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Alternatives to Corporate Social Responsibility in Rural Development

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Abstract

While Corporate Social Responsibility (CSR) spending remains one of the most effective ways companies can involve themselves in Rural Development, there is a need for many corporates to think of going beyond CSR in their attempt to engage with rural customers.

This paper examines some of the more successful models that have managed to incorporate the essence of "bottom of the pyramid", "inclusion" and "co-creation", and suggests a model that companies can look at to increase their development impact. The paper also looks at some of the tensions that must be balanced to make such models work.

Key words: CSR, bottom of the pyramid, co-creation, inclusive growth

Introduction

There is little doubt that a clear link exists between the ability of a community to achieve its basic development needs and that community's economic prosperity.

Only if a community prospers economically and has enough resources to direct towards development, then and only then can it make rapid progress in this area. Both, the public and the private corporate sector, play a huge role in stimulating economic activity, and this will be enhanced in rural areas if they also embody the concepts of "bottom of the pyramid", "shared value", inclusive growth and "co-creation".

There is an almost symbiotic relationship between rural markets and Indian corporations. In order to run their businesses in a sustainable manner, such that they will endure over long periods of time, companies need the explicit sanction of the communities within which they carry out their business. In order to gain this goodwill, companies need to involve the local communities and co-opt them into some parts of their business processes.

So also, the largest growth in demand is coming from the rural markets. It is estimated that all other things being equal, rural demand could hit US$ 100 billion by 2017. A full one-third to one-half of the consumers of products and services of Indian companies come from rural areas, and therefore it is absolutely vital for companies to make a positive impression on the rural population.

All companies are able to conduct their business only with the implicit sanction of communities within which they exist. In order to carry out their business processes successfully, all companies need the active co-operation and participation of their communities. Therefore, in order to gain this goodwill, companies have also to address the needs of society. Given that in India, Rural populations make up such a large part of society, it is only fitting that companies also focus on the developmental needs of this predominant segment.

Present Scenario

One of the obvious ways that companies can contribute to Rural Development is through their CSR spending, and increasingly many Indian companies are now doing so. In fact, since the new Companies Act 2013 has been legislated by Parliament, India has been reported to be the country with the highest growth in CSR spending (27%) in 2015 from amongst 45 countries surveyed by the international audit firm KPMG. Of the Rs. 6,490 Crore expected to be spent by companies in 2015, an amount of Rs. 5,115 Crore was actually reported spent during that year (Shivakumar, 2016).

However, there is scope for much improvement. A study done on 147 companies regarding their CSR spending in 2013-14 revealed that only 18% of the companies met the 2% or more criteria on spending on CSR, with the average spend for the 147 companies included in the study being 1.28% (Majumdar, Rana & Sanan, 2015). The same study reports that 61% of the companies surveyed spend on Rural Development, so it is clear that of the companies that are serious about CSR, a significant proportion are making investments in Rural Development initiatives.

It is estimated that very quickly, companies will spend up to Rs.20, 000 Crores annually on CSR (Accenture - FICCI, 2014). This will supplement and support Government spending already ear-marked for development work.

Some of the Rural Development initiatives undertaken by companies include activities that spur economic growth like improving agricultural productivity, promoting Rural industry, providing Rural employment, providing productive resources and credit to individual Rural families and self-help groups (SHGs). Other projects corporates focus on include providing basic infrastructure like schools, health centers, roads, electrification, drinking water and sanitation.

Going Beyond CSR

However, besides focusing only on CSR to spur Rural Development, there are other means by which corporates can intervene in this area. In order to do this, companies will have to focus on the bottom of the pyramid, on inclusion, and on the concept of co-creation.

C.K. Prahalad, Distinguished University Professor at University of Michigan's Ross Business School and author of the seminal book "The Fortune at the Bottom of the Pyramid: Eradicating Poverty with Profits" (2004), argues that the poor should be looked at as value-conscious stake holders, and not as a burden on the economy, or as victims. Viewing the poor in this manner would re-structure paradigms, and this would result in opening up a new world of opportunities. Similarly, "inclusive growth" by implication essentially means growth that is pro-poor, or at least growth that is shared. Inclusive growth serves the purpose of involving the people in the process of growth more directly, and at the same time, it serves to stem poverty. "Co-creation" is essentially a strategy that involves the stake-holder or customer in the process of unlocking mutually beneficial value – both for the stake-holder, as well as for the firm. For this to be put into action, common platforms that the stake-holder and the firm can share need to be formed; it is through these platforms that a new form of interaction can emerge that can create value through sharing, combining and renewing each other's innate capabilities and resources.

Concepts

Prahalad (2012) has identified the "bottom of the pyramid" (BOP) markets as an emerging source of innovation that is challenging present business models. He makes the case that by turning their attention to the 4 A's (awareness, access, affordability and availability), businesses can find new ways of innovating for such markets. In his paper he mentions such innovations as the $ 2000 car (Tata Nano), the $ 50 cataract surgery (Aravind

Eye Care System), and a modern, well appointed $ 20 hotel room (Ginger) as examples of this type of innovation.

Porter and Kramer (2011) espouse the concept of "shared value", which they define to be "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates". They argue that this type of thinking has given rise to many hybrid enterprises, and the concept of shared value is blurring the Profit / Non-profit boundary. According to them, shared value can be created by "reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters"

CAFOD (2014) identifies the most important requirements that need to be met by inclusive growth: reduce poverty and inequality and benefit the most marginalised; it goes beyond just income - it is more about participation, not just outcomes; it requires sustainable growth. It necessarily includes investment in human capital, job creation, structural transformation and broad-based growth, social protection, non-discrimination, social inclusion and participation, and strong institutions.

Prahalad and Ramaswamy (2000) first brought forth the concept of co-creation. Basically, co-creation provides a means for people to unleash their creative energy by engaging them in the entire process of value creation in a business.

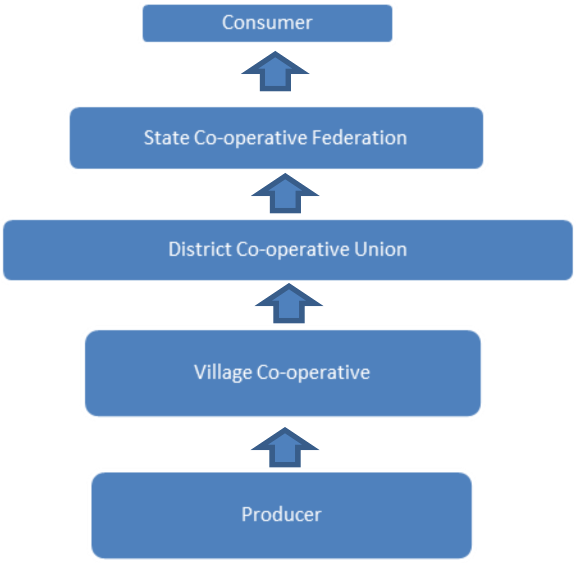
Existing Business Models Incorporating Inclusive Elements

Various business models are available in the Indian business space. Some of them are:

(1) The Federated Co-operative as a Model

The schematic of the model is given below:

Fig. 1. The Co-operative Model



The Co-operative Model is best illustrated by the State Milk Marketing Federations which are all modeled after the Gujarat Milk Marketing Federation (or Amul) Model.

The Producers at the village aggregate the produce at the Village Co-operative level, which then dove-tails into the District Union, and the State Federation.

At each level more and more complex and technology intensive value additions are made.

The producers have the responsibility of only production, whereas other functions such as marketing and production are left to specialists

Some of the key elements that made this model successful (based on the Amul experience) were the following:

1. The producers (farmers) were the "owners" of the co-operatives.

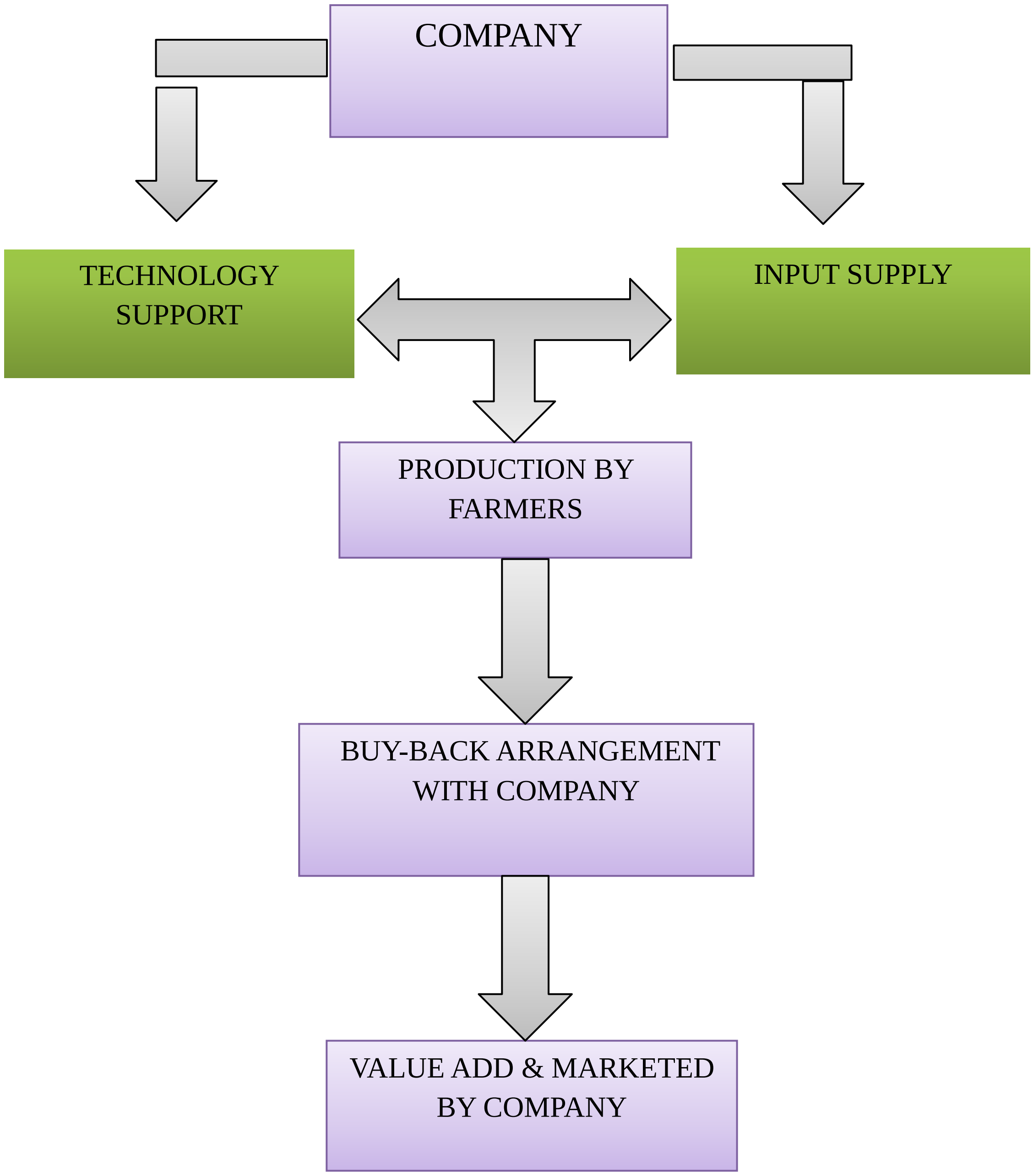
2. While it was clear that producers / farmers would take care of the production aspects, the marketing federation at the state level took on complete marketing responsibility, ensuring that all that was produced was sold

3. Technology had a big role to play. State-of –the art processing plants ensured that all products were of world class quality, and modern technology and management practices ensured that the brand would be truly world-class. (Kurien, 2005)

(2) Incorporating Inclusiveness using the Contract Farming Model

The contract farming model can be represented by the following schematic:

Fig.2 The Contract Farming Business Model



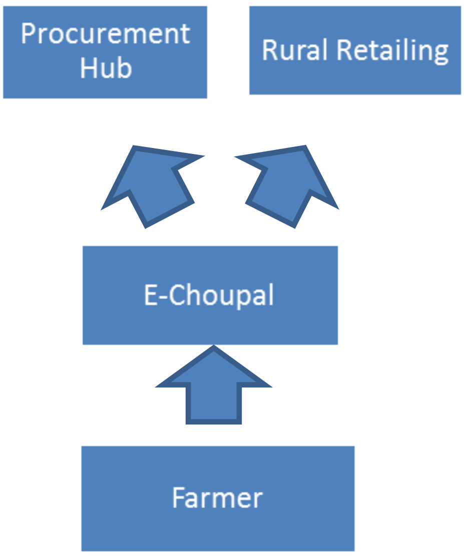
In this model, the company enters into a contract with farmers with pre-defined prices and quantities of produce to be delivered. The company supplies all inputs at cost, and deducts this from the final payment for the produce. A key element in this model is a genuine desire by the company to better the lot of the farmers, and keeping their interests at the forefront. The company clearly sees itself as a value-adding link between the Indian farmer and the markets, which otherwise the farmers would simply have no hope of accessing.

The producers / farmers are responsible for the quality and quantity of the raw material produced and supplied. The company and its managers take care of the production and marketing aspects. The producer / farmer is ensured of a fair return for his efforts, and a large part of his risk is mitigated by the company providing all the inputs. (Surendranath, n.d)

(3) The IT as Enabler Model – ITCs e-choupal

The following is a schematic representation of the e-choupal model:

Fig. 3 ITC's e-Choupal Model



In this model, technology is used to give the farmer the latest information about prices and quantities of produce available world-wide.

Fair and transparent procurement practices ensured that the farmer got a fair price for the produce, which he could then sell at his choice. Payment was immediate. This largely eliminated the unfair practices indulged in by the middlemen, and freed the farmer from exploitation

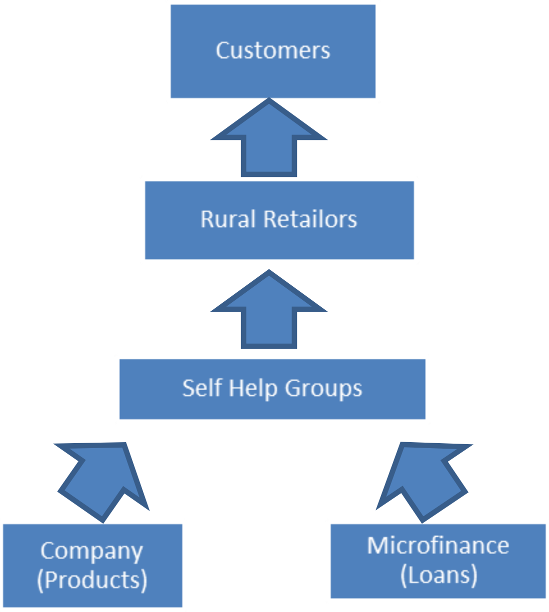
A rural retail outlet was also available where he could purchase his requirements. Thus, the farmer had a hub at which he could transact all his business, whether it was selling his produce, or buying his requirements at an outlet that assured quality and fair price. (Bowonder, Gupta and Singh, n.d.)

This was a win-win situation, as the company also stood to gain in terms of sourcing its materials, and entering into rural retail.

(4) The Co-created Rural Distribution Model

The schematic of the above can be represented as follows:

Fig.4 The Co-Created Rural Distribution Model



In this model, the company provides self-help groups with products and co-opts microfinance companies to enable purchase of its goods.

The self-help group members take up village level retail, going from door to door with the product.

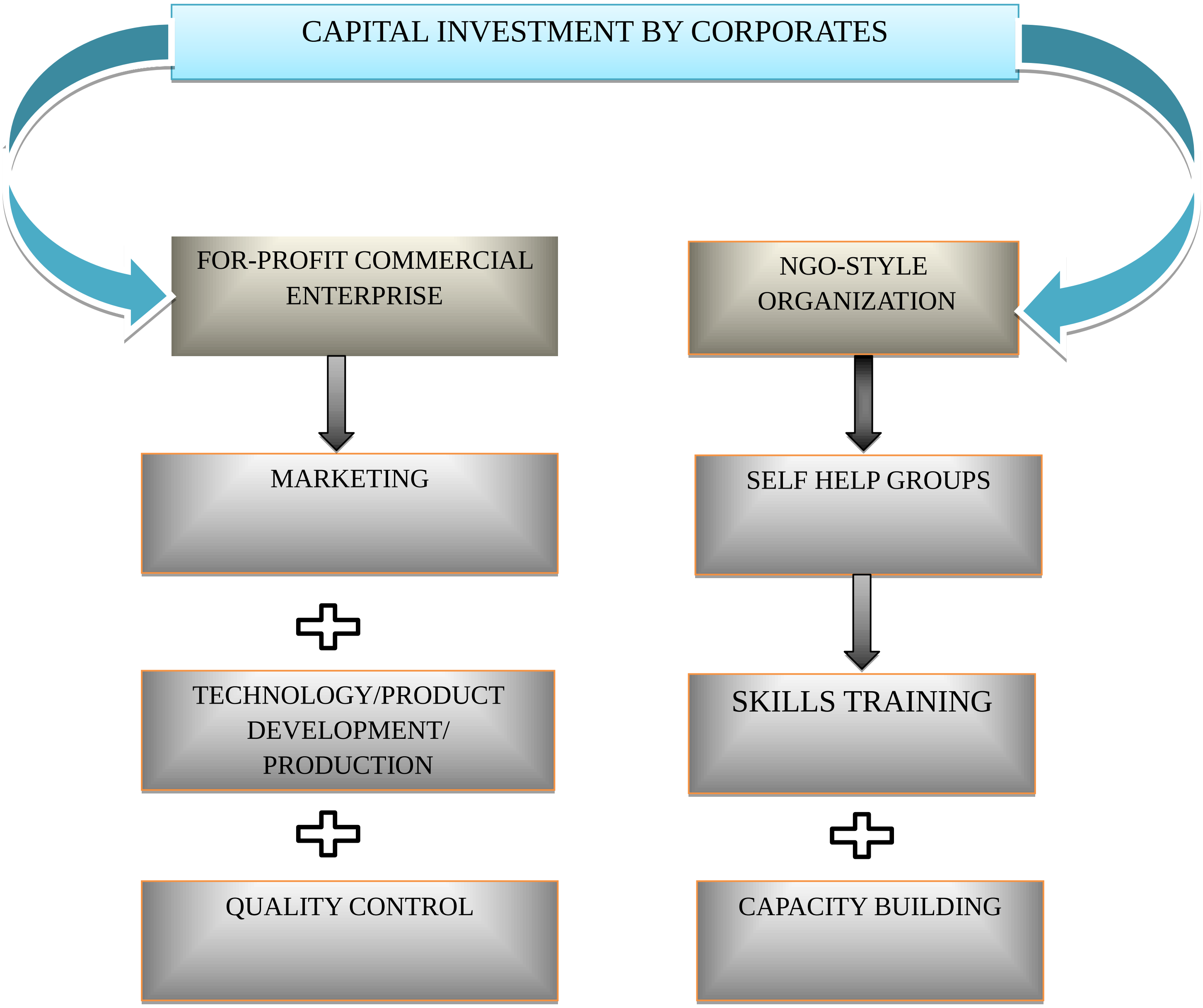
The product company also gives additional incentives to rural retailors for sales targets and volumes achieved.

The company targeted small villages, where due to small populations, setting up a formal distribution network was bot feasible. For the rural men and women who took up this retailing work, it was an addition source of income and a revenue stream for the family, which was otherwise not available. (Sarvani and Mukund, 2002)

Designing a Business Model Integrating Wealth Creation and Social Value Creation

Taking the common elements out of all of the models studied above, and integrating them into a simple generic model required the synthesis of the "Integrated Wealth Creation and Social Value Creation Model", represented by the schematic below:

Fig. 7 Integrated Wealth Creation & Social Value Creation Model

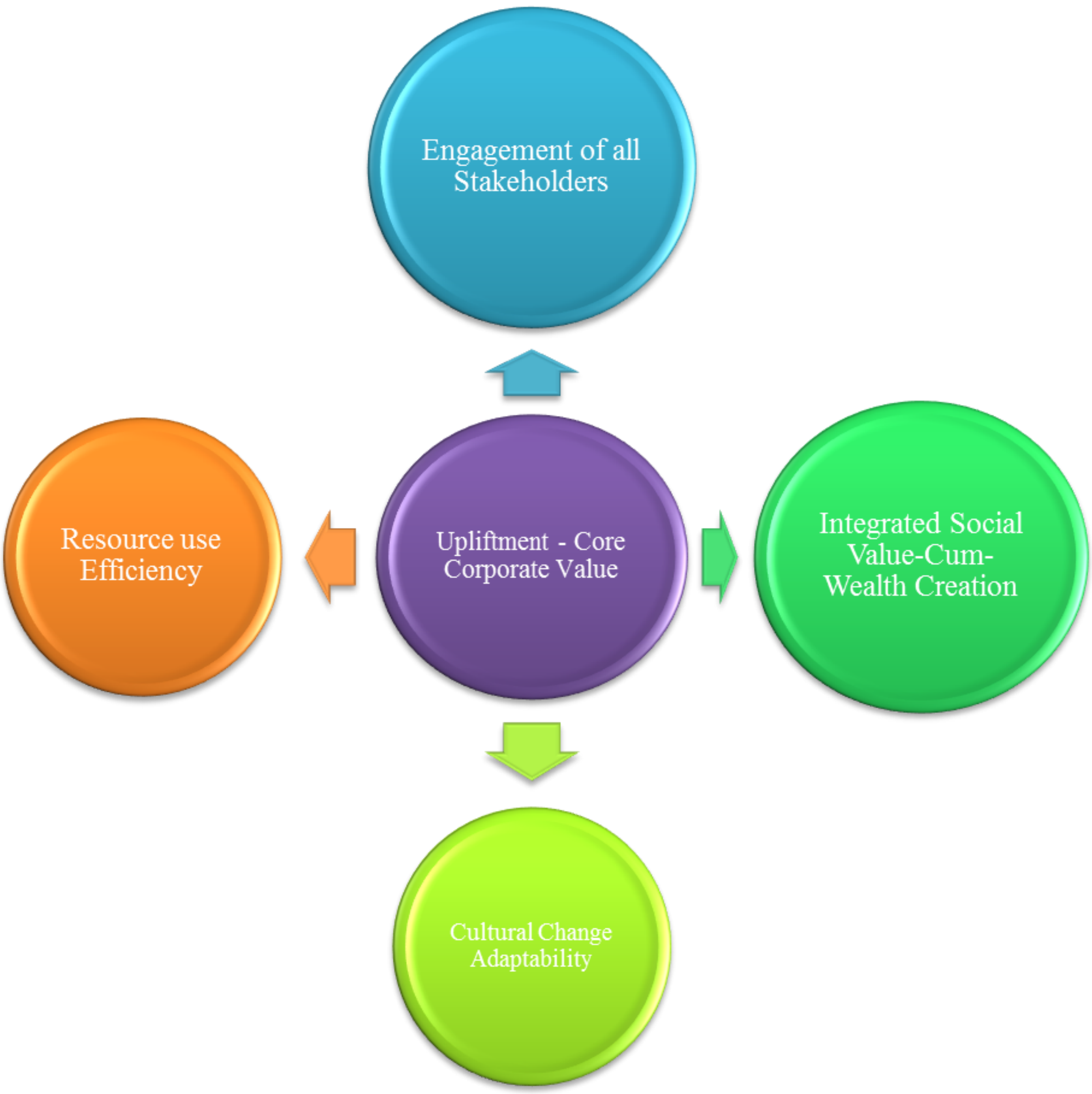


Implicit in this model is the premise that the firm will have two clearly distinct investment channels. On the one hand, there is the investment into the business value chain, which is the hard-core business part; on the other hand, there is the investment into the "social value creation chain" which will integrate into the business value chain wherever it can do so in a profitable and sustainable manner.

Balancing the Core Issues

However, managing such an enterprise will call for special skills, as there will be multiple and often conflicting demands on the system. This will require focus on maintain the balance of the enterprise, which can be done by paying heed to the following core issues.

Fig. 8 Balancing the Core Issues



Upliftment - Core Corporate Value

For the model to work effectively, one of the deeply held corporate values must be upliftment. If the senior management of the company does not hold this value dear, merely paying lip service, or going through the motions will not suffice. Investments made in this effort have to be seen by the companies as an investment for the future, both in terms of growing the market, as well as giving the participants of this market the wherewithal to participate meaningfully in these markets. All of the models examined in this study points to this deep and abiding belief as being fundamental to the success of all such models.

Integrated Social Value-cum-Wealth Creation

This is the single, most important element of the model, where the company goes much beyond CSR prescriptions, and looks for creative ways in which to advance society. Managing such companies calls for superior management skills and a lot of out of the box thinking, as it is essential that the social value creation process and the economic wealth creation process go hand in hand in a sustainable manner.

Engagement of All Stakeholders

The task of creating economic wealth along with social value is a complex one, and both of these objectives are not necessarily complementary. It thus goes without saying that unless all the stakeholders of the company are fully engaged in this process, the model has little chance of succeeding. It is the task of the management to create an environment that is conducive to this kind of an engagement. Such an environment will be created only if all the stakeholders are completely aligned to the vision, mission, goals and objectives of the organization.

Resource Use Efficiency

Given that there will be competing needs for resources, it is essential that all critical elements are identified and adequately supported, even if there is no immediate prospect of an economic return. Investments in organising, training and capacity building should be seen for what it is – investments for the future success of the enterprise, and should not be seen merely as costs.

Cultural Change Adaptability

Integration of the economic model with the social model will create significant tension between the various stakeholders. It is important that a culture of flexibility and adaptability is established such that common ground can be identified, and the enterprise can move forward and grow (Dawans and Alter, 2009)

Summary and Conclusions

The attempt made in this paper is to conceptualise a workable model for businesses that would incorporate both, elements from conventional profit making businesses, as well as more social enterprises. This is done by examining some such business models which are working successfully today, taking the basic elements and values that are at the core of these models, and then recasting the same into a generic model. By incorporating and including those segments of the rural population into their business models where they can meaningfully create value (as producers, retailers, or as factory workers), companies create a win-win situation for themselves vis-à-vis one of their largest consumers – the rural population. This will go much beyond the good will earned merely from CSR activities, and the rural population will be more absorbed into the business process, and feel included in the wealth creation cycle.

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