

Corporate Social Responsibility As A Tool For Boosting Financial Performance: A Case Study On Tata Motors Ltd

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Abstract: Corporate social responsibility (CSR) refers to business practice that involves participating in initiatives that benefit society. The prominence of corporate social responsibility initiatives in Indian companies has become a main priority in the current scenario. Further, the inclusion of the CSR provisions in the new Companies act, 2013 shifted it from voluntary to mandatory. Thus, there is a compelling need for organizations to improve environmental, social and governance (ESG) activities in the form of CSR/ sustainability, while managing their financial performance. Investments in CSR programs, generally requires a trade-offs in companies' financial performance. But, strategically focusing on CSR activities that are more relevant to the industry can simultaneously improve financial and ESG performances.

This paper investigates the strategic CSR initiatives of the selected Indian company in making profitable business operations. Thus, this study adopts the 'firm perspective', rather than 'country's perspective' to understand the positive impact of CSR on financial performance. Case study method of analysis was used to analyze the different CSR practices followed by 'Tata Motors Ltd' in the five broad categories of CSR, namely- environment, human capital, social capital, innovation and corporate governance. The main objective of the research is to present that strategic approach to CSR can be used as a business tool to secure sustainable financial growth.

Keywords: Corporate Social Responsibility (CSR), Sustainability, Tata Motors Ltd.

I. INTRODUCTION

After Globalization, Indian economy has grown significantly as an important player in the global order. But, on the other side, it is still the place of poverty and undernourished. This Scenario of social unrest demands for the Companies' contribution to the society as a corporate citizen for building a society, free from disparities and also for ensuring their long term success in their business operations. Many Companies in India have been pro-active in practicing CSR (Corporate Social Responsibility) by improving healthy eco-systems, encouraging ethical practices in business and helping the disadvantaged sections of the society. Provisions of Companies Act, 2013 makes CSR formally mandatory for the Companies in India. The Act requires the Companies to implement CSR activities more professionally.

Section 135(1) of the 2013 Companies Act, dealing with the applicability criteria for CSR requirements states that

every company with net worth of 500crore or more, (or) turnover of 1,000crore or more (or) a net profit of 5crore or more during any financial year will constitute a CSR committee. The Board needs to ensure that the company spends, in every financial year, at least 2% of its average net profits made during the three immediately preceding financial years in pursuance of CSR policy. This call by Indian government to the companies to involve in increased social responsibility has acquired high degree of importance to the concept of CSR, in terms of both theory and practice.

"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".

- *The World Business Council for Sustainable Development (WBCSD)*

CSR is not just philanthropic activities (*charity*,

donations, relief funds, etc.) but is a continuous commitment of the business enterprises for formulating an effective CSR Plan and its implementation for improving social and environmental conditions through achieving business aspirations. CSR is often misunderstood to be the quanta of funds spend on Charity. But the concept is not an idea of philanthropy, but extends to how responsibly a business is conducted.

Early notions of CSR on an academic level can be traced back to the 1960s. In 1991, Carroll Archie.B, presented CSR as a multi-layered concept that consists of four interrelated aspects: economic, legal, ethical and philanthropic responsibilities. These four responsibilities form the essence of CSR and a company's decisions should be made taking into account – economic, legal, ethical and discretionary point of view to achieve balanced orientation.

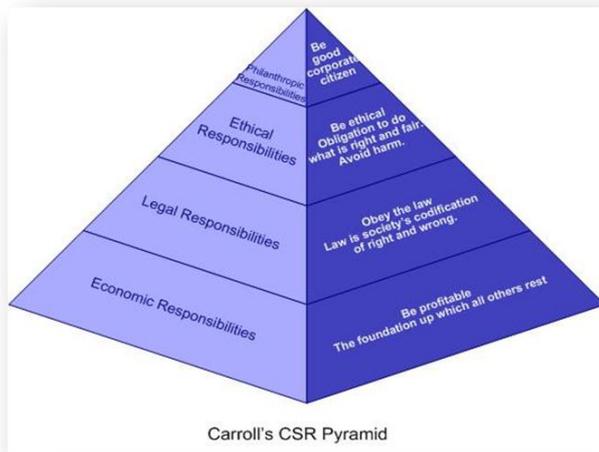


Figure 1

- ✓ **ECONOMIC RESPONSIBILITIES** forms the base or foundation for the CSR. The primary purpose of setting up an organization is profit making, without which other responsibilities become doubtful to be achieved.
- ✓ **LEGAL RESPONSIBILITIES** are mandatory, whereby the companies are legally responsible to abide by the law. They form the second significant layer in the pyramid.
- ✓ **ETHICAL RESPONSIBILITIES** are those that demands companies behaviour beyond the legal compliance in consistent with societal moral and ethical norms.
- ✓ **DISCRETIONARY RESPONSIBILITIES** are ones, which a company can assume even if there are no clear-cut societal expectations. This basically involves philanthropic activities, where the companies assist voluntarily to those projects that enhance a community's quality of life.

Thus, CSR is the business strategy that shapes the values underpinning a company's mission and the choices made each day by its executives, managers and employees as they engage with society. To sum up, the four key principles that define the essence of CSR are: (i) Minimise harm, (ii) Maximise benefit, (iii) Be accountable and responsive to key stakeholders and (iv) Support strong financial results.

II. STRATEGIC APPROACH TO CSR

“CSR is taking the world of business by a storm”. There is a need for a creative approach where businesses work together with governments and non-profits for the society's welfare. The most researched and proven benefits of effective strategic CSR are reputation and branding, talent attraction & retention and operational cost savings. The crucial step is developing a framework for creating sustainable strategy that must address the interests of all stakeholders – investors, employees, customers, governments, NGOs and society at large.

In order to develop a sustainable strategy, the companies have to focus on five broad initiatives:

- ✓ Determine the business objectives and priorities
- ✓ Identify the Material ESG Issues
- ✓ Assess the impact of each material concerns
- ✓ Innovate business model for CSR
- ✓ Measure the performance

A. DETERMINE THE BUSINESS OBJECTIVES AND PRIORITIES

There is no ‘one size fits all’ method, when it comes to pursuing CSR approach. Each firm has its own unique characteristics and circumstances. A logical first step is to gather and examine relevant information to determine where the firm currently is with respect to CSR activity. An innovative CSR strategy should be developed in harmony with the firm's mission, business culture, environment, risk profile and operating conditions. This examination of business information generates a base of information the firm can use to develop a CSR strategy.

B. IDENTIFY THE MATERIAL ESG ISSUES

Schedule VII of the companies act, 2013 lists the various ESG activities for companies to undertake in order to meet their CSR obligations. It ranges from eradicating poverty, preventive healthcare, education, and gender equality to environmental sustainability, ecological balance, and the like. Whether a CSR activity significantly affects a company's ability to create a long-term shareholder value depends mainly on the sector in which it operates. ‘Material ESG issue’ is that activity that influences firm's financial performance. For example, environmental issues such as GHG emissions, water use and waste management are more material to manufacturing concerns, while societal issues such as customer satisfaction, customer privacy, access to services are relevant to financial companies. According to the sustainability accounting standards board (SASB), there are five major categories of CSR namely, environmental issues, social capital, human capital, business model & innovation and corporate governance.

| ENVIRONMENT | SOCIAL CAPITAL | HUMAN CAPITAL | BUSINESS MODEL & INNOVATION | CORPORATE GOVERNANCE |
|--|---|--|--|--|
| <ul style="list-style-type: none"> •Water management •Energy management •GHG and air pollution •Waste management •Bio-diversity impacts | <ul style="list-style-type: none"> •Impact from facilities •Customer satisfaction •Customer privacy •Access to services •Education | <ul style="list-style-type: none"> •Training & development •Diversity & equal opportunity •Compensation & benefits •Employee health, safety & wellness | <ul style="list-style-type: none"> •Research & development •Product quality & safety •Product pricing | <ul style="list-style-type: none"> •Business ethics •Policies, standards and code of conduct •Regulatory and legal compliance |

Figure 2.1: Sasb's Materiality Categories Of Csr

C. ASSESS THE IMPACT OF EACH MATERIAL CONCERNS

After identifying the firm's material ESG concerns, assess the impact of the same on financial parameters such as revenue growth, cost reduction, return on capital, etc. The assessment should identify CSR risks and opportunities and also take into account the legal requirements. This step must ensure that a firm reviews its full operations through a CSR lens. The purpose of the assessment is that a firm has to perform a thorough appraisal of its current and potential activities from a CSR perspective.

D. INNOVATE BUSINESS MODEL FOR CSR

The assessment will provide the foundation for the Innovation strategy. The assessment would have indicated the existence of risks or real opportunities for synergies/ new products in certain areas. With this background, it should be possible for the firm to create proposed CSR actions comprising environmental, social and economic aspects. Similar to any other aspects of business, Innovative CSR strategy requires setting measurable targets and tracking its success.

E. MEASURE THE PERFORMANCE

This final phase is to measure the CSR strategies by developing clear performance metrics or key performance indicators – both internal and external. Reputation, gain in market share, increased sales, employee satisfaction, decreased operational expenses are Internal, while external indicators includes environment and society. Communicating the company's work in the area of CSR to the shareholders and other stakeholders is inevitable. Information about CSR commitments, activities and performance reporting should be communicated visibly and frequently to all stakeholders through newsletters, annual reports, Sustainability reports and other media releases.

In the future, the focus will not be on whether or not to engage in CSR but on how to do it smarter and more strategically innovative. In Indian scenario, the space for smart, effective and strategic CSR is less crowded, but is wide open for the companies to take the lead in CSR initiatives.

III. REVIEW OF LITERATURE

Balasubramaniam, Kimber and Siemensma (2005) pointed out that 'there is lack of detailed case study analysis of

CSR in the Indian context'. The few studies relating to CSR are quantitative in nature based on annual reports and CSR reports and studies its relationship with the financial performance.

Kapoor and Sandhu (2010) made a comparative study of CSR of practices between companies and criticized that 'the local corporate social responsibility is not in balance with global corporate social responsibility'. In addition, the authors remarked that companies have still much work to do for good "corporation citizenship".

Amit Kumar.S & Gayathri Negi (2012), in their research work titled, "CSR: A case study of TATA group" attempts to provide a thorough investigation into the sustainability policy and the CSR activities of TATA group of companies and its subsidiaries. The researchers through the case study illustrated that 'social involvement of business would enhance harmonious and healthy relationship between the society and business seeking mutual benefit for the both'.

IV. METHODOLOGY

This paper follows a descriptive case-study method of analysis. An exhaustive survey of existing literature on the subject of CSR provided the extant theory on the subject. The study relied on secondary data collection mainly from company's annual reports, CSR reports and other publications. The focus of the study is to present the incidence of strategic CSR in Tata Motors and provide with the evidence of economic impact by each category of materiality concerns more relevant to their sector of business operations. This paper studies the corporate responsibility initiatives undertaken by the Tata Motors company in the period 2015-2016.

V. CASE STUDY ON STRATEGIC CSR PRACTICES



Company's profile: Tata Motors Limited, established in 1945, is a leading global automobile manufacturer with a portfolio that covers a wide range of cars, sports vehicles, buses, trucks and defence vehicles. The company is part of Tata group founded by Jamsetji Tata in 1868 with the current turnover of 42 billion US dollars.

| | |
|----------------------------------|--|
| Sector | <ul style="list-style-type: none"> ✓ Manufacture of motor vehicles, parts and accessories ✓ Sale of motor vehicle, parts and accessories |
| Products/Services | <ul style="list-style-type: none"> ✓ Passenger Cars ✓ Commercial Vehicles ✓ Vehicles sales and service |
| National Manufacturing Locations | Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). |
| Total Turnover (INR) | 46,646.67 Crores (Fiscal year) |

| | |
|--|---|
| | 2016) 39,531.23 Crores (Fiscal year 2015) |
|--|---|

Table 1

CSR Policy: Sustainability and the spirit of 'giving back to society' is the core philosophy of the company.

APPROACH TO CSR

The CSR initiatives of Tata Motors mainly focus on four segments- health, education, employability and environment programmes to accommodate emerging community aspirations. The total CSR spending of the company for the FY'16 was INR 20.57 Crores.

- ✓ *Aaroghya* – health programme for prevention of mal-nutrition
- ✓ *Amruthdara* - to develop sustainable drinking water solutions in water scarce villages across the country
- ✓ *Vidhyadhanam* – to improve academic performance of secondary school student
- ✓ *Kaushalya* – to help farmers and women augment their income through our agriculture and allied initiatives
- ✓ *Vasundhara* – to create environmental Awareness sessions
- ✓ *Aadhar* – to mentor and offer diversified business opportunities to SC/ST entrepreneurs
- ✓ *Seva* – encourages employees to contribute their time, skill and expertise in volunteering for community development.

STRATEGIC CSR INITIATIVES OF THE COMPANY

Tata Motors has been actively assisting in the improvement of the quality of life of the people in the community. Their CSR initiatives encompass support extended in the field of education, vocational training, effective water management, ecological balance, rural development, health care and the like. However, this study focuses on the strategic approach of the company in choosing the CSR activity, which is the more relevant to the industry in which it operates.

Tata Motors has rightly identified the materiality concern of its industry and has made relevant investment in the specified arena to achieve financial as well as ESG goals. The salient CSR activities are enlisted below,

- ✓ *ENVIRONMENT*: All Manufacturing plants of the Company are certified to *ISO 14001 Environment Management Systems* and are also certified to *OHSAS 18001 – Occupational Health & Safety Management System*. Further, all Commercial Vehicles (CV) Manufacturing Plants in India are certified to *ISO 50001 - Energy Management System*. The Company has undertaken several initiatives for resource conservation such as re-cycling of treated effluents back to process, energy and material recovery from hazardous wastes and rainwater harvesting. With an aim to instill environmental awareness in the community, the company has held a series of sessions across India on environmental awareness and also *planted more than 67,000 saplings*.
- ✓ *SOCIAL CAPITAL*: Employability (skill development)

program addresses a key industry need by training unemployed youth in automotive skills, mainly as drivers and motor vehicle mechanics. During the year 2015-'16, CSR report indicates that *the company has trained 6,000 youth as novice drivers and 3,900 youth as mechanics*. This CSR activity mainly aims at meeting the shortage in skilled workforce in automotive trade.

- ✓ *HUMAN CAPITAL*: The Company aims to achieve ultimate goal of '*Zero Injuries*' to its employees and mainly drivers engaged at all levels, through providing right safety culture across the organization. Various campaigns and workshops have been initiated to train employees and associates on safety standards. In fiscal year- 2016, 21 sessions are conducted covering 565 workshops across India. The canteens that operate at various manufacturing plants started *HACCP (Hazard analysis and critical control points) certification process* to ensure food safety for the employees.
- ✓ *BUSINESS MODEL & INNOVATION*: Tata Motors is the first Indian company to introduce vehicles in Euro norms. Tata Motors' joint venture with Cummins Engine Company, USA in 1992 was a major effort to introduce *emission control technology* in India. It has taken the help of world-renowned engine consultants like Ricardo and AVL to make *environment-friendly engines*. It has manufactured CNG (Compressed natural gas) version of buses and passenger car, the Indica. It has also made investments in the establishment of an advanced emission-testing laboratory.
- ✓ *CORPORATE GOVERNANCE*: As a global organization, the Corporate Governance practices followed by the Company and its subsidiaries are compatible with international standards and best practices. The governance of the company ensures *legacy of fair, ethical and transparent practices*.

Thus, the strategic approach to CSR employed by Tata Motors not just prove to be altruistic, but for building sustainability tools into their business strategy. This emphasis that CSR initiatives can prove to be new source for revenue and growth for the companies in the long-run.

VI. CONCLUSION

A large number of companies are undertaking CSR activities superficially in India and highlights the same in media. But the failure to align the business goals with ESG activities will make those businesses unsustainable in the long-term. CSR is an on-going social and environmental commitment on the companies imposed by law in India, which could be achieved over time through best practices. The goal of this paper was to present the CSR practice of Tata Motors Ltd, a flagship company of Tata group that focuses on self-sustaining and impactful CSR programs. And it is indeed possible for the other firms and industries to do so. In addition, the research paper attempts to provide an insight into the concept of materiality in CSR framed by SASB and exhibits the incidence from the practice of Tata Motors. The study highlights that significant investment in CSR operations based

on issues more relevant to the industry not only makes business possible, but also – profitable.

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