CORPORATE SOCIAL RESPONSIBILITY IN NON-BANKING FINANCIAL COMPANIES IN INDIA

Dr. M. Somasundaram, Ph.D.,
Coimbatore, Tamilnadu, India-641037.

ABSTRACT

Corporate social responsibility can act as a strategic tool to facilitate the private sector’s active involvement in activities to maximize benefits for all stakeholders. It creates new business opportunities, synergies and private-public partnerships, and connects customers, suppliers, stakeholders and communities. Corporate social responsibility is an emerging concept in India and its limited familiarity is perhaps the greatest impediment to its wider adoption. This will add more value to their image and reputation, and go a long way towards enhancing the brands of finance institutions. Corporate social responsibility is currently translated as ‘best practice’ i.e., the rigorous assessment and management of a company’s impacts across the entire business from the point of material supply to product disposal. To conclude, in its broadest sense, contemporary corporate social responsibility represents companies’ responsibility to improve all their impacts on society, when not required to do so by law.

Key words: Corporate, Social, Responsibility, Finance, Business

1 Introduction

Corporate Social Responsibility refers to operating a business in a manner that accounts for the social and environmental impact created by the business. Corporate Social Responsibility means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices. Early corporate social responsibility reports often focused on philanthropy as a driver of corporate social responsibility. That notion has been supplanted by a broad commitment to protecting and improving the lives of workers and the communities in which companies do business. Corporate social responsibility reports now typically address issues impacting virtually every area of operations: governance and ethics; worker hiring, opportunity and training; responsible purchasing and supply chain policies, and energy and environmental impact.

2 Twenty First Century in Corporate Social Responsibility

If the issue of corporate social responsibility came to public prominence as a result of highly-publicized events such as the collapse of Enron and the James Hardie asbestos scandal in Australia, how have these concerns been addressed in the literature of the new century? The debate about the place of corporate social responsibility in the global economy continues, with writers such as Scherer and Smid echoing Solomon’s opinion that multinational corporations ‘should take responsibility for the improvement of world-wide social and environmental conditions’. Windsor takes this point further by investigating examples of Western oil production projects currently operating in a number of war-torn, impoverished African states that are noted for corruption and human rights abuse.

In this context, a lively debate has led some authors, mainly academics based in the United States, to prefer to use the concept of “corporate social responsiveness”, rather than “corporate social responsibility”. For example, they argue, Ackerman and Bauer among them that the connotation of responsibility is that of the process of merely assuming an obligation.
3 Operational Definition of Corporate Social Responsibility

From the above it can be argued that the current definition of corporate social responsibility is developed around two main principles:

• The interests of the firm’s stakeholders should be represented at the company board and the decision-making process of the firm;
• Since corporate law protects the interests of the firm’s shareholders, a corporate socially responsible or ‘corporate citizenship’ stance would involve the formulation of decisions that go beyond legal requirements and exceed the law, ‘compliance plus’.

Thus, the notion of corporate social responsibility assumes corporate behaviour that goes beyond legal requirements. Corporate social responsibility is the detailed ‘issues’ which an organization may be taking into account when developing strategies and on which an organization exceeds its minimum required obligations to stakeholders.

In practice, corporate social responsibility is currently translated as ‘best practice’ ie, the rigorous assessment and management of a company’s impacts across the entire business from the point of material supply to product disposal. To conclude, in its broadest sense, contemporary corporate social responsibility represents companies’ responsibility to improve all their impacts on society, when not required to do so by law.

To be able to discuss the role of government in relation to corporate social responsibility, the development of an operational and measurable definition of corporate social responsibility is important. To this end, the World Bank has developed an operational term of corporate social responsibility which considers corporate social responsibility as the process of managing the costs and benefits of business activity to both internal (ie, employees, shareholders, investors) and external (institutions of public governance, community members, civil society groups, other enterprises) stakeholders.

4 Existing Literature

Corporate social responsibility is defined as corporate social responsibility is a concept whereby financial institution not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, employees, shareholders, customers, suppliers, and civil society represented by NGOs. Banks must take on new responsibilities that go beyond a simple policy of “paternalism” vis-a-vis their suppliers, customers and employees, such as that practiced up until recent times (Noyer, 2008).

Deegan (2002) suggests that organizations need to take community expectations into account if they want to be successful. Stakeholders include a wide range of people and interest groups who are involved in some capacity with organizations (Price, 2004). He drew attention to the role of external stakeholders which were defined as “any group who can affect, or is affected by, the accomplishment of organizational purpose”. This theory has been used to support the reasoning of such disclosures. From an analytical perspective, a stakeholder approach can assist managers by promoting an analysis of how the company fits into its larger environment or social context, how its standard operating procedures affect stakeholders in the company (employees, managers, stockholders) and immediately beyond the company (customers, suppliers, financiers).

5 Socially Responsible Investors and Corporate Social Responsibility

At the same time, mainstream investors are being challenged to ensure that they review corporate social responsibility issues when analyzing companies. The resulting report, concluded that investors were not only permitted to but also sometimes required to take such factors into account. Socially responsible investors have been a key catalyst asking companies to develop a corporate social responsibility agenda for the past decade. In recent years, mainstream financial institutions have also come to value corporate social responsibility. A January 2005 survey of mainstream investment managers found that 73% of predicted that socially responsible investment indicators will become commonplace in mainstream investing within 10 years.

1.6 Non-Banking Financial Companies Role

The theme of good governance, ethics, trust and transparency is of increasing relevance in the current financial scenario. Corporate social responsibility implies a variety of mechanisms and formalities. In the specific case of the NBFC sector. The intermediate stage of communication towards the outside (towards the various stakeholders), flanked by third-parties’ certification of the appropriateness of the pathway undertaken; enhancing the corporate reputation (social and environmental reporting, various social and environmental certifications, labeling and transparency strategies).

The offer of “ethical” products and socially responsible investments (an authentic ethical investing strategy) as well as other corporate social responsibility initiatives. The context is rendered even more complex by the simultaneous development of regulatory initiatives on several levels. Supranational regulatory schemes.

In addition to these three levels of rules, players’ strategies have also to be considered as “self-regulatory” and voluntary initiatives, with various supervisory and internal control models set up by financial conglomerates, such as banking groups and financial companies. Strategies for developing human capital and for dialogue with stakeholders (i.e. mutual insurers vis-à-vis the global strategies of internationalized insurance groups).

The regulatory point is crucial. The narrow border line between legally binding requirements and self-regulatory
 initiatives has to be borne in mind when addressing topics such as good governance and corporate social responsibility. Thus, the mindset of those businesses willing to cope with corporate social responsibility is not only based on the development of a ‘‘compliance’’ approach towards binding regulations, but increasingly on inserting a ‘‘regulatory plus’’ approach into daily behaviour and corporate practices.

The situation is even more complex when insurance companies belong to broader banking groups, especially if the latter have a clearly defined and broad-ranging corporate social responsibility strategy. In this case, insurance product companies could contribute with their medium-long-term view and their lasting relationship with the clients.

7 Conclusion

It has been demonstrated that almost half the total number of finance companies provide social disclosure. Again, there is no independent verification of this information, so the credibility of the information is questionable. Three quarters of disclosures are generalized qualitative statements without any attempt to convert this qualitative information into quantitative terms: more than half of corporate social responsibility is in the director’s report; and the average length of disclosures amounts to less than half a page. Given the presence of widespread corruption, an unstable political situation, deteriorating law enforcement and the influence wielded by the country’s social elite, non-compliance with the legal requirements often encourages companies to not engage in social and environmental commitments or at least disclose them very inadequately. An increasing number of companies and businesses in India are engaged in corporate social responsibility.

Additionally, more companies are playing a major part in providing relief and rehabilitation in the aftermath of natural disasters. It creates new business opportunities, synergies and private-public partnerships, and connects customers, suppliers, stakeholders and communities. Corporate social responsibility is an emerging concept in India and its limited familiarity is perhaps the greatest impediment to its wider adoption. This will add more value to their image and reputation, and go a long way towards enhancing the brands of finance institutions. Again, further research should be conducted on the finance sector to discover the motivation behind such voluntary disclosures of corporate social information in their reports.

References

7. Hanson, W (2000), Principles of Internet Marketing, Cincinnati, Ohio South- Western