# Chapter II

**Theoretical Background of CSR**

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CHAPTER - II
THEORETICAL BACKGROUND OF CSR

2.1 INTRODUCTION

CSR is a widely and seriously accepted way of doing modern business. It is recognized as corporate social performance, corporate citizenship, social responsibility and corporate social responsiveness. Modern business has acquired a sense of social responsibility to the society in general and to its different segments in particular. Increased social obligations and rising expectations from the business by the shareholders and other segments of the society has given rise to the concept of social responsibility of businesses and has become one of the critical dimensions in the corporate reporting system.

Globalization in the key driving force and provides a fertile ground for focusing on issues of CSR. Along with productive or commercial activities, the business has to also be concerned about the social problems. Social and ethical considerations must equally concern the business. It has become imperative for the business to take on the development role for sustainable existence. One example of an initiative that emphasizes the development role of business is the Sustainable livelihood Projects of WBCSD (World Business Council for Sustainable Development), The UNDP Human Development Index, the UN(United Nations) Global Compact, Global Reporting Initiatives and other voluntary initiatives are encouraging governments and corporations alike to accept that business have responsibilities beyond ‘profits’. Organizations of today have multiple goals - financial, economic, environmental and social.

2.2 DEFINITIONS

Today, the CSR has become a global corporate perspective, but to bring out its meaning more clearly, the Definitions of CSR can be

classified as given in West first and then in India.

- Definition by the World Business Council for Sustainable Development states that "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 is about how companies manage the business processes to produce an overall positive impact on society.

- International Finance Corporation, The World Bank defines CSR as "The commitment of business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development."

- The European Union has defined CSR as "a concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to the economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

- The International Labour Organization (ILO) Commission defined CSR to be: The voluntary initiatives enterprises undertake over and above their legal obligations.

- As per the views of the International Organization of Employers (IOE), CSR is initiatives by companies voluntarily integrating social and environmental concerns in their business operations and in their interaction with stakeholders.

- Some corporations use the notion of corporate sustainability which is defined "as meeting society’s expectations such that companies add social, environmental and economic value from their operations, products and services."

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5. International Organization of Employers (2003); Corporate Social Responsibility: An IOE Approach; Geneva
Corporates must not ensure returns only to shareholders, employees, consumers but they must also respond to societal and environmental concerns and values.

According to Michael Hopkins (2003), CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation.

In India the Declaration of the Social Responsibilities of Business was published in 1965. The declaration stated that the social responsibilities of enterprise were spelt out as its responsibility to itself, to its customers, workers, shareholders and the community.

Confederation of Indian Industry states that “Corporate Social Responsibility is about how companies manage the business processes to produce a positive impact on society.”

2.3 MEANING OF CSR

The social responsibility has been viewed in three perspectives:

- A narrow view
- A narrow broad view
- A broad view

A narrow view strongly advocated by Milton Friedman (1962) and Theodore Levitt (1958) contends that the only social responsibility of business is profit maximization.

As per the narrow broader view the firms have social responsibility to various groups that are directly financially connected to them, i.e. consumers, employees, shareholders and suppliers and also the competitors.

The very broad view: the social responsibility of business is not only to all relevant stakeholders and to the concerned connected groups but also to the community or society in general and also to the

8. www.cii.in
environment.

Therefore, it is important to state that the concept of social responsibility entails the business organizations obligations to look after the interest of society beyond the limits of economic interest. The Gandhian principle of trusteeship expresses the inherent responsibility of business enterprise to its consumers, workers, shareholders and communities and the mutual responsibilities of these to one another.

According to JRD Tata “Every company has a special continuing responsibility towards the people of the area in which it is located and in which its employees and families live. In every City or town or village, large or small, there is always a need for leadership and for guidance. This gives more meaning to corporate social responsibility.”

CSR is also increasingly referred to as corporate citizenship and is an evolving concept.

2.4 **CSR AND PHILANTHROPY**

CSR is sustainable, which means that CSR actions become part and parcel of the way in which a company carries out its business. Its links to the bottom line of a company must be clearly laid out because, if it does not contribute to the bottom line, it will eventually be rejected by hard-nosed directors and shareholders.

Philanthropy depends on the whims of the company directors at a particular time. Many NGOs receive their funds from corporations and carry out excellent work. Others, of course, willingly admit that the major stimulus to funding is 'outing of corporations' which is sometimes more potent than helping corporates to fix things, but nevertheless often serves the public interest! Philanthropy does little or nothing to help companies make profits, while all CSR activities are linked to improving a company's bottom line. But Michael Porter has equated philanthropy with CSR when he wrote 'Corporate Philanthropy-or corporate social responsibility is

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10. Social Responsibilities of Business: Sponsored by India International Centre New Delhi 1965
Manukatlas: Bombay Seminar
becoming an ever more important field for business today. Today’s companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive.  

2.5 TRADITIONAL AND MODERN CONCEPT OF CSR

Contemporary concepts of CSR have moved a long way from genuine philanthropy. Traditional Corporate Philanthropy emerged out of variety of factors, such as:

1. Concern for welfare of the immediate members of the corporate body that is the employees and their families.

2. Innovative contributions by visionary business leaders in quest of personal satisfaction, who built up philanthropic institutions out of their individual shares.

3. The desire to establish a strategic relationship with the state or society led some corporate to establish some institutions to fulfill specific requirements of the community.

4. The establishment of trusts and foundations eligible for tax benefits, which also support socially beneficial activities.

There is a new shift in corporate philanthropy today. It is because of the increasing awareness of the effects of social responsibility practices on organizations. Also the growing awareness about the need for ecological sustainability and the ‘new economic’ framework with pressures on corporate image (brand), has paved the way for a new generation concerned about the response of the community and sustainability of the environment. There is a positive change in the way social responsibility aspect is practiced. Benchmarks are developed with regard to certain aspects of CSR. Accountability, social audit and sustainability reporting have become a part of CSR package to measure its effectiveness.

Price Waterhouse Coopers (2000) have developed a self assessment software package for measuring social activity.

Shell (2000) was one of the first major UK corporations to produce a social report illustrating its impact on society across a range of
dimensions.

G3 (Third Generation) International Reporting Guidelines are developed by Global Reporting Initiative (GRI) for sustainability reporting. Sustainability reporting is the action where an organization publicly communicates their economic, social and environmental performance.

The accountability rating developed by CSR network and accountability provides an important new model for strengthening corporate accountability. This rating examines the extent to which companies integrate responsible practices in their business and demonstrate transparency.

ISO26000 has become the recognized standard for CSR.

Confederation of Indian Industries has setup a CSR council and developed guidelines for operational sing CSR in business.

In 2009, Ministry of Corporate affairs has given Voluntary guidelines for the companies to undertake CSR.

In India corporate like Tata's have developed a Tata Index where social indicators and measures are laid down to understand the impact of ground level action in terms of its 'human achievement'. (Tata Volunteers report 2003). In fact CSR is a part of its business process and also of several companies across the globe.

2.6 **SCOPE OF CSR**

CSR activities include everything done for the benefit of the stake holders that are the Consumers, Shareholders, employees and the society. Research done by some pioneers of human relations like Elton Mayo, brought out the importance of employee welfare for increased productivity. But as business became more systemized, relevance of other elements to profitability also increased. These elements termed as stakeholders hold a very crucial place in the organizational set up and are all directly related to its performance.
Business is socially responsible to various interest groups:

1. Internal interest group:
   a. Responsibilities towards Owners, Shareholders, Partners: It is ensured that owners, shareholders, partners get dividend or a fair return on the capital invested.
   b. Responsibilities towards Employees: The employees would be paid need based wages, good salaries for managerial personnel, and fair and just treatment to employees i.e keeping a humane approach.

2. External interest group:
   a. Responsibility towards Consumers and Community: This responsibility is in terms of quality product at reasonable price with excellent after sales service.
   B. Responsibility towards Government- Employer should follow laws relating to trade, factories and labour. He should pay his dues and taxes fully and honestly. He should avoid adulteration and should maintain fair trade practices and avoid hoarding and cornering.

![Diagram of Business and its Interest Groups](image)

Fig. 1: Business and its Interest Groups,

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Emst and Emst (1978) identified six broad areas in which corporate social objectives can be found.

1. **Environment**: It covers pollution control in the conduct of business operations, prevention or repairs of damage to the environment resulting from the processing and conservation of natural resources.

2. **Energy**: It covers the conservation of energy in the conduct of business operations.

3. **Fair Business practices**: It deals with the employment and advancement of the minorities, women, ad other special interest groups and support for minority business.

4. **Human resources**: It is concerned with the impact of organizational activities on the people who constitute the human resource of an organization.

5. **Community involvement**: It involves community development activities, education and health related activities and so on.

6. **Product**: It is concerned with the qualitative aspects of the products such as their utility, safety, durability and serviceability as well as their effect on pollution.

CSR therefore encompasses a wide range of issues, which benefit the spectrum of shareholders.

**2.7 CSR ENGAGEMENT: NEED AND BENEFITS**

There is no evidence as such that a company's share price is affected by a lack of social responsibility. It does not result in increase in profits, then why do Companies pursue socially responsible policies? There are five broad reasons why business should assume social responsibility:

1. **Responding to demands of society**: As the business grows it has a greater impact on the community. The management of companies respond to public opinion so as to maintain public image.
of their company.

2. **Longer run self interest of business**: Many concerns harmonize with the company's self interest. Such as concern for employees, shareholders concern and environmental pollution.

3. **Moral justification**: Business now tends to participate in the development of better world, specially in attaining the MDG (Millennium Development Goals).

4. **Ethical**: behavior and generation of profits for shareholders is not incompatible.

5. **All the stakeholders have a 'stake'** in companies because if the company fails to behave ethically then it can be harmed.

**Corporations are into CSR mainly for:**

1. **Purely Philanthropic reasons**: Contributing to the society without expecting anything in return. Bharat Ratna Late JRD Tata said 'the private sector should realize that they have to play their part in the spirit of trusteeship advocated by Mahatma Gandhi. No business success is worth while unless it serve the needs or interests of the country and its people........"**

2. **Internal reasons**: Socially responsible companies usually have better relations with those whom they are contractually bound. Awareness among employees, consumers and shareholders is increasing and they now prefer to be associated with such companies as they feel a sense of pride to be associated with such a company that is 'caring'.

3. **External reasons**: Socially responsible companies are highly regarded in their local communities by the government, the media and their peers. Companies want to be seen as good neighbors in the communities where they operate and from where they get their employees. It is possible at little cost to gain good publicity and improve company’s public relations through its community development programme. Many companies become socially responsible for tax benefit.
In the changing economic and social environment corporations are considered as citizens and have civic duties responsibilities, corporations must discharge these voluntarily.

The ongoing revolution in communication technology and the effectiveness of knowledge based economies has created a new model of business and corporate governance. There is a growing awareness about the need for ecological sustainability. In the new economy there is an unprecedented stress on communication and image merchandising and therefore new generation business leaders are more concerned about the community response and sustainability environment. Creating values by doing CSR can take a company long way. These values can be created for workforce, customers, investors and shareholders and for society. They all are so interdependent that neglecting one can affect another thus causing harm to the company.

The CSR route for corporate involvement in development is attractive due to the, at least nine, benefits of CSR that will both improve the financial bottom line and help to resolve the problem of under-development and poverty. These are:

1. A company’s reputation is improved since it is built around key intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment.

2. Access to finance is greatly improved as socially responsible investment (SRI) becomes increasingly important. The creation of new financial indexes also supports these trends, for example FTSE4Good and the Dow Jones Sustainability Index (DJSI) publicly rank the major international companies according to their environmental and social performance.

3. CSR is an important factor for employee motivation and for attracting and retaining top quality employees.

4. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy.
Better risk management can be achieved by in-depth analysis of relations with external stakeholders.

CSR positively helps in the building of relationships with host governments, communities and other stakeholders and can be of vital importance should the company encounter future difficulties with regard to its investment decisions. CSR gives a company a ‘competitive’ advantage over companies with poorer images.

Those companies perceived to be socially responsible are, more and more, the companies of consumer choice.

The energy, technology and management skills learned and honed in large companies are increasingly being made available for the management of poverty alleviation through such instruments as the UN's Global Compact, Business in the Community and private and public partnerships.

There is a growing consensus neither for a Planetary Bargain, whereby beggar-thy's-neighbor policies of companies through, among other means, using the cheapest labour and the most polluting industries are neither in the interests of the companies concerned nor in the interests of their consumers.

Today, the companies realize that it is no longer about being just loosely associated with a cause or partnering with a non profit organization-it is now about integrating the concern and commitment for a cause into a core component of an organization's business strategy.

2.8 CSR GENESIS

The studies conducted in US and UK with respect to philanthropy, show that there is a strong affiliation between religion and philanthropy and most of the philanthropic initiative had policy makers, industrialists and religious leaders as protagonists. Even studies conducted on philanthropy activities in India, Philippines and Middle East reflect a strong religious motivation for personal and corporate giving in the early nineteenth century.

Observations by the socialist Adam Smith in a pin factory that leaps in productivity was the logical outgrowth, not just because of modern machinery but also a new managerial system, “Division of Labor”. For Adam Smith the Pin Factory was a wonderful new form of socially responsible business. The wealth and prosperity generated by it offered an enormous opportunity for human betterment. Even in the early years of Industrialization there were a number of socially responsible enterprises established by the socially responsible entrepreneurs of their day. One of the best known was the Ceramics empire founded by Josiah Wedge Wood It is interesting to know that on his wares he carved consciousness raising messages to promote abolition and call for the destruction of slavery. Robert Owen curtailed the policy of employing child labor.

The degradation of environment caused by expansion of industry was noted by Robert Morris an early socially responsible entrepreneurs. The Industrial scenario changed after World War II. Separation of ownership and control made the new private companies accountable for broader range of interests mainly non economic. Large charitable foundations emerged signaling the institutional separation social and business interest.

George Goyder (1951) the well known exponent of CSR has pleaded that if the corporation has to function effectively. It has to be accountable to the public at large. 14

Keith Davis in the 1960s reignited the debate of relationship between society and business with his two intriguing questions: “What does the business person owe to society” and “can business afford to ignore its social responsibilities”

Eminent economist Milton Friedman (1962) said that an organizations sole responsibility was to maximize profits for shareholders. In the past, firms profits were viewed as measure of legitimacy.

After the Second World War new thinking began in connection with the Industrial Development and Social Welfare. Modern corporate

philanthropy emerged in early part of 1970s. This was mainly due to the socio-political and economic conditions of this period. There was economic depression and unemployment on large scale. Non financial social goals became the focus as there were more interventions of the labor party in UK.

Peter Drucker (Management Tasks, Responsibilities, Practices, 1975) has mentioned that social responsibilities arise in two areas- outs of social impacts of the institution or as the problems of the society itself. Both are of concern to management because the institution which managers manage lives of necessity in society and community

Simon Zadek (2001) has put forth it in three generations in development of CSR. The first generation of CSR showed that companies can be responsible in ways that do not detract from commercial success. The most prominent changes include adoption of a strategic approach to philanthropy, expansion of geographic focus of corporate, and evolving of measurement tools. The second generation is focusing on CSR as an integral part of long term business strategy. (D.E Schended & C.W Hofer 1979) A third generation of CSR is expected to make a significant contribution to address issues such as poverty, exclusion and environmental degradation. This will involve both partnerships with civil society and changes in public policy. (Mandatory social and environmental reporting and support for consumer education, among others).

In 1984, it was Freeman who focused on the stakeholder view, which according to him include owners, employees, customers, suppliers, communities and government.

In the globalization paradigm, companies have taken a broader perspective of corporate responsibility; its role has shifted from just economic performance to social and environmental performance. CSR is now recognized as the vital backbone of the business. Businessmen are more focused on the Triple Bottom line i.e. Economy, environment and society and all are dependent on each other.
Since 1990s CSR approaches have become 'inclusive' in the sense that multi stakeholder initiatives are being adopted to promote the concept and practices of introducing and managing CSR programmes. CSR is now being interpreted as good corporate governance. NGOs, trade unions and multilateral institutions are emphasizing adoption of codes and standards to promote monitoring and certification, of which the Global Reporting initiative is one example. The need for newer and innovative measures to assess the impact of CSR programmes on the society and community is stressed.

According to CSR Europe in 2003 "CSR is a powerful way of making sustainable competitive profits and achieving lasting values for the shareholders as well as for stakeholders. CSR and the reporting thereof is a win win opportunity not just for companies and for financial investors but for society at large" The role of companies in the society is undergoing a profound and fundamental change. Social expectations are very different from there were ten or even five years ago. No longer only the products of the company are assessed but the companies behind the products are being assessed as well. The term Corporate citizenship has now gained importance and involves a mutually reinforcing relationship between individuals and communities.

### 2.9 STRATEGIC CSR

Strategic philanthropy, perceived now as strategic CSR is done to achieve strategic business goals (Caroll 2001). Strategic CSR is done by analyzing the society needs before defining key result areas, budgets, aligning projects systematically and measuring impacts and also embedding CSR in the business operations.
Companies have successfully attempted integration of philanthropy into overall strategic planning.

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<th>Phrase</th>
<th>Meaning</th>
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<tr>
<td>Corporate Philanthropy</td>
<td>Corporate giving for social benefit without expecting economic payoff</td>
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| Strategic Philanthropy          | 1. Contributions aimed at meeting business objectives and recipient needs.  
                                      2. Contributions that improve competitive context in which the firm operates. |
| Corporate Social Responsibility | 1. Obligation that an enterprise owes to the society                    
                                      2. Social obligations of business encompassing economic, legal, ethical and discretionary expenses. |
| Cause Related marketing         | 1. Contributions to single cause or admired organizations.              
                                 | 2. Contributions aimed at causes that encourage customers to engage in revenue profiting exchanges |

Fig. 2: Terms associated with CSR

According to Michael Porter and Mark Kramer (2006) strategic philanthropy combines social and economic benefits by targeting areas of competitive context. CSR can be much more than a cost, a constraint or a charitable deed. It can be a source of opportunity, innovation and competitive advantage. They have previously (1999, 2002) stressed that strategic philanthropy offers new opportunities for innovation, opens up previously undiscovered market and develops valuable social relations that can help firm's reputation. The emerging perspective on CSR focuses on responsibility towards stakeholders (shareholders, employees, management, consumers and community) rather than on maximization of profit of shareholders.

2.10 PROFESSIONALIZATION OF CSR

During the last one decade some of global standards have been developed to measure the sustainability level of companies. These standards, inter alia, include Global Reporting Initiative (GRI)

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guidelines, ISAE 3000, SA 8000, ISO 9000, OHSAS 18000, AA 1000 etc. It is, thus, clear that CSR is getting more professional, so much so that global professional firms like Ernst & Young, KPMG and Price water house Coopers, among others, are being engaged for conducting corporate sustainability studies. The developed financial markets of US and European Union have now their own socially responsible investment funds that invest exclusively in companies which are well-known for their sustainability credentials.

Equator principles, evolved in 2003, (www.equator-principles.com) are adopted by forty four top International banks and financial institutions to ensure that infrastructure projects being financed by them reflect socially responsible and environmentally sound practices.

Principles for Responsible Investment (PRI) (www.unpri.org) launched in 2006 in New York was a historic development for global financial markets and include environmental, social and governance criteria, and provide a framework for achieving long-term investment returns and more sustainable markets.

2.11 SUSTAINABILITY AND CSR

The World Commission on Environment and Development (Brundtland Commission 1987) defined Sustainable Development as “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. This definition is closely concerned with longer term issues of environment and is also now gradually concerned with wider issues as well.

Sustainability means ‘Ensuring that the actions of business today do not limit the range of economic, social and environmental options available in future.’ The three pillars of sustainability are economic, environmental and social. This is known as the triple bottom line. CSR is looked at as the company’s way of integrating the economic, social and environmental imperatives of their activities.
The triple bottom line has to do with reporting not only traditional financial performance measures but also environmental and social indicators in order to assess the full impact of a company's activities. The businesses have to follow (Triple Bottom line report) TBLR in creating Economic Value Addition on a long term- albeit sustained basis.

The crystallized present thinking of the corporate and business leaders universally seems to be that no company can create shareholders wealth on a sustained basis unless it has the following three dimensional images in both the national and international market. The company is endowed with people of high class core competence in their areas of specialization. The firm's contribution to society is prominently visible and reflected in its image. The company is viewed by the society as an environment eco friendly and a proactive company. Today it's not about company making profit and then behaving sustainably, it's about being a company that makes profit because it is sustainable. As per the World Bank's 2003 Report, the corporate / business sustainability clearly rests on three pillars-economic development, environmental integrity and social equity.

2.12 CORPORATE SOCIAL REPORTING

In the past decade corporate social reporting has gained immense significance amongst businesses. Corporate sustainability reporting has now become an integral part of a company's core business strategy in the industrialized countries of the world. This is mainly due to social pressure from the varied corporate stakeholders, like investors, customers, creditors, lenders, wholesale buyers and input suppliers. This pressure, in turn, is a reflection of the inner desires of the entire world that corporate must conduct in a manner that is fully transparent and social-cum-environmental friendly.

As per a survey conducted by KPMG in early 2005, it was found that about 64% of the Fortune Global 250 companies report on corporate responsibility parameter. This figure has tripled vis-à-vis
its first survey which was conducted more than a decade back in 1993. This information in regard to positions of corporate social responsibility (CSR) in major countries is adduced in table (Fig. 3)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of companies which are CSR compliant</th>
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<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>US</td>
<td>35</td>
</tr>
<tr>
<td>Japan</td>
<td>83</td>
</tr>
<tr>
<td>UK</td>
<td>100</td>
</tr>
<tr>
<td>South Korea</td>
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<tr>
<td>China</td>
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<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
</tr>
<tr>
<td>Canada</td>
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*Fig.3: CSR compliant Companies in Various Countries (Source: financial Express, 6 August, 2005)*

The figure 3 shows the percentage of companies which are CSR compliant and reflects an increasing trend. Most of the companies who are in top CSR for several years have started doing the social audit of their social responsibilities. By publishing their social audit, companies can use societal concern to their competitive advantage. This form of reporting beyond the financial reporting is referred to as Extended Corporate Reporting.

Most of the Indian corporate houses present their CSR report as part of their annual financial report. At the International level, Japan and the United Kingdom take the lead in publishing standalone CR reports. These reports are prepared on the GRI (Global Reporting Initiatives) guidelines.

2.13 CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Three underlying principles of corporate governance are openness, integrity and accountability (Cadbury 1992). According to Cadbury
committee corporate governance is the system by which companies are directed and controlled. At the core of the principles of corporate governance are transparency and disclosure of Information. Financial reporting is a very important aspect but social reporting is also very crucial.

Corporate Governance reflects the way companies address legal responsibilities and therefore provide the foundation upon which CSR and corporate sustainability practices can be built to enhance responsible business operations. The Kumar Mangalam Birla Report on corporate governance mentions that the fundamental objective of corporate governance is the ‘enhancement of shareholder value keeping in view the interests of other stakeholder’ Narayan Murthy Committee report on Corporate Governance (www.ntcgindia.org) states that “Corporate governance is beyond the realm of law. It stems from the culture and mindset of management and cannot be regulated by legislation alone. It deals with conducting the affairs of the company such that there is fairness to all stakeholders and that actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability.”

There is a clear mention of transparency, accountability and societal concern in all the reports of Corporate governance. Just as most people believe that government should be accountable to the people, so too more and more people now want business to be accountable for its actions.

2.14 GLOBAL CSR GUIDING ORGANIZATIONS

At the Global level organizations have been established to guide the corporates in CSR activities. Some main are:

In 1992 Business for Social Responsibility (BSR) was launched. BSR is a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. This can be done by providing information, tool and advisory services to make corporate social responsibility an integral part of the business operations and strategies.
- The World Business Council for Sustainable Development: Draft Principles for Corporate Social Responsibility. Building on its Charter for Sustainable Development, a voluntary non-verifiable set of principles, the World Business Council for Sustainable Development has drafted a set of principles on social responsibility based on the premises that “changing public concerns about corporate social responsibility require a proactive approach by WBCSD members” and that “such an approach may generate commercial advantages.”

- Global Reporting Initiatives: GRI (www.globalreporting.org) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services.

2.15 PARTNERING FOR CSR

2.15.1 Government and Corporations (Public Private Partnership)

Business and government have now realized that government alone cannot solve problems of poverty and environmental degradation. A new model of global social development is emerging with partnerships between business government and communities at its heart.

The diminishing role of the state has brought about a realization that corporates need to intervene in development issues. It is up to the business whether it is local, international, multinational and transactional to take lead in social development that protects the environment and builds just and healthy local and global communities. Partnering with the government in undertaking development projects is a perceived as a better way to engage in social responsibility. Especially in a developing country like India, a PPP (Public Private Partnership) model can be witnessed in schools, hospitals and vocational training institutes like the ITIs.
2.15.2 NGOs and Corporations

The corporations and NGOs are together creating innovative business models that are helping to grow new markets at the bottom of the pyramid. These models will lead to novel framework that can renew the corporations' social legitimacy even as they allow for sustainable development and accelerate the eradication of poverty. Companies have invested heavily to develop expertise to cope with NGOs. They have developed corporate social responsibility (CSR) initiatives, voluntary self regulation schemes and cause based marketing program. To run such program companies have hired people from the social sector who can bring their networks, credibility and understanding of NGOs into corporations.

2.15.3 CSR and Employees

At Intel, there are 80000 employees worldwide who want to do the 'right thing' and will do if given a proper outlet. Employee involvement is considered as the best way to get CSR embedded in the business process. The activity does not remain only at the management level but percolates to the lower level in the organization. Most of the companies have employees’ volunteers for undertaking CSR. The trend of employee payroll contribution is growing in the corporate today. Infact, CSR is considered as a tool to develop a sense of belongingness within employees.

2.15.4 CSR and Community

The society in the vicinity of the corporations plays a significant role of partners in making the CSR activities of the company successful. Commonly known as Community Neighborhood, they could be persons on whose lands manufacturing plants get located or whose lifestyle is changed due to the fact that a business is located there etc. Their cooperation in terms of beneficiaries, project leaders, volunteers in extremely crucial for the organization to perform effective CSR.

The foundation of CSR is strengthening and management experts
and corporate professionals are striving to make it strategic. Several models of CSR have been evolved for this purpose.

2.16 MODELS OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is expected to be seriously embedded in the business for enabling sustainable development. Since, CSR has become the way of doing business models have evolved through experience and expertise to guide the companies to practice CSR effectively.

2.16.1 Archie B Caroll (The Pyramid of Corporate Social Responsibility: Towards Modern Management of Organizational Stakeholders; Business Horizons, Jul-August 1991) proposed a four dimensional model of CSR which is called as the "Pyramid of Social Responsibility". Caroll defines CSR as 'the social responsibility of business encompass the economic, legal ethical and discretionary expectations that society has of organizations at a given point in time.' In this model the responsibilities of firms are clearly stated as Economic Responsibilities, Legal Responsibilities, Ethical Responsibilities and Philanthropic responsibilities.

The Pyramid of Social Responsibility

![Diagram of the Pyramid of Social Responsibility]

Fig. 4: Pyramid of Social Responsibility
2.16.2 The London Benchmarking Model seeks to develop and expand the reporting of company activities in the community so that they are most transparent and can be judged by the impact they achieve. The London Benchmarking group which consists of some of the leading companies working in the UK, has devised a model to classify what companies do in the community by their motivation.

**Philanthropy:** Intermittent support; wide range of causes; in response to needs and appeals of charitable and community organizations; in partnership between companies, employees, customers and suppliers.

**Social Investment:** Long-term and strategic involvement in community partnerships; limited range of social issues chosen by the company; to protect long-term corporate interest and to enhance its reputation.

**Commercial Initiatives** in the Community: Activities in the community led by commercial departments; directly support company success, brands and other policies; in partnership with NGOs and CBOs.

**Business Basics:** Core business activities; meeting society's needs for cost-effective goods and services; in a manner that is ethically, socially and environmentally responsible.

*Fig. 5: The London Group Benchmarking Model (Source: Partners in Change, Strategy Paper 2001-05)*

The relative sizes of the components are meant to reflect the company's impact on society. In other words, a company's "business basic" activities are expected to impact society more than its "philanthropic" activities, according to this model. The London Benchmarking Model has laid down a methodology to measure and report on inputs (cash, kind and time) and outputs (classified as leverage, social impact and business impact) of corporate community involvement and gives a generic perspective of the duties and responsibilities of companies.
2.16.2 The Davis Model of Corporate Social Responsibility.

A generally accepted model of corporate social responsibility was developed by Keith Davis. Stated simply, Davis's model is a list of five propositions that describe why and how business should adhere to the obligation to take action that protects and improves the welfare of society as well as of the organization.

Proposition 1: Social Responsibility arises from social power - This proposition is derived from the premise that business has a significant amount of influence on, or power over, such critical social issues as minority employment and environmental pollution.

Proposition 2: Business shall operate as a two-way open system, with open receipt of inputs from society and open disclosure of its operations to the public.

Proposition 3: This proposition stresses business should also consider both the long-and short-term societal consequences of all business activities before undertaking them.

Proposition 4: This proposition states that business should pass the cost of maintaining socially desirable activities within business onto consumers through higher prices for the goods or services related to these activities.

Proposition 5: Business institutions, as citizens, have the responsibility to become involved in certain social problems that are outside their normal areas of operation. Davis reasons that because business eventually will reap an increased profit from a generally improved society, business should share in the responsibility of all citizenry to generally improve society.

Some more models are illustrated to understand the relevance of CSR to Business organization, and its growing strategic significance.
2.16.3 Integrated Management Model

This model provides a generic approach to all the organizational aspects of CSR and the way they are interlinked. A central notion of the model is the Business Proposition (BP) of an organization. BP comprises mission, vision and the overall business strategy focusing on creating customer value. In order to effectively define the BP, four domains have to be organized: (a) the organizational identity, (b) the systems, (c) accountability and finally (d) transitivity. These four interlinked organizing activities take place in a business and societal context.

![Diagram](image)

Fig. 6: Integrated Management Model

- The BP and organizing identity cover issues such as: core values, drivers, vision, branding, image and corporate identity.
- The BP and organizing systems cover issues such as internal and external communication, design of primary and supportive processes, implementation, marketing, training, competence development, etc.
- The BP and organizing accountability cover issues such as auditing, reporting, accounting, monitoring performance and standards;
- The BP and organizing transitivity cover issues such as stakeholder involvement, developing partnerships, procurement, organizing dialogue and the supply chain
The key point here is to develop those elements that are crucial for the individual company with a refined strategy based on the business proposition. This model is a highly valuable tool for the companies and is of most value when a company has some CSR strategy in place.

2.16.2 The Sigma Management Model: Dave Knight

The sustainability Integrated Guidelines for Management (SIGMA) are the key output from a four-year multi-stakeholder project to provide practical, yet comprehensive guidance to organizations, seeking to improve their sustainability and CSR management and performance.

The SIGMA Guidelines consist of two main parts:

1. Guiding Principles

2. Management Framework

The SIGMA Management Framework is the core of the model follows the widely used ‘Plan, Do, Check, Act’ model, represented by four phases: Leadership and Vision, Planning, Delivery, Monitor, Review and Report. This enables alignment to established management processes, systems and standards. It does not specify a method of application; moreover, it provides a flexible, yet systematic, structure for CSR management activity.
Fig. 7: The Sigma Management Model

While working within any phase of the management framework to deliver the business proposition, the organization is required to maintain and enhance natural, human, social, manufactured and financial capitals, as well as practicing accountability.

All business activities use one or more capital during every management phase to deliver the business proposition. Therefore, following the SIGMA model, businesses seeking to improve their CSR will move towards integrated management approaches. This includes using broader measurement of performance and success, issue based and cross-functional working and by improving their ability to communicate the value of CSR.

2.16.2 The Global Compact Performance Model: Ursula Wynhoven

The Global Compact Performance Model is kind of a tool box for responsible corporate citizenship. It is a framework to systematically guide companies in their ongoing efforts to implement the Global Compact’s ten principles in the areas of
human rights, labour standards, the environment and anti-corruption.

\[ Fig.8: The Global Compact Performance Models (Source: Claude Fussler, 2004) \]

The model has proven to be a helpful framework in understanding how companies are trying to implement the principals of Global Compact with help of 'enablers' (Vision, Leadership, Empowerment, Resources, Policy strategy) and 'Results' (Impact on people, Impact on society, Impact on value chain, Reporting)

2.16.2 The Guanccai Model of Public Private Partnership

Public Private Partnership (PPP) is a cooperative approach between the public and private sectors. Such partnership mechanisms have been widely used around the world to promote the development of infrastructure, public, utilities and services. In some cases such as 'Build-Operate-Transfer (BOT)' projects, a public private partnership can be seen as a socially responsible investment providing enterprises with an opportunity to both obtain a return on investment and contribute to society. Many such models are witnessed in India too.
Involvement of public and private sectors

As the Guangcai Model is based on the concept of a Public private partnership (PPP), and encompasses two critical partners, the Company and the government. The former brings in business thinking while the latter helps reduce non-market risks. In some countries, government-organized or government-related organizations sometimes assume the roles of the government. This model demonstrates the potential of corporate social responsibility based on public private partnership. (www.csgdp.org.cn)

2.16.8 Community Learning In the Indian Education Sector

This model evolved by S. Ray (2007) explains the implementation of education CSR focus area, which is considered as prime issue for CSR by the Indian IT companies.

The country's emerging IT giants are taking a lead in the effort. Infosys, Wipro, Tata Consultancy Services are some of the top IT players. All of them have focused on CSR and on education in particular. Being in the knowledge industry, education may have been their obvious choice. To understand the decision process underlying most of the strategic CSR initiatives, it may help to look at a typical model (see full figure)
Companies first identify areas where they can contribute knowledge and expertise. This is a paradigm shift from earlier trends of allocating a percentage of total revenue to schools, hospitals or community development. Based on knowledge resources, companies are able to focus on areas where they have competence. Often these areas help to improve the competitive context of the company. Dialogue with stakeholders identifies the methodology and review mechanisms. Here communication plays a vital role to keep stakeholders informed of the company’s current activities and future plans. Done in isolation, CSR projects become the corporate showpieces with little long-term value. The Indian experience shows many innovative initiatives that have failed to take off to the next level. In this model, periodic review and defining guidelines are of critical importance to give momentum to the project. However, it is the last step in the process that is the most challenging: how to make the project stand on its own, i.e. can there be a viable revenue model? In CSR project management, this is a big challenge. Once a CSR initiative starts generating revenue for itself, companies need to delegate operations and look for the next project. Maybe they can identify new areas geographical or functional) where their expertise and experience can add value.

2.16.9 The BNI instrument (Andre Nijhof and Michel Van Pijkeren) : Business NGO Partnership Model

This is an on-line available tool for NGOs and companies engaging
in CSR. It is based on a notion of CSR starting with the observation that companies and NGOs are increasingly interacting on emerging CSR issues. Both parties have complementary competencies and interests. NGOs seek the support of business, since liberal governments tend to leave the regulation of an increasing number of social issues to the market mechanism. Businesses do of course play a significant role in the market. Furthermore, businesses see the advantage of engaging with NGOs through improving their image and employee motivation, and in decreasing the risk of running into unexpected anti-business campaigns.

The essence of the BNI instrument

![Diagram of the BNI model]

Collaboration between businesses and NGOs is a crucial element in the development of CSR. The instrument presented here is a first step in helping to identify important gaps that might frustrate the upcoming collaboration. Common understanding and clear arrangements can diminish problems based on misunderstanding further down the process of collaboration. This model proves to be useful to organizations that intend to undertake CSR in partnership with NGOs.

2.16.10. Assessing the Value Chain Context (Duane Windsor)

The July 2002 European Commission communication concerning 'Corporate Social Responsibility : A business contribution to Sustainable Development' calls for voluntary integration of 'social
and environmental concerns in their business operations and in their interaction with their stakeholders and promotes a voluntary European Union multi-stakeholder forum for discussing CSR choices. The value chain concept has been instrumental in shifting businesses from an internal product focus to analysis of value creation along the supply and demand chains of the industry, and the value chain model provided here facilitates transition from a purely profit focus to analysis of ecological, societal and stakeholder linkages.

![Diagram of Ecological and Societal Contexts of Industry and Businesses](image)

*Fig 12:* depicting the Value chain of a business and its industry within ecological, societal and stakeholder contexts. The value chain analysis has been used about 20 years and this model in an extension to include the ecological, societal and stakeholder contexts of the business’s value proposition.

Besides the models explained here there are many other models that illustrate the relationship between CSR and business, which have been evolved and propagated.

### 2.17 LIMITATIONS OF CSR

On the one hand, large corporations have not much difficulty in
committing some resources towards promotion of CSR, on the other hand, execution of multifarious schemes of CSR and their monitoring and evaluation raise some fundamental concerns.

One of the limitations of the approaches to promoting CSR has been the relative lack of clarity of the definition of CSR and models of CSR to be adopted by the companies. CSR activities are being conducted by large corporations without developing the core competency and adopting adequate institutional safeguards to ensure an appropriate framework for CSR implementation. The second limitation is that many corporations, especially the public enterprises, who are ready to engage in CSR as it is being mandated by the Government, are not in a position to determining what segments of socially responsive investment they should commit themselves to. The next limitation is capacity building. The skills, knowledge and attitudes required for planning CSR approaches, implementing the same and evaluating various outcomes are just not available in corporations. Similarly, there is very less involvement of the internal stakeholders in the concept and practices of CSR. Lastly, there is no focus in large corporations to engage in durable public private partnership. They attempt a generic, all inclusive variety of CSR role and function. There is also lack of open communication and knowledge of CSR within and outside corporations (specially in India).

2.18 CONCLUSION

As the society moves towards becoming a knowledge society, it will become impossible for the corporate organizations to function as a vertical organization where the top management will have all the authority. The intellectual employees in future will only work under the management of organization where each member looks beyond corporate profit towards the entire society and shares a common goal of contributing to the society. Corporate Social Responsibility should be an important theme of corporate management and an important component of corporate strategy. Governance.