

Socially responsible
practices hyundai
motors and tata
motors marketing
essay



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Tata Motors and Hyundai Motors have a lot in common. They both are a part of large, family-owned business conglomerates, and from economies that have seen tremendous growth to emerge to be in the top 20 largest in the world[1]. Both companies established themselves and grew along with the growth of the respective national economies of India and South Korea. The TATA group is much older however, being established in 1868 by Jamshedji Tata (TATA. com), the Hyundai Group was established in 1947 by Chung Ju-yung (HyundaiGroup. com). The Hyundai Group was aided to a large extent by government policies that supported some select chaebol[2]firms (Jeong, S. I., 2004, p. 44-45). Hyundai Motor company was established in 1967 and used the government policies to promote local automobile industry to their advantage, and braved the East Asian Crisis of 1997 and the current credit crunch of 2008 so as to emerge as the largest automobile manufacturer in South Korea, (Jeong, S. I., 2004, p. 94-95) and 4th in the world in terms of unit sales. (The Chosun ilbo, 2009). Tata Motors was established in 1945, and is India's largest automobile company (Tatamotors. com).

Though they belong to the same industry, the two companies differ to some extent in their CSR practices, which are effected to a large extent by the cultural, social, economic backgrounds and national business and governing systems (Matten and Moon, 2008, p. 407-409). In this report, Section 1 identifies the various stakeholders that both these companies have to consider while developing their CSR policies. Section 2, will examine the similarities and differences in their approach towards implementation of CSR practices, and then move onto critically analyzing the same in through opposing viewpoints in Section 3.

Section I: Identifying the Stakeholder

CSR has come to mean differently to different people and is interpreted differently by different organizations. With the growing attention given to this topic and a large number of articles, journals and books dedicated to the same, it is an aspect of business that organisations can no longer ignore. With the impact of the financial crisis and the growing concerns for environmental welfare, CSR is being seen as a model for proactive management of business practices and its impact on society. (Smith and Lenssen, 2009, p. 3). Public opinion is becoming increasingly less tolerant of corporate irresponsibility, which is making it imperative for businesses to adopt corporate citizenship in order to maintain their image and survive in the market. (Blowfield and Murray, 2008, p. 11). In order for the Social Responsibility management strategy to work, it is very important to identify the stakeholder[3] and define their importance for the company and to understand the level of impact the company's activities have on them. According to Mitchell, Agle and Wood, stakeholders can be classified on the basis of their possessing any of the following attributes: " power to influence, legitimacy of their claim and urgency of their claim" (csrquest. net).

Tata Motors and Hyundai Motors are operating in very similar markets and have very similar backgrounds; coupled with the fact that they both belong to the Global automobile industry, functioning under similar constraints with respect to global standards, demands and requirements, their set of Stakeholders is identical.

Referring to the model in Figure 1 below, we can classify the stakeholder as:

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Dormant Stakeholders: Both Hyundai and TATA Motors have been faring better than most other car manufacturers in the current credit crunch. Thus, their shareholders, who may otherwise have power to influence activities, do not have any need or cause to make any demands. Hence, they are Dormant Stakeholders

Discretionary Stakeholders: The Indian and South Korean Societies have a legitimate claim to ensure that the companies operate responsibly in the society. However, they do not have any power to change their operating behaviours, nor do they feel any sense of urgency towards it (Mallin, 2009, p. 142-144).

Demanding Stakeholders: Environmentalists and Global Governing bodies[4] (Mitchell et. al, 1997, p. 867) do not have any power, nor are they directly affected by the companies' actions, and hence no real legitimacy. However, since they are formed with the aim of making businesses more accountable, they do have a sense of urgency to try and ensure that businesses are undertaking and reporting CSR activities.

Dominant Stakeholders: The governments across the world are becoming more conscious of the carbon emissions in their countries and hence are going to penalize large carbon-emitting vehicles, and non-environmentally friendly practices. Hence, they have the power and legitimacy to ensure that automobile manufacturers adhere to certain norms and standards.

Figure 1

Developed from Mitchell et. al, 1997, Hyundai Motors Sustainability Report

2009 and TATA Motors Sustainability Report 2007-08

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Dependent Stakeholders: The suppliers and employees are dependent on the business and practices of the manufacturers. As they are involved in the day-to-day activities of the firms, there is a sense of urgency on their part for the manufacturers to account for better employee management and welfare practices and for increased support to the suppliers. (Hyundai Motor Company 2009 Sustainability Report)

Definitive Stakeholders: These have all three attributes; power, urgency and legitimacy. In this case, the owners/ chairman of Hyundai Motors and TATA Motors (Mong-Koo Chung and Ratan Tata respectively) are the Definitive stakeholders.

Section 2: The CSR Approach

According to their CSR report, TATA Motors identifies their approach as following the Triple Bottomline of Profits, People and Planet (Blowfield and Murray, 2008, p. 101). Though Hyundai Motors' report does not use the same terminology, the approach, as stated by them, is essentially the same.

Figure 2

Developed from Blowfield and Murray, 2008, p. 101, Hyundai Motors Sustainability Report 2009 and TATA Motors Social Responsibility Annual Report 2008-09

The "Trust based management" refers to focus on enhancing labour management ties, cooperation with suppliers and the spread of ethical and transparent management practices, which would thus translate to profits.

However, while Hyundai Motor's CSR initiatives would be impacted by the high-economic condition of South Korea, as well as their open economic policies, which is quite a contrast from the relatively more closed economy of India that affects the CSR of TATA Motors (Christie P. M. J, et al, 2003). Thus, TATA Motors and Hyundai Motors have a very different approach to CSR. According to Kramer and Kania, companies adopt either the ' Defensive' or ' Offensive' approach. Defensive approach relates to engaging in CSR to protect image while the Offensive approach involves actively engaging in CSR and ' being a part of the solution even if you were not a part of the problem'. (Blowfield and Murray, 2008, p. 102-103)

Defensive Approach: Hyundai Motors' approach can be classified as Defensive. South Korean businesses in general, especially the Chaebol, engaged in CSR after the East Asian economic crisis in 1997, when the detrimental effects of ' business for profits only' was recognized. The core aim of employing CSR in Korea has been to repair the damaged reputations of these firms. Hyundai has made attempted to wash off their damaged reputation caused by corporate scandals by making generous philanthropic donations of money (Cho and Hong, 2008). In fact, the image built by the social contributions of former chairman Chung Ju-Yung[5], are being used by his son Chung Mong-koo who is facing corruption charges. (The Economist, 2007)

Offensive Approach: " No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and is people and is achieved by fair and honest means". This quote by J. R. D Tata encompasses the vision for CSR of the formed group chairman. This has <https://assignbuster.com/socially-responsible-practices-hyundai-motors-and-tata-motors-marketing-essay/>

been the prevalent thought ever since J. N. Tata founded the group in the 19th century. TATA Motors, following the TATA Group legacy of philanthropy, has been actively engaged in contributing to social welfare ever since the inception of the company as discussed earlier. The TATA Group has been known for engaging in corporate “ philanthropy” since the establishment of the J. N. Tata Endowment scheme in 1892 (Kazmi, 2008).

Section 3: Classifying the CSR Activities

The below tables give a cross-section of the CSR activities undertaken by the companies with respect to two parameters:

The “ standard” CSR activities undertaken by automobile industry as a whole (Blowfield and Murray, 2008, p. 124)

The 6 ways of engaging in CSR that have evolved and are used presently (Kotler and Lee, 2005).

Cause promotion: Creating awareness about certain issues

Cause-related marketing: Companies commit to contributing to certain causes on the basis of sales.

Corporate Social Marketing: Refer to activities directed at bringing about a change of behaviour ‘ to improve public health, safety, the environment, or community well-being’.

Corporate philanthropy: Direct contributions to a charity or cause, most often in terms of monetary support.

Community volunteering

6. Socially responsible business practices

The below tables will help understand better the approach and attitude of the firms towards CSR, and will encompass the CSR activities they have undertaken. Comparing the tables, it is evident that while TATA has concentrated a large part of their activities in Corporate Philanthropy and maintained a basic level of CSR within the realm of business requirements though involvement in Socially Responsible Business Practices. On the other hand, Hyundai Motors seems to have a more balanced spread across all spheres, though it is not as involved in Corporate Philanthropy. Both companies do not indulge in too much of Cause-Related Marketing CSR initiatives, which could be due to it being a mere marketing gimmick.

The next section analyses the reasons behind this approach and the effectiveness of the same.

Table 1: Hyundai Motors CSR Initiatives

Table 1: Hyundai Motors CSR Initiatives continued

Developed from Blowfield and Murray, 2008, p. 124, Kotler and Lee, 2005 and Hyundai Motors Sustainability Report 2009

Table 2: Tata Motors CSR Initiatives

Developed from Blowfield and Murray, 2008, p. 124, Kotler and Lee, 2005, Tata Motors Social Responsibility Annual Report 2008-09

Section 4: Analysis of the Approach

In order to critique the approach towards CSR of these two companies, we can view their activities through two contrasting viewpoints towards Corporate Social Responsibility.

Milton Friedman's Shareholder Theory: Believes that "the social responsibility of business is to increase its profits" (Solomon and Hanson, 1983).

According to Edward Freeman's Stakeholder Theory, "there are myriad groups who have a stake in the firm" and business needs to address their needs and incorporate it within business management practices. (Freeman and McVea, 2001)

The above contrasting viewpoints can be applied to the Virtue Matrix Model (Martin, 2002) to help classify and analyze the numerous CSR activities undertaken by the 2 companies. The Virtue Matrix Model, as given in Figure 3 below, has 2 levels of CSR.

Figure 3: Virtue Matrix

Source: Martin, 2002

The base of all CSR activities is formed by 'Instrumental CSR' or The Civil Foundation, which encompasses all those activities that an organization undertakes to comply with the norms, rules and customs that govern the society in which they are present. This view complies with Friedman's shareholder theory, as it talks about only engaging in activities that are necessary to make profits. The Civil Foundation further has 2 aspects to it

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Compliance: An organization either has to follow the laws and regulations set by the society or industry.

Both Tata Motors and Hyundai Motors need to comply with the vehicle emission targets set by various nations in which they operate. Hence the R&D for vehicles with lower emissions and vehicles using alternate fuel sources is a necessity of the business. If they are unable to meet these standards, they will lose business. Also, “green cars” have created their own niche in the market, with consumers actively seeking to buy more fuel-efficient cars; building fuel-efficient cars is thus about gaining market share. (The Economist, 2007)

Choice: An organization chooses to follow the customs and standards set by the society or industry.

Both the companies have voluntarily participated in the UNGC and GRI. Basis the GRI Report (Appendix 1), Hyundai Motors started reporting in 2004, while Tata Motors started only in 2008. In the adherence and 3rd party checks, too, Hyundai has been more pro-active (Globalreporting.org). However, it can again be argued that doing so enhances their image as a more “socially responsible” corporation, and hence is good for business.

Both the companies engage in research into making end-of-life vehicle more recyclable and hence environment-friendly, since this is a norm followed by all automobile manufacturers, as they need to portray a more environmentally-responsible stance. (Blowfield and Murray, 2008, p. 124)

The higher level of CSR includes those ' Intrinsic' activities that form The Frontier. This view complies with Freeman's Stakeholder theory, as it involves activities that an organization undertakes in order to help the society in which they operate, or because they feel it is the " right thing to do". However, these activities may not add any value to the shareholders.

The 2 aspects of The Frontier are:

Strategic: This kind of activity benefits the society, while adding value to the shareholders at the same time.

The Traffic Safety campaign and Owner Maintenance Classes[6]conducted by Hyundai Motors in various regions in which they operate is an apt example of this kind of activity. This helps create awareness and imparts useful knowledge, but at the same time, acts as an effective marketing tool, since the brand name is re-iterated thorough the process.

Structural: This includes activities that are purely beneficial to the society, while not adding any value at all or maybe even retracting value for the shareholder.

Tata Motors, though its CSR activities and donations, has engaged in activities like providing for free education, training, healthcare facilities and other support for entrepreneurial activities. They have also made attempts to improving the quality of life for the most those who have least support in the Indian society- the farmers and the women.

Tata Motors may have activities that form the ' Civil Foundation' which is the basic requirements but they do not engage in too many ' Strategic'

activities, but instead focus on “ philanthropic” CSR and lean more towards Freeman’s Stakeholder Theory, as seen in the Figure 4 below. The below chart gives a clearer picture of how Tata Motors seems to falls into the realm of Corporate “ philanthropy”.

Figure 4: Mapping Profit vs Social Benefits

Critics of philanthropic ‘ donations’ say that this just involves giving away large sums of money in order to catch the eye of the media and appear “ goody goody” to the public, while not actively engaging in social welfare projects; this tends to inhibit more sustainable CSR practices. (Mallin, 2009, p. 129-131). However, the reason behind such engagement is due to religious and cultural beliefs. As stated in The Economist, “ India has a long tradition of paternalistic philanthropy. Big family-owned firms such as Tata are particularly active in providing basic services [...]. For the rich, who have prospered as the economy has boomed in recent years, generous philanthropy is also a way of heading off a backlash against business.” (The Economist, 2008). 2005, p. 429-431).

Hyundai Motors, on the other hand, lean a little towards Freidman’s Shareholder Theory, as their activities are mostly in the “ high profit” realm in Figure 4. Hyundai Motors started engaging in CSR much later, but has a more balanced approach. The reason for the difference in the approaches is rooted in the backgrounds of the 2 home nations. According to Inglehart and Baker, firms in low-income economies tend to focus more on the economic contribution of business, as the growth of business itself would lead to a better way of life for the people. Thus in Korea before the economic

development, people did not hold companies accountable for contributing to
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CSR activities, but after the country grew to become a high-income economy, demands for community involvement grew (Mallin, 2009, p. 129-131; Chapple and Moon, 2005, p. 429-431), the new government enforced policies and laws to ensure adoption of proper work practices and CSR activities by the firms. In this period of re-structuring of the chaebols, CSR also came to be incorporated as part of the companies' goals (Mallin, 2009, p. 127-130) and thus the late inclusion of active CSR from Hyundai Motors. However, in India, ever since indigenous businesses have established in the 19th century, they have been involved in corporate philanthropy, which can be attributed to religious traditions, internationalization of business, colonization, and imperialism (Chapple and Moon, 2005)

Conclusion

The Automobile industry calls for a certain level of CSR which is in lieu of the environmental destruction being caused by the industry. However, '[g]reening of industry is being taken seriously more as a business opportunity that will reap rich dividends in the future rather than reducing it to tokenism representing corporate social responsibility.' (The Times Of India, 2009)

There is no set formula as to what encompasses CSR, neither is there a way to say what is "good" or "bad", or what should encompass CSR. If the organization is working in an underdeveloped region, it would need to help uplift the area in order to even operate there. For example, Tata Motors had engaged in social activities in Singur in West Bengal, India, where the plant for their small-car project, Tata Nano was to come up. It was the primary

reason behind the Chief Minister, Buddhadev Bhattacharjee, wanting Tata
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Motors to set up the plant in that area, as it would help develop the region. (The Economist, 2008).

With the Era of Globalisation, MNCs need to be on their toes to ensure they are maintaining best business practices across all their operating areas. With easier and faster communication systems, the beliefs and ideologies pertaining to CSR in one place may influence the operations and sales in a society at the other end of the world. Thus, in order to maintain brand image and equity, it may be seen best to engage in Offensive CSR than be made to engage in Defensive.