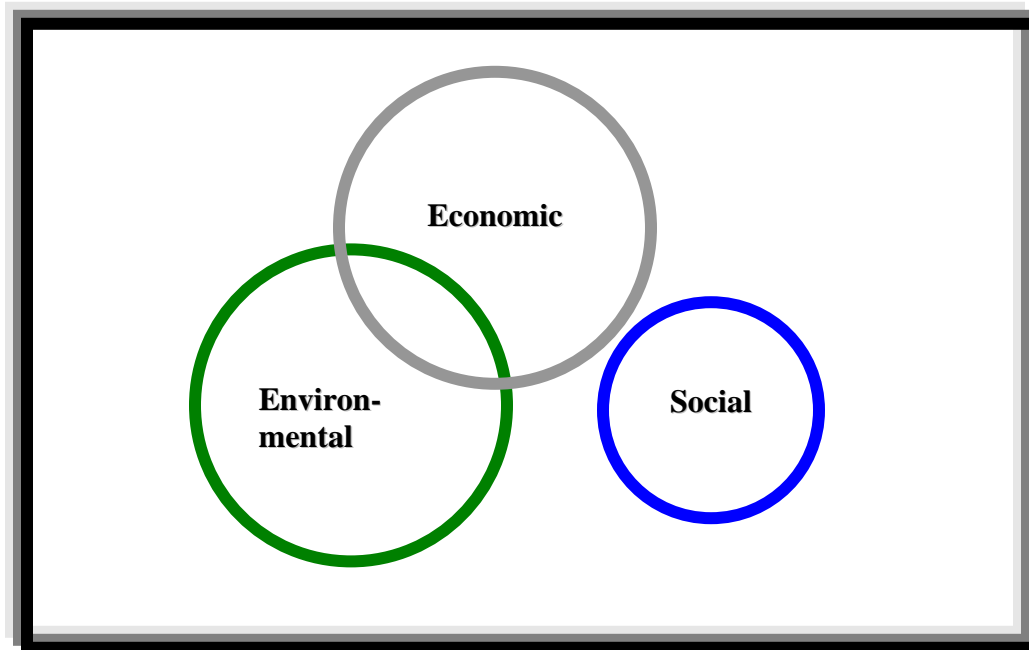
Wal-Mart is another company that has pledged for improving its environmental performance<sup>6</sup>. For a company like Wal-Mart, this would translate into tremendous improvement in its brand value, an increased base of customers and subsequently improved economic bottom line. This would be in addition to the improved margins

<sup>4</sup> Flash steam gets generated when steam or hot water at a particular pressure is exposed to a lower pressure environment. The energy loss corresponds to the difference in the initial and final pressures

<sup>5</sup> The figures are approximate and were calculated as per average rupee valuation against US \$ during 1998-2002.

<sup>6</sup> Greening the bottom line, Travis Madsen and Bernadette Del Chiaro, *Environment California Research and Policy Centre*, August 2006

because of lesser energy consumption. The results could be far-reaching. Improved margins can get converted into investor confidence. Environmentally concerned investors would find their wealth being put to proper use. The benefits are manifold. In fact there is an argument that goes to say that the value of CSR investments need to be gauged using the right tools – one being the effectiveness of CSR initiatives in reducing share price volatility<sup>7</sup>. The case of this synergy can be represented as follows:



A good example of how CSR can be a profitable proposition is that of ITC's e-Choupal initiative<sup>8</sup>. Such exercises would help the company increase its visibility and improve the market size for its allied products. IBM, for example spends \$150 million annually on its CSR initiatives<sup>9</sup>. Their focus is on education and innovation. In the state of Andhra Pradesh (India) they have tied up with Byrraju Foundation to sponsor a program called KidSmart that helps in children's education through innovative and interactive means. An inference, though explicitly not stated by IBM is that, this investment today will yield benefits in terms of qualified and employable people in the next 10 years or so. These advantages might not be tangible in the short run, but definitely in the long run there is a clear advantage. Some of the advantages of investing in CSR are:

- Improved visibility and hence an enhanced brand image
- Investment in human capital, the returns from which would be handsome from a long term and strategic point of view
- Differentiation and hence a competitive advantage

<sup>7</sup> <http://www.accountancyage.com/accountancyage/features/2153070/ethical-dilemma-greenpeace>

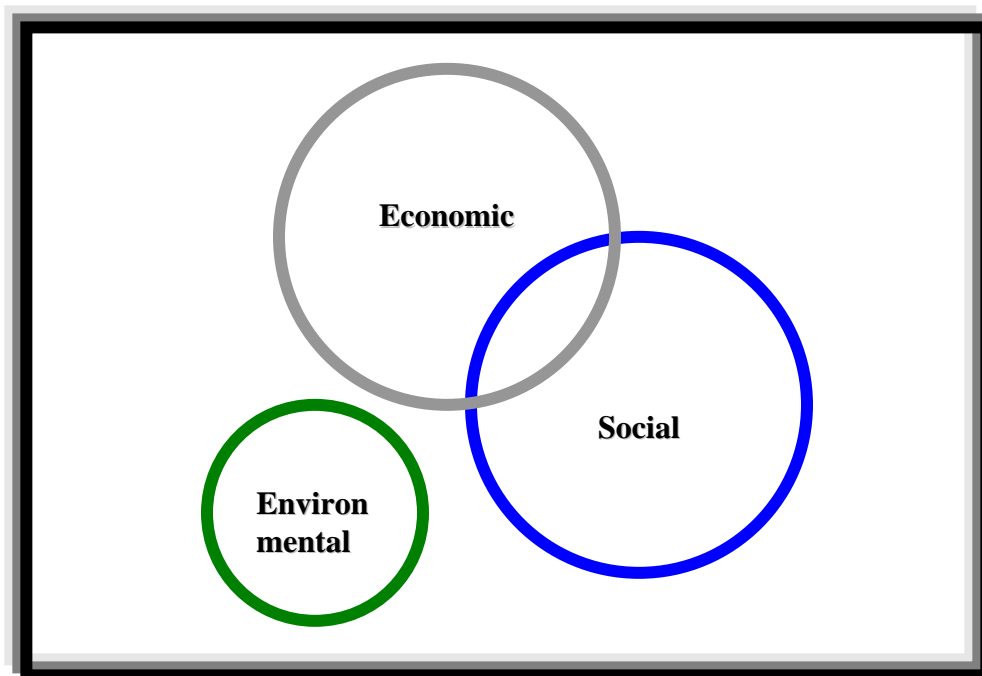
<sup>8</sup> Inputs taken from a speech by ITC's Chairman at their Annual General Meeting on July 29<sup>th</sup>, 2005  
[http://www.itcportal.com/chairman\\_speaks/chairman\\_2005.html](http://www.itcportal.com/chairman_speaks/chairman_2005.html)

<sup>9</sup> Changing Tenets, Economic Times 8<sup>th</sup> Dec 2006

- Increase in customer base as CSR tends to be formalized over a period of time (a very good example is how ISO helped organizations increase their customer base as much as the customer and supplier relationship)

The latest trend, as we observe from the examples of IBM and ITC is that the power of information and communication technology (ICT) is being unleashed to create these synergies. ICT is being used to quickly integrate the stakeholders into CSR initiatives, thereby accelerating the pace at which development and economic growth can happen. This growth is being fuelled by a rapid proliferation of ICT in rural areas due to the active involvement of big service providers and dwindling costs of connectivity and improved reliability of the associated hardware. For example, one of the stated objectives of RailTel Corporation of India<sup>10</sup> (under the Ministry of Railways) is to target rural and remote villages with a view to proliferate value added services by investing in a nation wide communication backbone. This is apart from the primary objective of modernizing the operations of Indian Railways. This is just another example of how organizations are integrating commercial interests with socially responsible behavior.

This “social synergy” can be represented as follows:



In the most ideal case, organisations should strive to bring in synergies by integrating the economic, social and environmental spheres. Our argument is that by investing in synergistic CSR projects, organisations can hedge on the projects that have longer gestation periods and whose returns are not so tangible and direct. But what remains to be

---

<sup>10</sup> RailTel’s objective - To create a nationwide broadband telecom and multimedia network to supplement national telecom infrastructure to spur growth of telecom internet and IT enabled value added services in all parts of the country specially rural, remote and backward areas  
<http://www.railtelindia.com/about/objectives.htm>

explored is how the effectiveness of CSR activities can be measured in pure financial terms as they need to be explained to shareholders whose wealth is invested with the organization. That of course brings us to a very basic argument of what constitutes CSR. The success of a company lies in educating or convincing the shareholders about the benefits of taking up CSR activities. While arguments on what “sensible CSR” means remain, organisations should strive to incorporate CSR in their strategic frameworks. It would also be in the interest of organisations to understand the broad contract they have with the society.

### **An emerging partnership**

Examples mentioned above highlight a new trend of how organizations are viewing CSR from a strategic standpoint. There has been a curious marriage of corporations, non-governmental organizations and of course the government itself. This is a clear shift from the times when companies drew flak from NGOs for alleged socially and environmentally irresponsible behaviour<sup>11</sup>. There are reports of corporations tying up with NGOs to promote socially relevant corporate activities. Government also is a key stakeholder many times. A new trend of public private partnerships (PPP) is setting in with each stakeholder realizing the synergies that can be created to selective collaboration. There is also an increased stress at corporate level to institutionalize CSR. For example, one of the key objectives of NASSCOM Foundation is to promote CSR within the IT industry in India<sup>12</sup>. Following table gives a snapshot of the possible scope of the key role players in such partnerships.

<i>Role player</i>	<i>Would bring in</i>	<i>Would gain</i>
Corporate	<ul style="list-style-type: none"> <li>• Financial strength and investment capability</li> <li>• Professionalism and best practices</li> <li>• Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Brand image</li> <li>• Valuable human resource for future utilization</li> <li>• Enhanced economic bottom line</li> </ul>
NGO	<ul style="list-style-type: none"> <li>• Expertise in social aspects</li> <li>• The power of having local presence</li> </ul>	<ul style="list-style-type: none"> <li>• More funding</li> <li>• Professional expertise</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Reach and penetration of administrative machinery</li> <li>• Policy support (tax breaks, etc)</li> </ul>	<ul style="list-style-type: none"> <li>• Good governance</li> <li>• Public welfare</li> <li>• Social security</li> <li>• Equitable distribution of wealth</li> <li>• Employment generation</li> </ul>

<sup>11</sup> A Guide to Corporate Social Responsibility

<sup>12</sup> [http://www.nasscomfoundation.org/index.php?option=com\\_content&task=view&id=12&Itemid=27](http://www.nasscomfoundation.org/index.php?option=com_content&task=view&id=12&Itemid=27)



## A case study – Some insights

Having delved into various case studies, we are fairly convinced that CSR can be used as a strategic tool by organisations. While strategizing is important, managers should understand the importance of giving the strategy a proper shape at the implementation level. Many inputs for this have come from our experience in working on GRAMIT (rural BPO) initiative that Satyam has championed under its eSupport banner and in association with Byrraju Foundation in some districts of Andhra Pradesh. The few pilots that were run have helped us understand the importance of “social investment” and realize that some such investments have longer gestation periods than expected. In the short run returns are being realized in the form of<sup>13</sup>:

- Operational efficiencies<sup>14</sup>
- Increased scale and scope of operations through centralization
- Redeployment of associates to more value adding services

In the longer run, this would help in bringing about a sea change at the “bottom of the pyramid” as propounded by the great management guru C.K. Prahalad. What is unique about this initiative is that Satyam is one of the first IT companies in India to outsource its own back office work to a service provider that is rural based. In fact this is a case where multiple synergies of economic, social and environmental benefits are setting in. For example, at the social level the rural youth remain rooted in their villages, thereby catering to issues like emotional security amongst their elders. This might seem to be a trivial aspect when considered from a purely business sense, but definitely organisations should own up their responsibility towards the ageing; at least in the Indian context. As a corroboration of this fact, we quote from statement by the then Union Minister for Social Justice & Empowerment, Mr. Satyanarayan Jatiya<sup>15</sup> – “...*globalization and its economic effects, is causing a silent and invisible transformation within the social structures. Fragmentation of the traditional family network is leading to an erosion of the available support within the immediate and extended family. Migration of younger generations from rural to urban areas and from one urban centre to another and transnational migration results in the elderly persons being left out to fend for themselves at a time when family support becomes more necessary...*”.

Technology is helping Satyam and Byrraju Foundation give rural youth an exposure to the benefits of globalization without actually uprooting them from their villages. On the environmental front, at least 60% of the associates interviewed responded that they would have moved to the city of Hyderabad had they not been able to get some viable employment around their village. This in turn would have added to the environmental burden of the city<sup>16</sup>. In effect the strategy seems to be working in creating synergistic scenarios as explained in the earlier sections. This is being achieved while still catering to

---

<sup>13</sup> Monitoring of effectiveness is metric-driven and follows a “build-outcome measure” approach

<sup>14</sup> Efficiency here is defined as reduction in the efforts in delivering service to associates

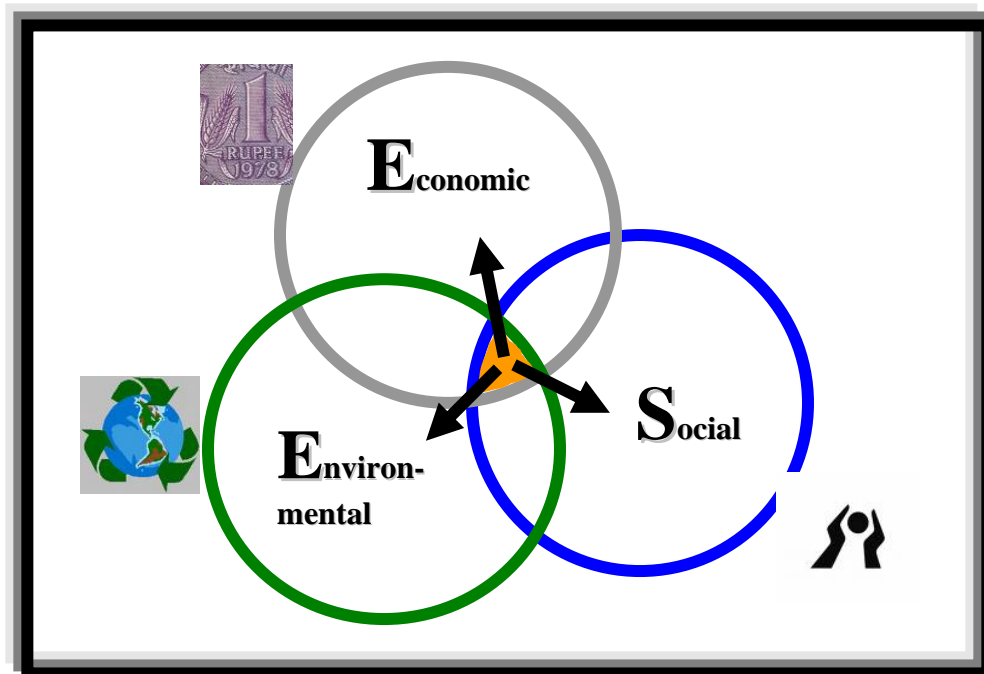
<sup>15</sup> <http://www.un.org/ageing/coverage/indiaE.htm>. Mr. Jatiya’s speech at the Second World Assembly on Ageing, organized by United Nations in Madrid.

<sup>16</sup> The per capita municipal solid waste for Hyderabad is estimated to be 0.4 kg/day

the broader objective of bridging the urban and rural IT divide in India<sup>17</sup>. Honoring the social contract has its dividends. As the rural youth become a part of the mainstream globalization, these benefits would only multiply. But this is fraught with some challenges like bringing the youth in question to the levels that are acceptable by the general employment market; and this is where the professionalism of the corporations, the social expertise of non-profit organisations and the administrative muscle of the government would come into picture to accelerate the pace of the transformation. There are indications that these stakeholders have become serious about their business and the results are showing.

## Conclusion

In this age of growing inter-dependence, there is little scope for anything that stands alone. Business organisations should try to understand the ever-changing social contract, because their long term goal would be to survive and grow. In that process they would only lose out if they ignore the social contract. How far-sighted an organization is will decide its survival or extinction. Organisations should come together to envisage the “implicit demands” of the society before these demands get converted into formal contracts and force the organisations to suffer competitive disadvantage. In a world where technology has bridged many a barrier – both physical and virtual, the buyer or the investor has many options and no one organization can claim indispensability.



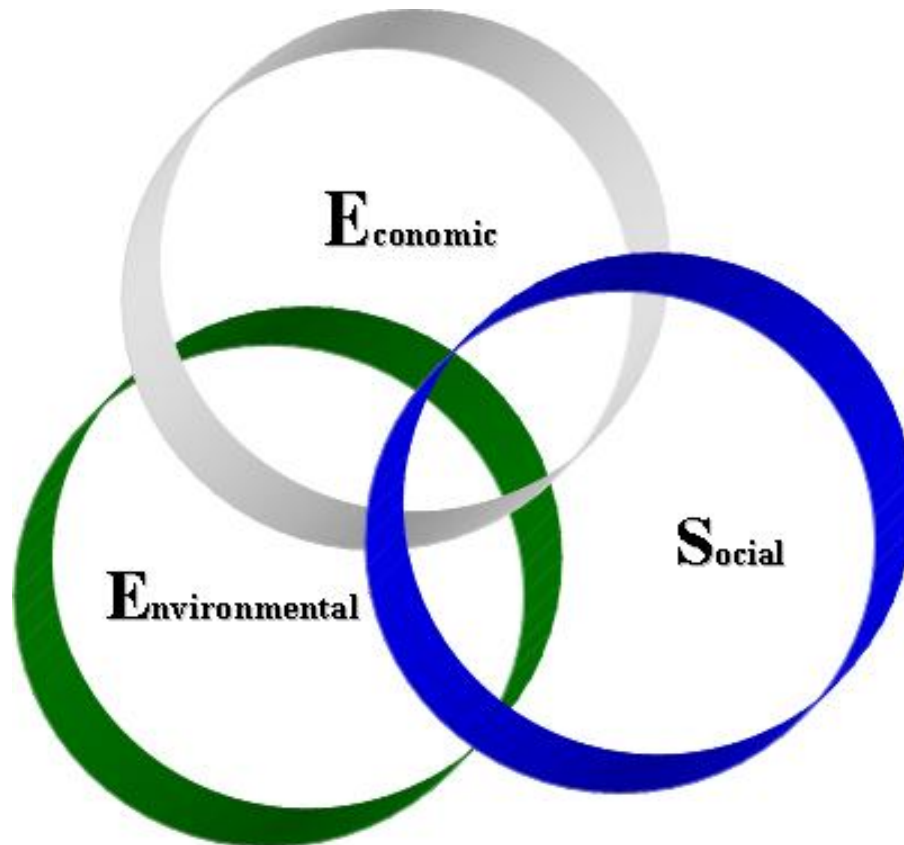
<sup>17</sup> [http://www.nasscom.in/upload/43171/Rural\\_BPO.pdf](http://www.nasscom.in/upload/43171/Rural_BPO.pdf)

## About the author

**Krishna V R Muppavarapu** is an Associate Consultant with the Business Process Management (BPM) team of Satyam Computer Services Limited. He is an MBA (2003-2005) from SP Jain Institute of Management and Research, (SPJIMR) Mumbai. Prior to MBA, he worked as a Maintenance Engineer for Apollo Tyres, Baroda with specific interests in energy conservation. He holds a bachelor's degree in Mechanical Engineering from BITS, Pilani (Class of 1997). He can be contacted at [mvr\\_krishna999@yahoo.com](mailto:mvr_krishna999@yahoo.com).

He started an outfit called a Lasting Initiative for Environment (LIFE) as a student at SPJIMR and conducted a campus-wide energy audit through which good savings accrued. He has amateur interests in renewable energy and hopes to see technological revolutions that will commoditize renewable energy solutions.

The paper he co-authored on the concept of rural BPO appeared as a featured article on NASSCOM's BPO Forum<sup>18</sup>.



---

<sup>18</sup> [http://www.nasscom.in/upload/43171/Rural\\_BPO.pdf](http://www.nasscom.in/upload/43171/Rural_BPO.pdf)