

STRATEGIC CHALLENGES FOR INCLUSIVE GROWTH AND SUSTAINABLE BUSINESS—A STUDY OF 500 COMPANIES IN INDIA

Samir Prasad Padhy¹
Prof. Satya Narayan Pathi²
Prof. Bhagabata Patra³
Dr.Sunil Kumar Pradhan⁴

Abstract

The purpose of this paper is to explore the brief overview of the importance of strategies within the companies in Indian context and in present critical juncture to discuss about the various corporate strategies for their profitability and inclusive growth to sustain in the long run.

The main objectives of the paper is to outline and discuss the relevant issues and challenges from the strategy formulations of companies in order to achieve advantages in a competitive market. Therefore the primary objectives of this study consist of the theoretical frames of strategies for achieving the sustainable competitive advantage and replicate the ways of implementing them not only in India but also in global context. It is cross sectional study which is exploratory in nature, which involves secondary source of data collection and use of content analysis technique to access responsible business challenges of companies operating in India, and further to highlight the socio, economic, political factors and its impact on the overall corporate sectors of the country. An attempt has been made to analyse how India's top BSE 500 listed companies manage their CSR fund in last five years as well to measure the business sector wise contribution in Corporate Social Responsibility against Sustainable Development Goals (SDGs) and Business Responsibility Reporting (BRR) in Indian context. It gives a perspective on how top corporate sector in India view and conduct CSR to achieve sustainable growth.

Keywords: Corporate Strategy, Corporate Social Responsibility (CSR), Inclusive Growth, Sustainability, Business Responsibility and Sustainable Development Goal (SDG)

¹ Samir Prasad Padhy, Research Scholar, Dept. of Business Administration, Berhampur University, Odisha

² Dr.Satyanarayan Pathi, Professor, Department of Business Administration, Berhampur University.

³ Dr. Bhagabata Patra, Former Professor, Department of Economics, Berhampur University.

⁴ Dr.Sunil Kumar Pradhan, Asst.Professor, Department of Business Administration, Berhampur University.

1. Introduction

1.1 Need for Inclusive Growth in Indian context

Inclusive growth is necessary for sustainable development and equitable distribution of economic wealth and prosperity as well. The macro and micro economic variables determine and measure the achievement level of inclusive growth in an economy. The micro dimension apprehend the importance of structural transformation for business diversification and market competition. In Indian context there is need for more focus on pace and pattern of inclusive growth. The CSR is a concept that looks at both the social as well as business interest. The term CSR (Corporate Social Responsibility) is a form of corporate regulation integrated in a business responsibility model. The CSR policy functions as a regulatory mechanism monitoring and ensure transparent and active compliance with the government law (Indian Companies Act-2019) ethical standards and international or national regulatory norms. In the view of top industrialist and philanthropist JN TATA - *“In a free enterprise, the community is not just another stakeholder in business, but is in fact the very purpose of its existence”*. The aim is to how corporate sector will achieve sustainable growth with responsible business and contributes to the India’s overall growth trend through corporate governance, high ethical standards, to reduce business and legal risk and trust of stakeholders by taking responsibility for corrective corporate actions. The corporate strategies encourage the business firms to make a positive impact on the environment and stakeholders including employees, consumers, investors, communities, society and environment.

1.2 Challenges for Inclusive & Sustainable Growth in Indian context

The companies have tried to upgrade their traditional approach of social responsibility activities to sustain and to design the value strategies to deliver positive economic returns by improving the quality of life in low income segment and distressed communities of society. But these programs and activities had a limited impact and produce invisible transformational change. This raises a basic fundamental question why do business enterprises find it so difficult to implement scalable, measurable and profitable strategies for inclusive growth that benefits all stakeholders of social economy.

To understand why inclusive and sustainable initiatives often fail to scale up successfully, the main challenge as relating to implementation and some influencing factors are like,

- (i) Poor integration with the company’s core business.
- (ii) Difficult of engaging with the multiple actors in the local communities.

- (iii) No relevant measurements for motivation.
- (iv) To evaluate company benefits and the target population.
- (v) Problem in limited scale project execution in ambitious way.
- (vi) Poor functioning of supply chains and systematic talent gaps.
- (vii) Need for change the ecosystem.

Instead of trying to fix the social problems, corporate sector and other actors need to reimagine the regional ecosystem in which they are participate to bring poor and unemployed mass people into the mainstream economy. The corporate sectors should search for projects that generate economic benefits and very few companies are prepared to finance in this type of risky investment with their limited CSR and sustainability budgets.

Today 'India' is the new emerging country of world and growing at a phenomenal rate. The Honourable Prime Minister laid down the vision of India becoming a USD 5 trillion economy by the year (2024-25)⁵ and has inspired every citizen to contribute to this worthy cause. The economists and sociologists are emphasizing on the concept of inclusive growth which italicize a win-win situation for all the stakeholder involvement in the growth process. The Indian economy is expected to grow by 5.9 percent in FY 2019-20, which is the lowest GDP growth in the last seven years. The growth started decline three years back from 8.17 percent in FY2016-17 to 7.17 in FY 2017-18 and further decline to 6.8 percent in FY 2018-19. The Trade deficit has been increased from 3.6 percent (2017-18) to 4.4 percent (2018-19) of GDP. Trade deficit is the outflow of currency due to excess of imports over exports⁶. Hence, in present days after corporate tax slashed by nearly 10 percentage points to 25.17 percent in September 2019 to counter the economic slowdown. The government is not in a situation to provide a big capex-push, as it is struggling to meet tax revenue due to sluggish GST, the corporate tax cut and income tax collection. The corporate sector need to play very crucial role to achieve inclusive sustainable growth and need for support the steps taken by the government to maintain the same momentum of growth trend line.

2. Strategic Pillars of Inclusive Growth

The universal definition of inclusive growth is “uniform development of all the sections of society through equal growth opportunities”. The objectives of inclusive growth could be set

⁵ *Economic Survey 2018-19 (Volume 1), Ministry of Finance, Government of India*

⁶ *Source: Centre for Monitoring Indian Economy (CMIE)*

*GDP : Gross Domestic Product

at three different level of horizon, i.e. business factors, geographic factors and individual factors. Across the world have identified the three major strategic verticals for Inclusive Growth.

Figure -1



2.1 High Sustainable Inclusive Economic Growth

The growth of agriculture sector has been fluctuating (it increased from -0.2% in 2014-15 to 6.3% in 2016-17, then declined to 2.9% in 2018-19)⁷, which indicates the declining share of agriculture in the GDP of India. Hence the most basic function of an inclusive growth strategy is to reduce the gap between the different sections of society.

- Equitable distribution of resources
- Alleviation of poverty
- Widening of employment
- Advanced Science & Technology

⁷ Report Summary Economic Survey 2018-19

2.2 Sustainable Inclusive Social Development

In the developing countries like India social and sustainable inclusion is very pivotal where the competitions and opportunities are differentiated on the basis of economic and social factors. Hence there is requirement of government policy interventions and corporate sector participation for inclusive social growth.

- Investment in Education
- Investment in Healthcare facilities
- Social Safety and Security
- No discrimination

2.3 Good Corporate Governance

Corporate Governance has become a dynamic concept and not static one, which emerged as a benchmark for judging corporate excellence in the context of national and international business practices. The Cadbury Committee Report (1992)⁸ defines corporate governance as “a system by which corporate are directed and controlled”. It is about how company fulfils its obligations to investors and other stakeholders. It is about commitment to value and ethical business conduct and high degree of accountability and transparency. Finally corporate governance which enables sustainable business as promoting corporate governance reforms and good practices by the companies in maintaining positive image among the stakeholders which leads to regular flow of funds and thereby companies able to function evenly and achieve their long term goals.

3.1 The Sustainable Development Goals (SDGs) in India

During the year 2017 United Nations Sustainable Development Summit, all the members from 193 countries collaboratively committed to adopting SDGs also known as Global Goals. The Sustainable Development Goals are an ambitious commitment by global leaders and countries to meet the 2030 agenda for sustainable development. The progress of world to meet these global goals largely depends on India's progress. India is playing a prominent role in the formulation and implementation of SDGs.

⁸ Cadbury Committee Report (1992), https://archive.india.gov.in/business/corporate_governance/cadbury_report.php

Figure -2



However with 17 Goals, 169 targets and 306 national indicators, it's a big challenge to understand for the countries as well define and measuring success against these goals. The above dashboard presents SDG India Index 2018 analytics and shows how the progress on these goals measured in India. The growth indicators shall be refined data collection and reporting process should be improved to explore in the coming years.

3.2 SDG India Index 2018 – Challenges Ahead

The SDG India index having three vertical stages i.e. (i) Sustainable Development Goals and define targets (ii) National priority indicators list (iii) Computing the SDG India Index Scores.

There is challenge in selecting criteria for national indicator variables, availability of data at national level for 29 States and 7 Union territories coverage, reliability and ownership of data for circulation to all States/UTs for their suggestions, comments and data monitoring system. There is requirements for good governance and accountability as a tool for evaluating government performance. Presently data is not available for some of the 306 National

Indicators developed by Ministry of Statistics and Programme Implementation (MOSPI)⁹. However, NITI Aayog decided to initiate the monitoring process by prioritise some indicators on which state wise data available and consider those indicators for designing the SDG India Index.

4. Business Responsibility Reporting (BRR) in India

The sustainability reporting is a process that assist business organizations in understanding the linkage between sustainability and organization's strategy, goal setting, performance measure and management of change towards sustainable global economy. Sustainability is a concept that combines profitability with social responsibility and environmental care. In essence, sustainability report is the organization's views and visions on the most critical aspects of the organization's economic, social and environmental impacts and the relation of those with its performance.¹⁰ To ensure completeness and standard of reporting various regulatory as well as voluntary organisations have created framework under which all companies should make disclosures about business policies related to Environmental, Social and Governance (ESG) factors and measuring steps taken by them for implementing the policies by following the standards.

The Securities and Exchange Board of India (SEBI) regulator for the securities market in India, vide its circular dated 13th August 2012 mandated top 100 listed companies based on their market capitalisation to submit a Business Responsibility Report (BRR), owes its origin to focus and attention that investors, regulatory authority and stakeholders were paying to Environmental, Social and Governance factors. Again SEBI further amended the regulations [34(2) f of the SEBI (Listing Obligation and Disclosure Requirement) 2015] to extend the obligations to top 500 listed companies, which was effective from 1st April 2016.

4.1 The Nine Principles of Business Responsibility Reporting

As prescribed by the SEBI have been divided into below mentioned nine principles which were notified by Ministry of Corporate Affairs, form the basis to access compliance as follow.

⁹ <https://sdgindiaindex.socialcops.com/YuJbcq9d44/methodology/basic>

¹⁰ *Global Reporting Initiative-Research and Development Series* :<https://www.globalreporting.org/resourcelibrary/GRI-Assurance.pdf>

Principle 1: Ethics, Transparency and Accountability
Principle 2: Product Life-Cycle Sustainability
Principle 3: Employee's Wellbeing
Principle 4: Stakeholder Engagement
Principle 5: Human Rights
Principle 6: Environment
Principle 7: Public Advocacy
Principle 8: Inclusive Growth
Principle 9: Customer Value

The principles are generic in nature and applicable to all companies, under this if failure to provide Business Responsibility Report by those companies which are mandated to provide the report can be constructed as non-compliance with clause 34 of the SEBI¹¹. The most challenges for regulatory organisations to take next course of action and suggestive measures.

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5. GRI Standards: The Global Standards for Sustainability Reporting

The Global Reporting Initiatives (GRI) standards are the first global standards for sustainability reporting, which feature a modular, interrelated structure and represent the global best practices for reporting on a range of economic, environmental and social impacts.¹² These includes new version of the guidelines and reporting framework to coordinate the reporting processes. The GRI guidelines is the most widely accepted guidelines for Sustainability Reporting and conduct stakeholder engagement, materiality assessment, manage assurance procedures and link the sustainability report to Indian National Voluntary Guidelines.

¹¹ *Business Responsibility Reporting in India: Disclosures and Practices, February 2018*

¹² *GRI Standards - 2019, <https://www.globalreporting.org/standards/>*

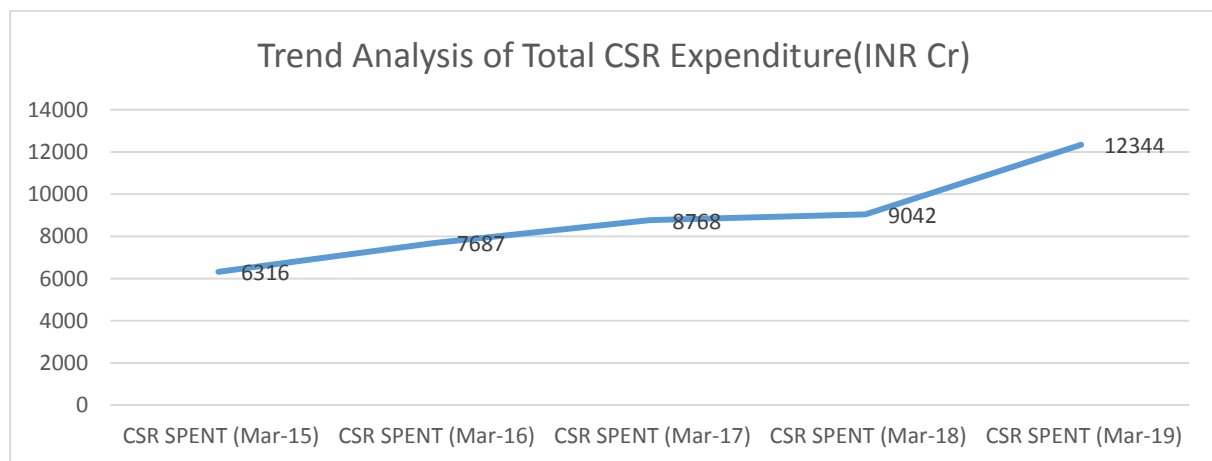
Objectives

- To analyse the strategic challenges for corporate world in Inclusive and Sustainable growth of Indian economy.
- To study the Corporate Social Responsibility (CSR) spending trend of Indian corporate companies in last five years.
- To understand the contribution of CSR towards inclusive and sustainable growth.
- To investigate various strategic and operational aspects of public-private participation towards fulfilment of national objectives of sustainable and inclusive development.

Research and Analysis

The Companies Act, 2013 brought many changes in the corporate landscape in India. Technically India became the leading country to make companies invest a part of their net profits for communities as a compliance. As stipulated companies having net worth of INR 500 crore or more, turnover of INR 1000 crore or more or net profit of INR 5 crore or more in a given financial year are required to spend 2 percent of their average net profit for last three financial year on CSR programmes and activities. Indian corporate sector responded well to the mandatory CSR compliance.

Figure – 3

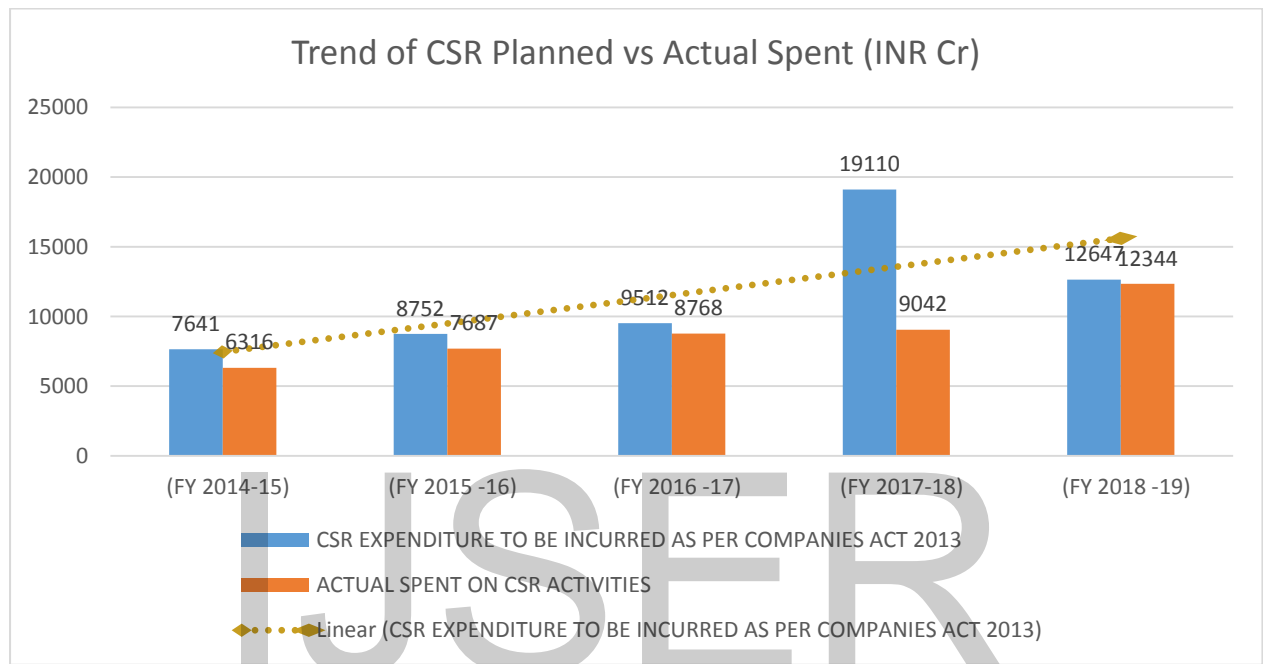


Source: Authors calculation and compiled from the database of CMIE (2019)

Over the period the trend line is positive slope and upward rising indicates more participation of corporate world in the economic growth. For last five years if we look at the overall CSR

ecosystem in India, total CSR fund investment is more than INR 44000 crores by these S&P BSE 500 companies over the period under study (as in figure-3)

Figure - 4



Source: Authors calculation and compiled from the database of CMIE (2019)

The trend of CSR to be incurred as per Companies Act 2013 and actual spent on CSR activities is shown in Figure-4. It reveals there is growth in both the indicator variables as well as gap between planned and actual amount spent over the period under study. However, for this above time period in totality there is gap of more than INR 13500 crores not spent as per plan, whereas only in the year 2017-18 the gap is more distinct (INR 10000 crores) and indicates that there is huge scope for improvement in the disposal of CSR unspent amount for the social welfare.

Table -1

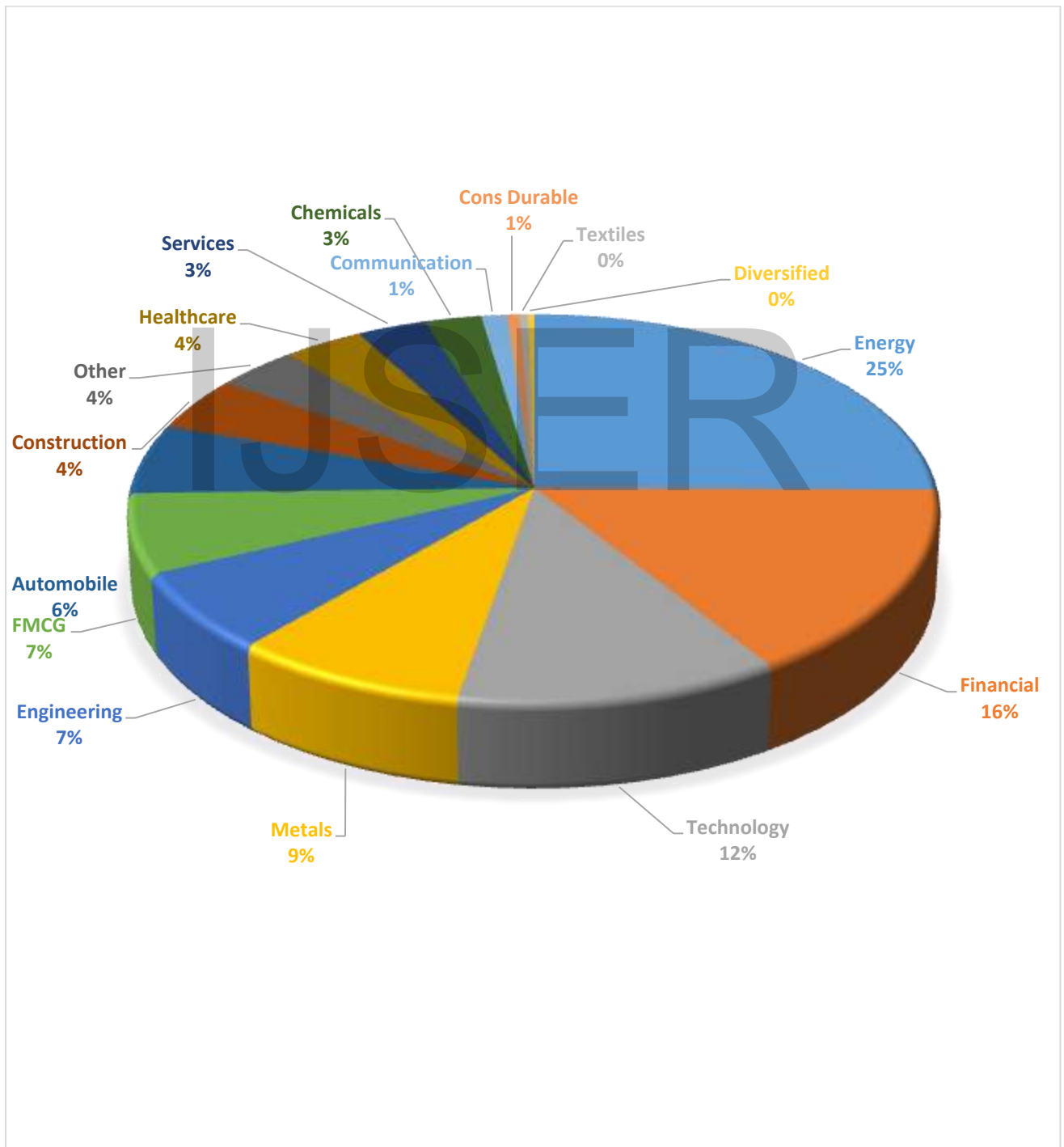
BUSINESS SECTOR	EXCESS CSR AMOUNT SPENT (ACTUAL > PLAN)	% OF TOTAL COMPANIES	LESS CSR AMOUNT SPENT (PLAN > ACTUAL)	% OF TOTAL COMPANIES	SAME TO SAME (PLAN = ACTUAL)	% OF TOTAL COMPANIES
Automobile	10	6%	16	6%	2	3%
Chemicals	16	9%	23	9%	2	3%
Communication	3	2%	3	1%	3	4%
Cons Durable	3	2%	9	4%	1	1%
Construction	20	12%	23	9%	5	6%
Diversified	4	2%	2	1%	0	0%
Energy	10	6%	15	6%	2	3%
Engineering	8	5%	22	9%	7	9%
Financial	18	11%	49	19%	23	30%
FMCG	16	9%	19	8%	9	12%
Healthcare	16	9%	21	8%	6	8%
Metals	15	9%	9	4%	0	0%
Services	13	8%	24	9%	15	19%
Technology	8	5%	10	4%	1	1%
Textiles	4	2%	6	2%	1	1%
Other	6	4%	2	1%	0	0%
Grand Total	170	34%	253	51%	77	15%

Source: Authors calculation and compiled from the database of CMIE (2019)

From the above table-1, it can be seen that very few corporate firms clearly defined their CSR philosophy by classifying business sector 34% companies out of 500 largest Indian companies spending more than prescribed CSR amount, whereas less than prescribed CSR contributed by more than 50% of total sample population and nearly 15% companies have exactly spent equal amount as per plan. It is expected from a company to at least spend minimum of 2% of their income on social activities annually. As a whole is big challenge for the government as well need for corporate world to manage in ethical way.

Business Sector wise Share in India's CSR Spend

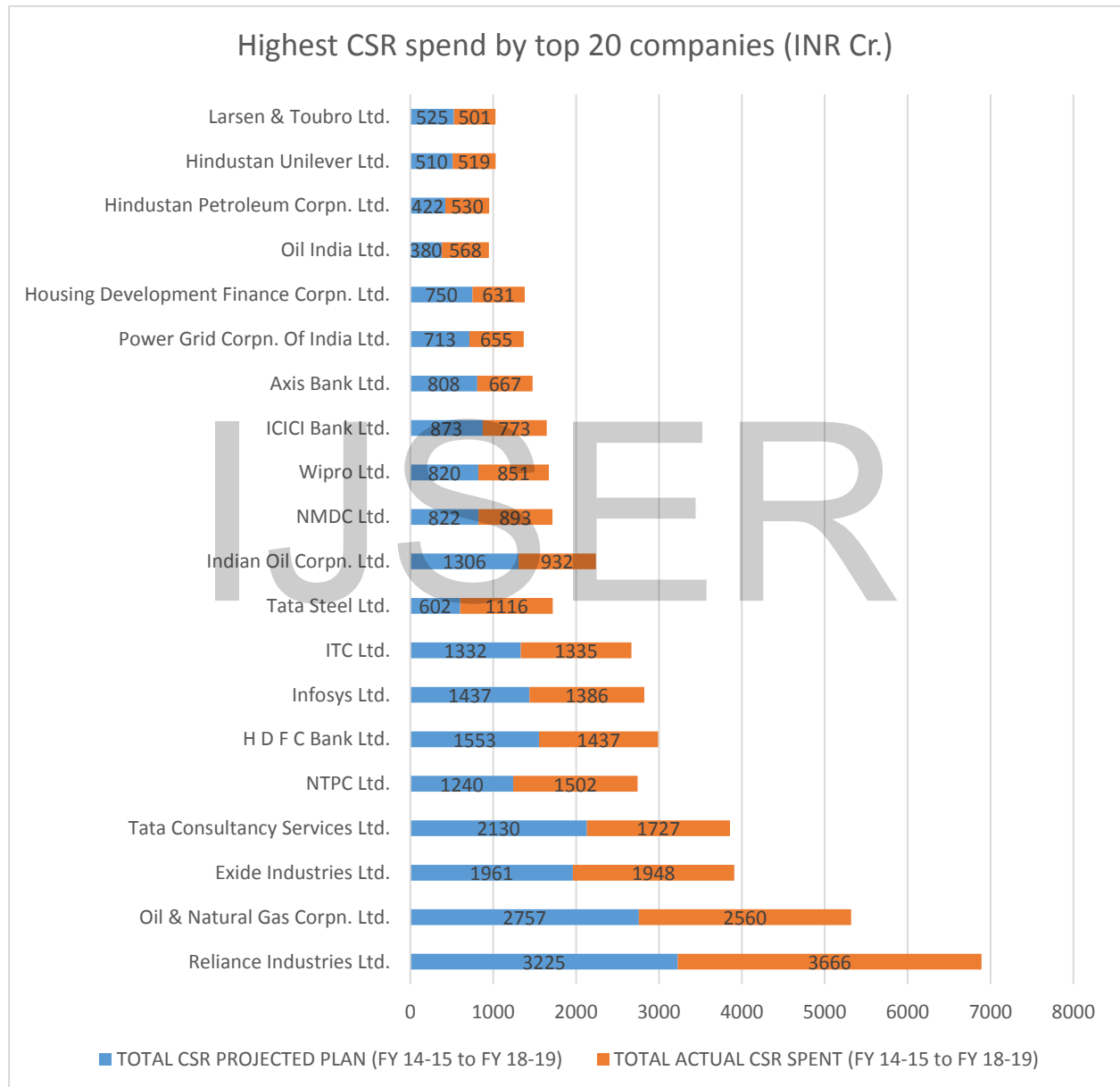
Figure – 5



Source: Authors calculation and compiled from the database of CMIE (2019)

Companies Shaped India’s CSR Landscape

Figure-6



Source: Authors calculation and compiled from the database of CMIE (2019)

In last five years based on the reported CSR data of big 500 companies, mentioned in above figure highest actual spend by top 20 companies (INR 24196 Crore) account for almost more than 50% of total CSR spend by all companies in the study period.

Suggestions and Recommendations –

1. The corporate sector must align with the CSR national objectives under the Sustainable Development Goals (SDGs).
2. For an industrial ecosystem to be sustainable, there is need for Public-Private Partnerships (PPP) model for improving local socioeconomic conditions.
3. The government should play role of a catalyst, motivator and facilitator as well encourage the big players of the business world to take into account ethical, social and environmental issues and challenges of the country.
4. Participation of all members in developing the balances scorecard for great acceptance and communicate the business strategy to everyone from top to bottom of the system.
5. Need for systemic change advocacy requires collaborations among unrelated actors from different sectors- academia, corporate, media, non-government organisations and general public each typically with trust, positive motive.
6. Social audit should be conducted on regular interval by an external source agency to evaluate the corporate social performance and progression of CSR projects of a company.
7. An annual report on business social responsibility must be prepared to highlight company commitments for sustainable community development.

Conclusions

The corporate world constitute a road map to pursue profitable multi sector strategies to transform society into vibrant, sustainable economies. It is the responsibility of management to maximize the wealth of the business enterprise along with strategy to maintain transparency in financial transactions related to sustainable business. As evident corporate audit is very significant tool to monitor corporate governance and ensuring its effectiveness in the implementation process. However, it is to be remembered that best social and sustainable practice by a business enterprise is not a single task rather needs a joint effort starting from the shareholders to management, board of directors, corporate auditors other stakeholders and the Government as a whole. Finally, the Government and Corporate house

being the supreme policy making authority, should come forward with improved policy guidelines on responsible business to inspect the misuse of power and frequent interference of external bodies in the strategic operations of private and public enterprises. The initiatives undertaken by the Indian companies have a positive impact on the overall development of society and business.

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