

CSR IN ONLINE RETAIL

Guidelines & Beyond

Amol Ranadive

Assistant Professor
School of Business & Law
Navrachana University
amolr@nuv.ac.in

Nitish Saxena

Student, MBA Programme
School of Business & Law
Navrachana University
nitish@techindia.io

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Introduction

The surging growth of the Indian economy in the past decade and a half has been largely attributed to the boom in Information and Technology (IT), and more recently, the Information and Technology Enabled Services (ITES) sector which includes the country's nascent e-commerce industry.

Ranked as the fastest growing market for online retailing and other Internet-based services, and with an online-shopping customer base touching almost 40 million, the Indian e-commerce industry faces mounting calls to make greater societal contributions beyond those of profit.

The Corporate Social Responsibility Law, which came into effect on April 1, 2014 in India, has increased focus on the industry's obligations towards social responsibilities entailing people, communities, and the society at large. This paper is an effort to outline the areas where several social responsibilities can be fulfilled by online retailers and service providers, more particularly in the Indian context.

The term Corporate Social Responsibility (CSR) has been differently and variedly defined over the years, with even more varied shades of understanding across geographies. The most widely accepted definition, and one that suits the context of this paper, is given by Lord Holme and Richard Watts (*Making Good Business Sense*, website of the World Business Council for Sustainable Development) –

“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.”

CSR has increasingly become a major part of business agenda for organizations and institutions. More and more companies are willing to acknowledge that *whatever is beneficial to society is in turn beneficial for business*, and it is imperative to embrace sustainable CSR via sustainable business practices in order to retain competitive advantage.

The Evolution of CSR in India – A Quick Recap

Contrary to popular belief, India has one of the oldest traditions of CSR, right from the early 19th century. The history of CSR in India can be broadly divided into four major phases that run parallel to the country’s historical development.

During the **first phase**, which can be traced back to the early 19th century, charity and philanthropy were the main drivers of CSR. Elements like culture, religion, family values and tradition had an influential effect on the societal behaviour of wealthy merchants, who would often be found involved in construction of temples, providing aid during natural calamities etc. as a means of securing a position of power in the society.

The **second phase**, during the Independence Movement, saw Mahatma Gandhi introduce the notion of "trusteeship", according to which industrialists were expected to manage their wealth in such a way so as to benefit the common man. Said Gandhiji –

"I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories."

Gandhiji's influence put pressure on various industrialists to act towards building the nation and pursuing its socio-economic development. Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions, largely in line with Gandhiji's vision of bringing broad social reforms such as abolishing of untouchability, encouraging women empowerment etc.

The **third phase**, roughly around 1960-80, witnessed the emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. Due to various legislative restrictions, the private sector was forced to take a back seat, and the public sector seen as the prime mover of development.

The time since then, clubbed under the **fourth phase**, has seen Indian companies abandon their traditional engagements with CSR and instead opt for an integrated, socially responsible and sustainable business strategy. April 2016 will mark a full two years since the Corporate Social Responsibility (CSR) law came into effect on April 1, 2014 in our country.

Unfortunately, the ugly truth is that CSR activities are still not undertaken regularly and in full measure, or are done only in namesake (especially by MNCs with no cultural or emotional attachments to India). Despite recent efforts to make Indian entrepreneurs aware of social responsibility as being an important segment of their business activity, CSR in our country is yet to receive widespread recognition.

Even the biggest of online retailers in India are not mandated by law to engage in CSR activities. Why? Because they haven't turned profitable, yet. Yes, they may be valued at billions of dollars. They may be raising money beyond your wildest dreams, but there are still many years to go before they arrive at their break-even points. Profit is a long way after that. And 2% of their profits for CSR? Longer still.

In a business environment where social responsibility programmes are financed by receding budgets, CSR cannot be ad hoc or made to fall prey to tokenism. The time is thus ripe for these market leaders of tomorrow to formulate a CSR policy that is as sustainable as their business models.

The Potential Benefits: What's Good for Society is Even Better for Business

Online retailers must realize that CSR is an intrinsic part of a sustainable business. CSR initiatives by the e-commerce industry will yield significant benefits to the society such as economic development, community welfare and environment protection, restoration etc. However, the following intangible benefits may also be realized over time –

Enhanced Brand Equity: Online retailers can boost their brand image through well-publicized CSR activities. Responsible companies are also known to face far less scrutiny from regulatory authorities.

Build Trust & Confidence: In today's highly volatile business environment, CSR activities can help rebuild trust and relationships, apart from inspiring confidence among various stakeholders.

Increased Business Growth: Various studies and research have arrived at the infallible conclusion that there is always a positive correlation between CSR activities and business growth, many a time attributed to increased customer faith and loyalty toward the company.

The 3-P's Approach to Sustainable CSR: People, Process, *Products*

These days one can define a 3P approach for nearly every industry, whether it be manufacturing, services or in our case – online retailing. E-Commerce companies can implement sustainable CSR initiatives by aligning CSR with their business strategies.

The challenge is to develop a framework that makes CSR sustainable seamlessly by leveraging capabilities, and in turn enhancing the credibility and competitive advantage of the company.

P1 – The People

One important way in which CSR becomes sustainable is when people are involved in the CSR agenda. The CSR policy of the company is clearly defined and communicated to all employees who in turn are recognized and awarded for excelling in CSR activities. CSR activities by employees can also be featured regularly in various company publications to inspire others to follow in their footsteps.

The same can be extended to customers too. Customers can be awarded reward points for purchase of green/energy efficient products, and use of e-statements which they can later redeem during future purchases to avail discounts and other benefits.

E-commerce companies, being technologically driven, can tie up with cab-hailing and carpooling services for ferrying their employees – providing increased personal comfort and helping in reducing emissions.

P2 – The Process

Several experts are in agreement that it is time for the IT industry to rethink their responsibility, especially the relationship between value creation and resource consumption. Online retailers can be innovative in their offerings while adopting a cause. They can identify new revenue streams and business verticals, collaborating with domain experts in the process to develop sustainable solutions.

One of the most important infrastructural changes that an e-commerce company can undertake is moving all of its data and other IT-related processes to virtual servers – cloud and energy efficient platforms, all the while upgrading and consolidating their existing infrastructure.

Administrative and HR-related tasks can also be moved to the cloud, which will not only help in significantly reducing infrastructural and maintenance costs but also contribute greatly to a sustainable environment.

The last-mile delivery framework, one of the most crucial processes in the entire e-commerce shopping experience can be further optimized using various operational management techniques to bring down total distance travelled. This would in turn not only help in saving fuel but also bring down logistic costs for the company itself.

Last but not the least, usage of environment-friendly materials for packaging of products can be undertaken by online sellers as a way of not only reaffirming their commitment to environmental protection, but also building loyalty and trust among customers.

To measure the effect of implemented changes, e-retailers can even undertake energy audits to better explore more effective initiatives.

P2 – The Products

Online retailers can easily combine several areas of social responsibility and offer integrated products and solutions, rather than contributing to a single cause. For example, a B2B (business to business) marketplace can offer special discounts on various products and services to accredited small and medium enterprises (SME) to reduce ecological impact.

Such companies can even tie up with financial institutions to provide business loans with preferential interest rates to customers who are granted ISO 14001 or equivalent environmental certification.

B2C (business to customer) enterprises can offer discounts on products like books, educational CDs, games and toys etc. that impart education about social responsibility directly or indirectly.

Health products, especially those for senior or handicapped citizens, can also be discounted and made easily available (and purchasable) online. Tie-ups with financial institutions for interest free EMIs for purchase of such products can go a long way in making life easier for the less fortunate ones.

Challenges for Sustainable CSR

E-commerce companies in our country operate in a very uncertain business environment. Consequently, the implementation of a solid CSR framework may face several hurdles, some which must be overcome to ensure sustainability of the business. Here we outline some of the challenges an e-commerce company may face in its efforts to make CSR sustainable, and what they can do to mitigate any concerns.

Measuring Impact

Online retailers may fail to quantify the actual impact of their CSR activities due to lack of a proper framework for benchmarking CSR. However, the presence of a solid CSR policy, religiously followed, itself can hold the company in good stead for a very long time.

Demanding Customers

Increased awareness about various social, economic and ecological problems in the world has resulted in more and more customers demanding sustainable products and services. Online retailers not only need to create favourable market conditions, but also conducive business environments. Consequently, they now have the added responsibility of identifying new opportunities for products and services created by sustainable CSR.

People

Sustainable CSR requires an intimate understanding of how individuals take decisions about social and environmental issues. The challenge for e-commerce companies is to attract and incentivize employees who are willing to take a leadership role in CSR activities of the company. In an uncertain business environment, where seed funds are plenty, but subsequent investments are hard to come by, e-commerce companies (especially those just starting out) may be forced to downsize. CSR cannot prevent downsizing, but companies can take it upon themselves to downsize in a responsible manner.

Conclusion

Many of India's e-commerce companies, though quite young, are undergoing transformation from companies concentrating on GMV (Gross Merchandise Value) to socially responsible corporate citizens.

It is true that CSR activities by e-commerce companies have not quite taken off, but a time will come when they will have to make significant contributions with respect to social responsibility as directed by corporate law. Companies like Snapdeal have already taken a lead in CSR activities. The trend will only continue to grow.

Lastly, we would like to point out that there is a need to ensure rules accommodate existing and emerging business models that focus less on physical presence. Industries such as television channels have a nationwide presence despite a small physical footprint. Similar models are now transforming new industries, such as retail commerce which is moving towards online sales. Companies leading India's growth wave in e-commerce sales may have a modest physical presence in a few locations, yet have a pan-India reach.

For this pool of CSR spending to have an impact on most of the social issues notified by the Government of India, the rules governing the CSR mandate must be relaxed to remove geographical direction and ensure emerging business models are accommodated.

While many companies would still choose to expand their CSR contributions in areas local to their operational areas, some will choose to build or continue programs well outside of their own operational areas. Such activities should be encouraged so that the Government's CSR policy does not ultimately augment regional imbalances.

Online retailers and services providers must integrate CSR into their core business strategies and company policy. An effective CSR strategy is one that is well articulated, is aligned with the company's business and has the unflinching support of all key investors and stakeholders to become a long-term agenda.

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